SOCIAL PERFORMANCE MANAGEMENT IN MICROFINANCE

Guidelines

Imp-Act

in collaboration with MICROFINANCE CENTRE for Central and Eastern Europe and the New Independent States
Social performance management in microfinance: Guidelines
Imp-Act Programme

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How to use these guidelines

These guidelines are divided into three parts:

Guidelines Booklet

This booklet offers an overview to social performance management (SPM), including this introduction, a roadmap for developing an SPM system, and a resource guide for SPM.

Practice Notes

A set of eight Practice Notes provide practical steps that guide you through aspects of SPM. The Practice Notes are modular and can be used as needed. For example, if you are designing a monitoring system to track client progress and to better segment your market, you might find Practice Note 7 on monitoring systems for social performance management helpful.

The Practice Notes are:

1. The feedback loop: responding to client needs
2. QUIP: understanding clients through in-depth qualitative interviews
3. Learning from client exit
4. Using surveys effectively for social performance management
5. Choosing and using indicators for effective social performance management
6. Planning research to assess social performance: guidance for managers
7. Tracking client performance: monitoring systems for social performance management
8. Reviewing the social performance of microfinance institutions

Resources CD Rom

If you would like to follow up any of the issues in more detail, a comprehensive list of resources and links to papers is provided on the CD-ROM you will find in this pack.

Planning your SPM

As you will see, SPM provides a framework that integrates many overlapping areas of inquiry and practice related to client assessment, so you have many choices of methodologies and tools for your SPM system. These guidelines will help you understand how they fit together, help you define your organisation’s information needs, and direct you to more detailed resources, such as a set of impact assessment tools. This booklet will help you plan your venture into SPM. You may end up using other guides, manuals and toolkits, or you may decide you can start with guidance from one or more of the Practice Notes included here.

Whatever your starting point, let your mission guide you, and set your sights on a process by which you monitor and assess your organisation’s progress towards its social goals.
PART ONE   Overview

1  Introduction to social performance management

Achieving social and financial performance

In the microfinance arena, performance has long been associated with financial outcomes measured by loan portfolio quality, cost recovery and profitability. With significant investment of talented minds, committed organisations and donor dollars, the measures of financial performance have been tested, revised, refined and largely standardised across the industry. Yet such progress in measurement, though considerable, only tells half of the performance story in microfinance. Most microfinance institutions (MFIs) strive to meet interrelated financial and social goals, managing a double bottom line where strong financial performance facilitates the fulfilment of a social mission. Social performance is effective translation of an institution’s social mission into practice. Monitoring and assessing social performance is emerging as a vital activity in the industry as we practitioners increasingly acknowledge that achieving the social outcomes inherent in our missions requires more deliberate strategies and more systematic monitoring.

Understanding client preferences and needs

The renewed interest in the social goals of microfinance is part of a historical shift in industry practice from a near exclusive focus on the financial performance of institutions to a more active concern for their clients. This shift is marked by a surge of interest in various types of impact assessment, market research and product development, all directed to helping us gain a better understanding of our clients and how we can best serve them. Historically, we have kept close track of each client’s repayment record, but know little about how she managed to repay the loan or how she gained from it. Such knowledge would be likely to influence our operational and product decisions in her favour. As the industry matures and grows more competitive, we are learning that retaining clients and attracting new ones increasingly depends on our institutions’ ability to meet their needs and help them make the most of the benefits they seek from using our products and services. In microfinance, social and financial performance are linked and mutually reinforcing. Those who pay attention to their mission to improve the lives of poor people are likely to improve their financial bottom line as well.
PART ONE  Overview

Box 1.1: The Imp-Act programme

As a global action-research programme, Imp-Act supports the monitoring and management of social performance in microfinance. It is a collaboration between microfinance practitioners, national and international networks, support organisations, and a team of academics from three universities in the United Kingdom. More than 30 organisations in 22 countries, spanning five continents, have participated. They include regulated banks, not-for-profit companies combining financial and non-financial services, and community-based, self-help women's groups. Representing diverse approaches to service delivery, these organisations also work in contexts ranging from vibrant urban markets to remote rural areas, from fragile post-conflict economies, to the emerging markets of the newly industrialised states of Europe.

Against this backdrop of diversity, Imp-Act has supported microfinance institutions to develop their own systems to assess progress in reaching their social objectives. With support from the Ford Foundation, each partner received a grant to undertake its own SPM activity led by its own staff, and supported where necessary by external expertise contracted from networks, consultants or research firms. The UK universities team provided technical guidance. Some partners chose to do research; some focused on building organisational capacity in SPM; others targeted a specific issue, product or methodology. Examples of partners’ specific goals include:

- To incorporate social indicators into the computerised management information system (MIS)
- To institutionalise self-help group impact monitoring through development of an ‘internal learning system’ based on client diaries and routine reporting
- To strengthen internal capacity of network members in client assessment through training
- To carry out an in-depth study of direct and indirect impact with particular reference to gender.

Initially the programme focused on impact assessment, but over a three-year period, it evolved to embrace a broader view of the whole process by which impact is achieved. Consequently, Imp-Act has developed a framework for social performance management that focuses as much on assessing each aspect of the process by which an organisation translates its social objectives into practice, as on the final outcomes and wider impacts for clients and their communities.

All of the Imp-Act partners gained greater knowledge about their clients and learned how to respond more appropriately to their needs. All organisations also used the information they generated to improve practice. For example, Sinapi-Aba Trust in Ghana has developed a training programme to improve women’s ability and confidence to access larger loans for business asset purchase; FOCCAS in Uganda learnt that clients are particularly insecure from February to June and developed a more flexible loan product; the Covelio Network in Honduras worked with its members to institutionalise the use annually of a range of client assessment tools (from the AIMS suite of tools); LAPO in Nigeria refined its client intake form to allow it to monitor the poverty status of its clients on entry and on each subsequent loan; CAME in Mexico conducted an impact assessment and loan use study which helped senior management to better understand the characteristics of clients and the sophisticated way in which many manage their finances; SHARE in India built on their informal processes of learning from clients through client workshops and now have greater capacity to consult and learn from clients in a more systematic way. As a community of action researchers, Imp-Act has learned from its successes and challenges. Although all of the partners have now finished the projects supported by Imp-Act, few view their work as complete. Research and systems development work are on-going.

Because the partner MFIs have been actively engaged in the process, they have greater ownership of the results. In some cases partners are now approaching the vision outlined in these guidelines of a fully integrated and permanent social performance management system.

For further information about the Imp-Act programme or details about the work in individual partners please visit our website www.Imp-Act.org.
Managing social performance

Social goals are certainly not new to microfinance. We have long articulated intentions to use microfinance as a tool to empower women, alleviate poverty, or support community development, to name but a few such social goals. Yet, we are less familiar with, and less skilled at monitoring our progress towards their achievement. As an action-research partner to 30 practitioners around the globe the Imp-Act Programme has embraced social performance management (SPM) as the systematic assessment of performance relative to social objectives and use of this information to improve practice (See Box 1.1 for more information about the Imp-Act programme). SPM offers an overarching framework for our work and encompasses the renewed focus on clients within microfinance (e.g. market research, client assessment, product development, customer service etc.). SPM as yet has no precise parallel to the widely accepted systems for measuring and managing financial performance. These guidelines introduce a framework that allows us to manage the steps we need to take to achieve our social mission. It details ways for us to regularly monitor and assess our effectiveness in defining and reaching target clients, in providing our clients with services appropriate to their needs, and in achieving the changes in our clients defined by our social mission. It also looks at how information can be analysed and findings communicated so that we can make corresponding adjustments to products or service delivery and strategy.

The core of social performance management

At its core, SPM helps you to build and update your understanding of who your clients are and how they use and benefit from your institution’s products and services. Such information is critical to your ability to demonstrate programme impact for a range of stakeholders and improve programme services. Understanding how clients interact with your programme will help you make operational and product decisions in response to their needs and preferences.

There are six key questions that you need to start with. These questions incorporate not only the collection of information, but also its use. Consequently, some of the questions discussed below target clients and client behaviour; others focus on how your MFI will use that information in its daily operations and in strategic planning. The questions are:

1. **What are your social performance objectives and how do you plan to achieve them?**

By clearly articulating your social objectives and strategies you will be able to tailor your services to your clients’ needs, and to monitor the extent to which these services are meeting your objectives. Attaining social objectives does not happen haphazardly. Like financial objectives, they require a deliberate strategy and a conscious effort to monitor its implementation.
2. **Who uses your programme’s products and services? Who does your programme exclude?**

Knowing who your clients are is essential if you want to serve them better. Frequently, clients’ needs and programme participation differ depending on their age, sex, level of education, and type of business. Matching clients’ demographic characteristics to the services they use will help you to adapt and/or diversify what you offer in response to distinct market segments. There are many ways to group or categorise clients, but once you determine the categories relevant to your institution, you will also want to know how each category is represented in the overall portfolio. It can also be useful to know who, within your target market, does not participate, and why. Such information may suggest adjustments to existing services or even new ones that will attract these potential clients.

3. **Why and when do clients leave the programme or fail to fully utilise the available services?**

A wide variety of factors can influence a client’s decision to stop borrowing, leave her savings account dormant for long periods, or withdraw from the programme. Some factors are not related to the work of the programme. The client’s business may be well enough established that she no longer feels the need to borrow; personal issues or illness might be temporarily preventing her from running her business; there may be periods of inactivity according to the season. Yet, other explanations – such as dissatisfaction with some aspect of the programme or preference for another MFI – should sound an alarm for management. They are an indication that your programme is not meeting clients’ needs in some way, and if you do not respond, the rate at which clients leave your programme is likely to increase, negatively affecting both financial and social performance.

The connection between client retention and overall performance – both social and financial – is an area of increasing concern for MFIs. Beyond client satisfaction, exit rates can also be an important indicator of social performance. If clients are leaving your programme because they cannot afford to stay, you are probably not achieving the desired impact on their livelihoods. Clients who leave the programme in the aftermath of external shocks (e.g. natural disasters, accidents, illness) were probably highly vulnerable in the first place, again an indicator that impact may be limited.

On the financial side, losing established clients is expensive because they have to be replaced with new borrowers who cost significantly more to recruit, orient and assess. Close monitoring of clients who leave is a key to managing and minimising this costly trend. Knowing who leaves, and why, helps you gauge the level of clients’ satisfaction with the programme. Once you know their reasons for leaving, you can determine how to adjust your programme in response, and improve its benefits.
4. What is the effect of your programme on current clients?

What changes are occurring for your clients? Are their incomes increasing? Are their businesses growing? Is their nutrition improving? Is their poverty status changing? These questions reflect a tiny sample of the possible indicators of client status – you must choose those that most appropriately measure progress towards your institution’s specific social objectives. Once selected, regular monitoring is recommended to get a sense of the changes that are, or are not, occurring over time. It will also help you understand the process by which change occurs. You may want to determine if the changes you observe are limited to particular branches or linked to a particular product. Such information may help you identify programmatic strengths to reinforce or weaknesses to correct.

Routine monitoring of client status through regular collection of data is only part of the process. On its own, monitoring generally does not explain why the observed changes have taken place, nor the extent to which they can be attributed to the MFI. In addition, it may not be sufficient to help you keep on top of market trends, or economic changes that affect the way your clients do business or their financial strategies for loan use. These more complex aspects of client behaviour and programme impact require more rigorous research that most institutions undertake only periodically. As Part Two outlines, SPM includes both routine monitoring and more intense follow-up research.

5. How will you use information about social performance to improve your services?

Collecting information on the questions above is only helpful if you use it. An SPM system includes a process for communicating the information collected to meet the needs of various stakeholders, and inform decisions about operations, products, and service delivery. The vehicles of communication can range from analytical reports prepared for specific decisions to more informal processing of observations. Social performance data can be presented to your organisation’s board; it can be used to demonstrate programme effectiveness to donors, it can be organised into reports that inform the work of special committees; it can be used as the basis for staff incentives; or it can be summarised for regular staff meetings. There are infinite ways to package and present this data, but the way it is used requires planning and attention.

6. How do you maintain and improve the quality of the systems you use to answer these questions?

SPM is dynamic. MFI objectives, clientele, and context typically evolve over time, and so must the processes by which they are monitored. Periodic reviews of the system, which are an integral part of the SPM process, ensure that the information being collected both meets your needs and is reliable.
PART ONE  Overview

<table>
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<th>Box 1.2: Framework for achieving social objectives</th>
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**INTENT AND DESIGN**
What does the MFI seek to achieve? How are services and performance objectives designed towards this end?

▼

**ACTIVITIES**
How will services be provided to target clients through a specific organisational structure and designed to reach organisational objectives?

▼

**OUTPUT**
What services are delivered to whom – breadth and depth of outreach. What is the quality of service? Are they sustainable?

▼

**OUTCOME/IMPACT**
What changes result from the services provided – e.g. business growth, increased income, new skills? What are the longer term sustainable changes produced by these outcomes, e.g. poverty reduction? What are the unintended consequences?

2 Building a system for social performance management

SPM as elaborated by the core questions above requires a system that is built on your social mission and is based on clear objectives. It needs to be implemented with defined methods for collecting and analysing data, and for communicating and using the results. An SPM system offers your staff the means to understand how clients are interacting with the programme, to identify how to improve that relationship and to participate in the analysis of why the programme is affecting clients in certain ways.

Looking at impact processes

Traditional evaluation has focused on end results, but SPM helps you to understand and manage the whole process by which impact is achieved. SPM’s regular monitoring of that process highlights adjustments you can make at multiple points along the way to improve practice (see Box 1.2). Improving programme practice to be more responsive to clients will ultimately increase programme impact. The information collected will also help you provide evidence of impact to external stakeholders.

Starting out

Our experience has shown that all MFIs can design and put into practice an SPM system if they work within their capabilities and keep things as simple as possible. Although SPM systems cannot be standardised or packaged for purchase, they can be built step-by-step, starting with data collection practices that are already in place. We encourage you to start small and build up your system gradually over time rather than trying to do too much at first. Part Two of this booklet describes the three broad components of The SPM development process, and provides a roadmap that will help you decide where you should start. To ensure its relevance, this process is participatory, and will strengthen the culture of learning within your organisation. The system you ultimately design can range from simple to complex, depending on your needs and resources. Imp-Act has supported and collected a rich range of tools and approaches for your consideration.
3 The costs and benefits of social performance management

Your institution’s success is closely linked to the success of its clients. In a context of greater availability of services and growing competition among providers, MFIs that do not meet the needs of their clients will lose them. Those that are focused on, and responsive to their clients will retain them, and increase their share of the market. Thus, in microfinance, financial and social goals are mutually reinforcing. Strong financial performance enables an MFI to pursue its social objectives, and achieving social objectives is good for business. Through active monitoring and assessment of client interaction with products and services, SPM helps MFIs to remain faithful to their mission and maximise both sides of the performance coin.

There are costs involved in SPM, but the benefits are well worth the investment you will make over time. SPM will lead to better, client-focused services and organisational culture, more satisfied clients, stronger management and improved financial performance. As will become clear when you review the benefits below and continue to read Part Two, SPM serves as the social lens through which all organisational systems can be viewed and aligned.

SPM will benefit managers, helping you to:

- **Balance your financial and social objectives** to make better business decisions based on a more thorough understanding of the trade-offs each involves
- **Generate baseline information** that is invaluable for more in-depth assessment of social performance
- **Track performance against targets**, both social and financial
- **Identify problems** at an early stage before they become damaging for the organisation.

SPM will benefit clients, giving them:

- **Services more appropriate to their needs**
- **More product choices**
- **Better customer service**
- **A greater ‘voice’ in the programme.**

SPM will improve your outreach, services and products, enabling you to:

- **Segment your portfolio** to examine differences in performance by client characteristics, and thereby identify market niches, opportunities and problems
- **Monitor how your clients use services** to determine how well they ‘fit’, addressing the question, ‘Are our services appropriate to the needs of our target clients?’. If not, how can we adapt them?
- **Innovate** to improve client satisfaction and loyalty through better products, better customer service and greater flexibility
PART ONE  Overview

- **Verify the results of programmatic changes** to determine if they have made a difference
- **Track intended and unintended impacts on clients’ lives** and in the wider community and understand the role that your organisation plays in promoting these changes.

**SPM will improve your financial performance, resulting in:**

- **Higher retention of clients** through monitoring of and responsiveness to their satisfaction with your programme. Higher retention rates translate into lower costs and higher profits
- **Programme growth** by making your institution more attractive to potential clients because of demand driven products and services and word of mouth from current satisfied clients
- **Lower operational costs** as you begin to use resources more effectively based on better understanding of your best investments
- **Demonstration of social performance to stakeholders**, thus improving your position in a competitive funding market.

‘Although SPM costs money to do, it is a case of either spending money to anticipate problems or spending money to fix them afterwards. In this respect, the cost-effectiveness of impact management should be understood in terms of the opportunity costs of not doing it.’

Looking forward

The profile of one MFI’s social performance management system in Box 1.3 demonstrates that, despite the complexity implied by the word ‘system’, it can indeed be quite manageable. The system profiled consists of three tools used with varying frequency and at different times in the year or loan cycle. The data they generate informs a wide range of decisions in the organisation.

Part Two provides many other examples from MFIs that bring the discussion of SPM and its component parts to life. It provides a detailed orientation to the process that Imp-Act recommends for designing and implementing an SPM system, breaking it down into three components. This is the technical content that introduces the questions to ask and answer, the methods to consider, and the tools available to you.

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1. Ted Baumann, independent consultant who reviewed the SPM system of the Small Enterprise Foundation in South Africa in 2004.
Box 1.3: A profile of SPM: Prizma in Bosnia and Herzegovina

In the highly competitive Bosnian microfinance market, Prizma has strategically positioned itself at the low end, targeting poor entrepreneurs, particularly women. Prizma’s social performance management system has been tailored to monitor its performance related to three social goals: 1) to deepen outreach to poor women; 2) to strengthen impact; and 3) to ensure the quality of services. It serves 12,278 clients and has an active portfolio of US $8.4 million (as of December 2004). Its average loan size is US $695. Prizma achieved full financial self-sufficiency in 2001, and today it generates an annual surplus in excess of $100,000.

Prizma’s social performance management system consists of three core components:

- **Poverty status monitoring** is conducted for all clients on entry and at the start of each loan cycle using a poverty score card comprised of seven indicators: education of the head of household, location and size of residence, household assets, transportation assets, meat consumption and sweets consumption.

- **Exit monitoring**, using a short, semi-structured interview, is conducted by field staff twice a year to answer questions such as: Who leaves? What is the magnitude? What are the characteristics of dropouts? Why do they leave?

- **Focus groups** provide information on how Prizma is reaching, serving, and impacting its target market: Which groups does Prizma reach? Which groups are excluded? What kind of products and services should Prizma develop to reach and serve its target clientele?

The MIS can generate a custom report that provides aggregate poverty scores for any segment of the client base, or by any of the 30 other variables in the system. The capacity to thus segment its market helps Prizma to achieve the correct design of products and services for its target clientele. It can adjust delivery, price, or other attributes of one or more products to better meet the preferences of any given segment, or pilot a new product in response to a significant need among a large number of clients.

For example, poverty and exit monitoring data enable Prizma to segment its market to identify the characteristics of clients most vulnerable to performing poorly and eventually leaving the programme. If these vulnerable clients are strategically important, more attention can be invested in retaining them. If they do not constitute an important group (for example those clients who ‘shop’ for loans across the market and are less likely to become loyal clients), Prizma can save time and resources on efforts to keep them.

The information also supports the design of staff incentive schemes; delinquency management; business plan projections and branch performance comparisons. It strengthens on-going market research activities, strategic positioning, product promotion, and branding.

Focus group discussions enable Prizma to investigate the reasons behind the patterns and trends in client status highlighted by the monitoring data.

The vision for SPM has become a part of Prizma’s organisational culture due to the strong support from the board and senior management. Overall, the new system has provided stronger, more timely, and more accurate reporting, tighter internal control, and the ability to manage multiple products and increased scale. All employees are able to monitor branch and loan officer performance, portfolio quality, or other institutional or client data.

Staff access to critical performance data has been at the heart of Prizma’s effort to build strong decentralised profit centres, greater staff ownership of and accountability for individual and team results, and consensus for management decisions intended to strengthen both the institution’s financial health and its ability to fulfil the mission.

To cover the cost of developing these tools, Prizma estimated that it would need to retain an extra 152 (2.2%) of its group enterprise loan clients for one additional loan cycle – on the assumption that each retained client is worth $278.
PART TWO Developing and using a social performance management system: a road map

The components of SPM

Monitoring and managing your social performance is an on-going process. In contrast to traditional evaluations that focus on a programme’s final impact, SPM provides a framework for understanding the process by which social performance objectives are achieved. SPM relates to the entire organisation and its strategy. It thus focuses on how all organisational systems (human resources, information, incentives etc.) support the social mission. It also looks at how information can be gathered to support decision-making, indicating the information to collect, how to collect it and how to use it. A range of tools and methodologies are used in SPM to monitor and understand the different steps in the pathway to achieving your social mission. SPM can include market research to determine client preferences or market opportunities, analysis of the strengths and weaknesses of your organisational systems, monitoring of client profile and changing status over time, and assessment of end results and impact. Finally, it is a framework that combines assessment with action to enhance your ability to translate your social performance objectives into practice. SPM is a management-driven process comprised of the three components described below:

Component 1: Developing a social performance strategy

Your MFI’s social performance objectives are derived from its mission. They are the detailed translation of your mission into clear and measurable objectives, which drive the design and delivery of programme activities. Social performance objectives generally fall into three categories: outreach to clients with specific characteristics, responsiveness to client needs, and impact on clients, their families and communities.

Component 2: Monitoring and assessing social performance

Social performance is your effectiveness in translating your MFI’s specific social objectives into practice. Tracking progress towards each distinct objective usually requires distinct tools. For example, in-take forms or poverty assessment tools will help you to assess outreach; market research tools can help you understand how effective your institution has been in meeting client needs; and finally, a rich selection of tools and processes enable you to identify programme benefits to clients and the wider community.
Whatever the objectives you choose to assess, the process you use should combine 1) routine monitoring that tracks basic information about client status with 2) follow-up research to explore in greater depth trends and issues highlighted by the monitoring.

Component 3: Institutionalising and using social performance information

The heart of SPM is information use. An SPM system needs to both collect relevant and timely information and communicate it effectively to inform organisational operations and strategy. While information can be gathered in many different ways the effort will be of little benefit unless the data is used in a systematic way to assess and improve operations, services, products, and customer relations. Actual and systematic use of data collected regularly will have widespread impact on your institution, calling for an eventual integration of SPM with your other systems and processes. But as this guide will caution you repeatedly, start at the beginning. This “institutionalisation” of SPM can only be undertaken once you are confident that the system you have designed is tracking the right information: the performance objectives you are striving to achieve.

Figure 2.1 gives an overview of the social performance pathway, and the process of SPM. The central arrow demonstrates how an organisation’s mission is translated into specific social performance objectives. Through the design of operational systems and the design and delivery of services outcomes are achieved in terms of reaching target client groups and meeting their needs. Meeting the needs of target clients leads to the desired changes relating to the social mission. Surrounding this arrow is the social performance management process. This involved monitoring and assessing progress at each stage of the arrow, and the use of information produced to feed into improved practice.
Table 2.1: Sample rationales for developing SPM systems

| Integra Foundation (Slovakia) | Improve organisational systems and products |
| Bos-Vita (Bosnia and Herzegovina) | Develop ways to learn from clients in a small institution |
| Prizma (Bosnia and Herzegovina) | Profile poverty and deepen outreach |
| Partner (Bosnia and Herzegovina) | Address drop-out problem |
| Demos (Croatia) | Address low demand and delinquency problem |
| FORA (Russia) | Segment the market and monitor impact |

**Deciding on your approach to SPM**

Given MFIs’ varying needs and capacities, there is no one way to “do” SPM; institutions will approach it differently, depending on their goals and the situation in which they work. They will focus their efforts on one or more of its elements. Some may focus initially on Component 1, aware of the need to step back, set social performance objectives and identify their information needs. Others may be motivated by the need to address a burning issue and jump straight to Component 2, eager to develop assessment systems that will help solve a potential crisis (see Table 2.1). Those already undertaking client assessment activities may be ready to integrate information collected into operational and management processes and therefore choose to give more emphasis to Component 3.

These different entry points to SPM highlight that its development is not a linear process. Yet, whatever your rationale for embracing SPM, at the end of the day, you should ensure that the system you put in place is relevant over the long term. That can only happen if it is based on your mission and tailored to measure your institution’s performance related to its specific social performance objectives.

This section of the Guidelines discusses each component of SPM in detail, providing a “road map” to help you move from where you are to where you want to be and locate your work within the bigger picture of social performance.
Component 1: Developing a strategy to achieve social performance

Social performance starts with your mission: who you want to reach; how you plan to serve them; and the benefits they will gain. The mission informs both your social performance objectives and the programme strategy to achieve them. Over time, SPM enables you to assess the relationship between these three and determine if your original premise continues to be valid. While you should not continually question your mission, clarity on these three cornerstones – mission, social performance objectives and programme strategy – is the foundation of an effective SPM system.

In order to manage your organisation’s progress towards its social performance objectives, you need to know what those objectives are. While perhaps stating the obvious, MFIs tend to take their social mission for granted. It is an assumed, rather than an explicit influence on decision-making; few can articulate how their social mission translates into practice. The need to monitor mission is illustrated by the widespread concern among MFIs about “mission drift”, a term most often used to refer to the fact that clients participating in a given programme are often not from the intended target group. Hence, the first part of the roadmap takes you back to your institution’s origins, its reasons for being – its mission.

1.1 Clarify your social goals

Embedded in your mission, social goals describe broadly what you want to achieve. They reflect the needs of clients and address the social issues that affect them most. They also need to be grounded in the socio-economic conditions in the area where you plan to work. You can learn about these through established sources (e.g. government, universities, media and NGOs) or from local experts in enterprise, finance and development. Your goals should also reflect the state of knowledge in the microfinance industry. Experience accumulated over decades now provides a better idea about what microfinance can accomplish and the social goals to which it can realistically contribute.

In microfinance, social goals generally fall into three categories:

- Outreach to specific target group(s)
- Sustainable delivery of appropriate services that respond to identified needs of specific target client markets
- Impact, defined by positive economic or social changes in clients, their families, their businesses, or the wider community.

Read the mission statement of Prizma, an MFI in Bosnia and Herzegovina, and look for the social goals embedded therein:

To improve the well-being of large numbers of poor women and their families by providing long-term access to quality financial services.
This mission statement contains the following social goals:

- Improve the well-being of large numbers of poor women and their families by providing long-term access to quality financial services.
- Strengthen impact.
- Improve service quality.

A fourth goal, to achieve long-term sustainable services, provides the foundation for the other three and demonstrates how closely social and financial performance are linked.

1.2 Set clear and realistic performance objectives and targets

While social goals are broad statements of intent, social performance objectives are the specific measurements of those goals, and allow you to set the performance targets for your organisation. They measure your social performance and are the foundation of your SPM system.

For example, each of Prizma’s social goals can be translated into specific social performance objectives and performance targets as outlined in Table 2.2.

The key aspect at this early stage of the design process is to be clear about what you want to achieve, and consequently what you want to manage, monitor and measure.

<table>
<thead>
<tr>
<th>Mission</th>
<th>Social goals</th>
<th>Social performance objectives</th>
<th>Performance target</th>
</tr>
</thead>
<tbody>
<tr>
<td>To improve the well-being of</td>
<td>Improve clients’ well-being</td>
<td>Reduce the poverty level of clients and their families</td>
<td>Under development – will give target numbers for changes in poverty status</td>
</tr>
<tr>
<td>large numbers of poor women and their</td>
<td>Serve poor women and their families</td>
<td>To deepen outreach to poor women</td>
<td>Staff are rewarded progressively for achieving &gt;25%, &gt;40%, or &gt;60% of new clients who are poor (below national poverty line)</td>
</tr>
<tr>
<td>families by</td>
<td>Provide quality financial services</td>
<td>● Reduce client exit rate</td>
<td>● Staff are rewarded progressively for achieving &lt;30%, &lt;40%, or &lt;45% annual exit rates</td>
</tr>
<tr>
<td>providing long-term access to quality</td>
<td></td>
<td>● Increase client satisfaction</td>
<td>● No satisfaction targets, but regular qualitative assessment</td>
</tr>
<tr>
<td>financial services</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 2.2: Social goals and social performance objectives
1.3 Design or modify your programme to achieve your social performance objectives

When you have set your social performance objectives and targets, the next task in this component of SPM system design is to translate these into an action plan. Although you may already have a set of activities designed to reach your objectives, SPM will help you to review them routinely and make adjustments to bring your objectives and activities into closer alignment. Embracing the whole operation from mission to results, SPM enhances your awareness of how each part of the process contributes to your social performance. It enables you to connect your original intention with the results you achieve.

Case studies 1–3 illustrate how different organisations reacted as they became aware of how their social performance objectives and programme strategies were, or were not, well aligned.

<table>
<thead>
<tr>
<th>Case Studies 1–3: Aligning organisational strategy to social performance objectives</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CASE STUDY 1</strong></td>
</tr>
</tbody>
</table>
| **Making adjustments:** When CARD (Philippines) began to develop its SPM system, it knew it had to re-focus on how its social performance objectives could more effectively serve its mission. CARD was convinced that alone, its financial stability did not translate into successful poverty alleviation for poor women. Increasing arrears and exit rates among clients led management and staff to question whether some of the stricter performance targets such as 100 per cent repayment rates were actually beneficial for CARD or its clients.

‘Management has realised that the overt concern of the organisation on…productivity ratios have clouded the basic human touch of personal concern for client welfare.’ (CARD)

As a result, CARD has defined its poverty reduction objectives more explicitly using four indicators: food security, housing quality, access to education by school-age children and productive assets. CARD thus translated the general concept of poverty reduction into measurable social performance objectives. It then designed an SPM system that combined poverty assessment on entry, monitoring of continuing clients, a “culture of listening” to understand client and staff satisfaction, and monitoring reasons for client exit.

**CASE STUDY 2**  |
| **Conflicting goals:** When Partner (Bosnia and Herzegovina) embarked on a strategy of market expansion, it embraced organisational centralisation, cost reduction and standardisation to help realise its plan. Not long after, a dramatic increase in drop-outs led Partner to develop an SPM system to foster client loyalty and retention. However they failed to realise that the two goals (rapid expansion and increased client loyalty) were in conflict. Operational targets, staff incentives and rigid policies and procedures associated with aggressive expansion undermined long-term relationships with clients. Increased efficiency and high operational targets placed a great burden on staff, depressing their interest in additional initiatives, including client retention. Although staff understood the importance of this aim, they were frustrated by these conflicting goals. The management found it difficult to efficiently use information from the SPM system since the policies and procedures put in motion to foster expansion hampered the implementation of initiatives to build client loyalty.

**CASE STUDY 3**  |
| **Reaching target clients:** PROMUC (Peru) is a network of 12 NGOs promoting “village banking” in rural and urban areas. An external poverty assessment demonstrated that a smaller proportion of clients were below the international “dollar a day” poverty line than had previously been assumed. These findings have motivated the development of new strategies to attract more poor clients. For example, one member of the PROMUC network is launching 86 new village banks using a “credit with education” approach in four poorer areas.
Identify paths of impact

To avoid the types of mismatch between goals and strategies described in Case studies 1–3, you can trace the impact pathways by which your social performance objectives are likely to be achieved. Understanding how programme activities will achieve your intended results will help you to design appropriate products, services and delivery mechanisms as well as the desired alignment between them. It can also inform your assumptions or hypotheses about the expected impact of services on clients which, in turn, can be tested with monitoring and assessment tools. For example, an MFI can test the hypothesis that ‘programme participation leads to increases in fixed assets’, with survey questions about fixed assets acquired for the enterprise over the past year and the source of funds used to purchase them. Figure 2.2 shows an example of an impact pathway developed by MikroPlus in Croatia.

Understanding the constraints to the achievement of your social performance objectives will help you to be more realistic in your expectations and to explore new ways for improving your services to better achieve your objectives. Case studies 4–7 show some of the ways in which Imp-Act partners have developed new activities to help them achieve their social performance objectives.

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**Figure 2.2: Impact pathway: MikroPlus, Croatia**

<table>
<thead>
<tr>
<th>Underlying cause</th>
<th>Social performance objectives</th>
<th>Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unemployment</td>
<td>Increased household economic security</td>
<td>Enterprise loans, Group guarantee and advice</td>
</tr>
</tbody>
</table>

Client problem: Unstable family incomes resulting in lack of household security

Coping mechanism: Borrowing from family/friends to smooth household consumption, Borrowing from MikroPlus to develop business

Use of services by clients: Households use money to start new businesses/extend existing business; Individuals interact & exchange business ideas (presentation of business plans)

Expected outcomes: More stable household income, Increased household employment, Risk diversification opportunities, Better business skills and reduced risk of failure

Possible unintended outcomes?
### Case studies 4–7:
**Developing activities towards achieving social performance objectives**

**CASE STUDY 4**
**Empowering women:** CMF (Nepal) promotes gender awareness in their work with savings and credit cooperatives (SACCOs). A study undertaken by CMF shows that women SACCO members are more likely than non-members to take important household decisions, such as in family planning. They are more involved in community development, community meetings and voting. They are also more aware about reproductive health, nutrition and women’s rights.

**CASE STUDY 5**
**Deepening outreach:** BRAC (Bangladesh) invests resources in understanding the complex needs of very poor and excluded people. Over a number of years it has developed a number of new initiatives designed to meet the needs of those people excluded from its mainstream microfinance programmes. For example, the Challenging the Frontiers of Poverty Reduction programme includes a safety net to assist poor households in coping with shocks such as ill health or natural disasters.

**CASE STUDY 6**
**Promoting access to education:** PRADAN (India) works to strengthen the livelihoods of poor women through the self-help group model of microfinance. Improved livelihoods often enable children to be freed from obligations at home and pursue their education. Research by PRADAN shows that 58 per cent of self-help group members’ children attend school, compared to 18 per cent of children from control group non-members.

**CASE STUDY 7**
**Promoting business development:** SHARE (India) seeks to promote productive enterprises of poor women through a solidarity group lending approach. It has therefore developed a strategy to supervise and support the use of credit, which is a key factor in achieving both 100 per cent repayment rates and impacts on poverty. SHARE implements a loan utilisation check following dispersal of a loan and follows this with regular supervision visits to the client’s home or place of business. These serve to both enforce the policy of productive use of credit and to support clients in the management of their businesses.
Component 2: Monitoring and assessing social performance

2.1 Planning your SPM system: two elements

Having identified the social performance objectives and targets you want to manage, you are ready to decide how to develop appropriate information systems. Your SPM system will be designed around answering questions related to your social performance objectives:

Outreach to target clients
- Who uses and who is excluded from using your services?

Use of your services
- What is the pattern of use of your services and how does this vary for different clients?
- Are your clients satisfied with the services you provide?
- Do your services meet the needs of your clients?
- Why do some clients leave or become inactive?

Benefits to clients
- Which clients benefit from using your services and how do they benefit?
- Which clients do not benefit or are effected in ways you did not expect?

To answer these questions you will need to carefully plan a system that collects information relevant to your objectives. You will face many choices about how complex the questions should be and how formal your approach should be. You will need to decide how much staff time to invest in data collection and processing and when to bring in outside specialists or temporary help. You will choose between collecting information from all of your clients or a random sample of them. As you begin to think about these questions, remember that how you answer them should be guided by your organisation’s social performance objectives and the specific information you need to assess, as well as its capacity (in terms of both resources and skills) to collect and process that information. There is no standardised approach to social performance management that can fit the rich diversity of institutions and missions; the path you chart will be uniquely yours.

Ultimately, your plan will have two elements: 1) routine monitoring and 2) follow-up research.

**Routine monitoring** includes the information that can be collected on a regular basis and integrated into your management information system (MIS). For example, basic data can be taken from clients’ loan applications at the start of each loan cycle; other information may require a dedicated activity to collect, such as interviews of clients who leave the programme.

While rich in detail about clients, that information may produce findings that you cannot explain. By itself, monitoring does not reveal why changes are occurring. Gaining insights about issues that emerge from the routine
monitoring often requires more in depth inquiry. This *follow-up research* constitutes the second element of your plan. It is used, for example, to follow up on signals picked up during monitoring; to answer why certain trends are occurring; to learn how clients are using a specific product; or identify market opportunities and threats.

These two elements are integrated; each informs the other. Armed with both monitoring and assessment results, you can understand the patterns and trends you have observed and take action to respond to the problems or opportunities identified. Each of these elements is discussed in greater detail below.

**Routine monitoring**

(see Practice Note 7, ‘Tracking client performance: monitoring systems for social performance management’)

Routine monitoring provides you with regular, systematic and on-going information about the status of your clients. It provides timely information that enables staff to monitor and report on performance targets, make decisions to improve quality of their work and identify issues that require their attention. It also provides an early warning system for your MFI, alerting you to possible problems as well as opportunities that you will want to explore further.

Monitoring information can be used for several different purposes, including:

- **Early warning**: Regular, updated information enables you to identify and respond to problems at an early stage.

- **Tracking performance against targets**: By setting clearly defined targets in relation to outreach, meeting clients’ needs and benefits for clients, you will be able to determine overall organisational social performance, and also to break this down by branch or individual staff members. This allows you to verify your performance and also to identify areas which are
performing particularly well or poorly. In addition to helping you with day-to-
day management this monitoring information will help you to see the results
of any operational changes you make. Thus, for example, when piloting a new
product, you may want to track changes in client status and the financial
portfolio. This will help you understand how the new product is affecting
both the clients and your organisation’s financial performance.

- **Portfolio segmentation:** You can analyse performance by client
  characteristics such as gender, location, type of business and length of time in
  the programme. Using segmentation to analyse your performance will
  improve your understanding of different markets and help you tailor services
  accordingly. It will enable you to understand the characteristics of strong
  performers and identify the client groups that contribute most to your
  profitability. It will also increase your agility in responding to problems or
  opportunities. If, for example, your exit rate shoots up, you will want to know
  what those who leave have in common. Are they from the same branch? Are
  they mature clients or new ones? Were they group or individual loan clients?
  Table 2.3 looks at the example of client exit, and shows how by disaggregating
  monitoring information you can get an understanding of the characteristics
  of clients with high exit rates. This will guide follow-up research to
  understand the reasons for the differences observed.

- **Client use of services:** By monitoring client use and response to
  services, you can improve their quality and use limited resources in more
  focused ways. You should ask questions such as: Which of your services are
  clients using most? What do they like about this product? Does it meet the
  needs of our target group? Which suffer the weakest demand? What are that
  product’s weaknesses?

<table>
<thead>
<tr>
<th>Type of business</th>
<th>Retained</th>
<th>Drop-out</th>
<th>Marital status</th>
<th>Retained</th>
<th>Drop-out</th>
</tr>
</thead>
<tbody>
<tr>
<td>New</td>
<td>14.6</td>
<td>29.2</td>
<td>Married</td>
<td>83.9</td>
<td>80.1</td>
</tr>
<tr>
<td>Existing</td>
<td>85.4</td>
<td>70.8</td>
<td>Non married</td>
<td>16.1</td>
<td>19.9</td>
</tr>
<tr>
<td>Number of previous loans</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>0</td>
<td>40.1</td>
<td>62.7</td>
<td>1–2</td>
<td>18.6</td>
<td>17.9</td>
</tr>
<tr>
<td>1–2</td>
<td>54.3</td>
<td>32.3</td>
<td>3–4</td>
<td>64.1</td>
<td>68.7</td>
</tr>
<tr>
<td>&gt;2</td>
<td>5.6</td>
<td>5.0</td>
<td>&gt;5</td>
<td>17.3</td>
<td>13.4</td>
</tr>
<tr>
<td>Business type</td>
<td></td>
<td></td>
<td>Target client groups</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade</td>
<td>37.6</td>
<td>21.1</td>
<td>Primary target (women/rural)</td>
<td>31.0</td>
<td>33.4</td>
</tr>
<tr>
<td>Service</td>
<td>29.1</td>
<td>30.6</td>
<td>Secondary target (women/urban)</td>
<td>24.9</td>
<td>19.4</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>7.9</td>
<td>4.5</td>
<td>Secondary target (men/rural)</td>
<td>24.9</td>
<td>31.5</td>
</tr>
<tr>
<td>Agriculture</td>
<td>2.1</td>
<td>5.9</td>
<td>Non-target (men/urban)</td>
<td>19.3</td>
<td>15.7</td>
</tr>
<tr>
<td>Animal husbandry</td>
<td>23.3</td>
<td>37.9</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>734</td>
<td>378</td>
<td>Total</td>
<td>734</td>
<td>378</td>
</tr>
</tbody>
</table>

Source: *MFC Spotlight* Note 11, ‘Client desertion in microfinance: how to diagnose it successfully?’
● **Base-line information**: By capturing information about your clients when they join your programme, you will have good information that can be used to assess changes over time in a more in-depth assessment of social performance. Information captured at the start of a project or when clients enter a programme is known as “base-line” information.

**Finding the right time for monitoring**
Monitoring systems seek to collect information on a regular basis from clients. As such, they should be integrated into existing organisational processes. In many cases, an existing information system can represent a critical, often untapped resource to measure and strengthen social performance. These may include loan applications, group meetings, staff visits to clients, client workshops, client visits to an MFI office, etc. Many organisations use client intake and loan application forms to collect monitoring information via existing points of contact, and enter it in an existing computerised management information system (MIS).

While monitoring data recorded in your MIS is more likely to be collected daily or weekly as part of daily operations, other sources of information will generate information at regular, but longer intervals – quarterly or annually for example; this might be the case with staff feedback sessions or client satisfaction surveys. For example, SHARE in India, uses branch-level workshops to capture client feedback on an annual basis. These address a range of issues and provide a forum for regular feedback to the organisation about clients’ perceptions of the services being provided and problems encountered.

**Do not collect too much data**
Although there are many ways to collect information on a routine basis, we caution against gathering too much data. Practitioners should focus on the information they will actually use to inform operations and enhance performance. Case study 8 describes the case of an MFI in South Africa that extracts data from its MIS to track very specific questions. If you are clear about what you want to accomplish with your monitoring system, this will make design decisions – such as indicator selection, frequency of data collection, and sampling – much easier.

**Follow-up research**
Follow-up research can help you understand numerous issues, from market demand (what do clients need or want?), to how they use your services, to why they leave the programme. In contrast to routine monitoring, this investigation is done occasionally as the need arises. Positive or negative outcomes may result from changing client circumstances, from operational design, or from external factors. Good monitoring can provide a base-line, an important resource for more in-depth research. Monitoring information can also provide signals of issues that need further investigation. It can provide an overall picture of microfinance clients, allowing for more effective sampling and clearer identification of issues that need further investigation. Once your monitoring system picks up a significant change,
you may want know why it has occurred. If the reasons are connected to your programme, you can address the situation, hopefully improving your effectiveness. See Case study 9 for an example of changes to products made by one organisation.

**Case Study 8: Tracking progress with a monitoring system**

The **Small Enterprise Foundation** (SEF), South Africa, tracks a number of social performance indicators through its MIS. These monitor the progress of all clients in its poverty-focused programme. Data collected in each loan cycle is discussed by clients and field staff, and provides management and the board with graphical information about progress. Three examples below show how SEF monitors its performance.

**TRACKING SOCIAL INDICATORS**  
This chart shows client perception about their food quality in each loan cycle. Figures are for all clients and show that on average those in later loan cycles report higher quality of food.

The system also allows for segmentation of clients, reporting scores against a range of client variables.

**TRACKING MISSION DRIFT**  
SEF also monitors whether the clients who were poor on entry remain in the programme over time. The chart gives figures for all clients on each loan cycle, with a higher score representing poorer clients. Consistency in average poverty score between loan cycles would show that on average the profile of clients remains constant in terms of their poverty level on entry.

**EARLY WARNING SYSTEM**  
MIS data is used to monitor exit rates (for the organisation overall and for individual branches and staff). Rates are reported at monthly meetings, and their rise above the minimum target rate of 18 per cent triggers steps to understand the reasons for the increase, and a response. This chart shows one example of a major drop-out problem, and its subsequent decline in response to management action.

**Case Study 9: Understanding patterns of change**

In Ghana, **Sinapi-Aba Trust** learned from its regular portfolio data that women clients were not graduating to the individual loan product as anticipated. Follow-up research using focus group discussions and individual interviews revealed that clients were not accumulating assets, findings which helped Sinapi-Aba design a product that might enable women entrepreneurs to expand their businesses through more robust asset accumulation.
PART TWO  SPM road map

Be realistic about the resources you can commit to research

Staff experience is invaluable in the research process

The type of research you choose will depend very much on balancing your information needs with the amount of money and people you can commit to the work (see Table 2.4). We encourage you to be as participatory as possible when planning your follow-up research, to ensure that your operations staff are involved in the process and that they communicate with researchers. Because front-line staff experience is invaluable, your system should include opportunities for them to reflect on their own knowledge and experience to suggest the likely causes of change; these can inform follow-up use of market research, participatory appraisal, in-depth interview methods or quantitative surveys. Staff should also be involved in analysis and reporting. Everyone should understand what the research is revealing and discuss how they might act on the findings. Final reports are useless if they sit on the shelf. Remember, the results are for you and your staff to use to improve the programme.

2.2 SPM system design

In the previous sections we have looked at how SPM is driven by the use of information. We have outlined above how monitoring information can be used for early warning, to track performance against targets, to segment your portfolio and to get a picture of the patterns of client use of your services. We have also looked at how follow-up research can be used to understand in more depth the needs and responses of your clients, and to understand the patterns and changes you observe. We now move to thinking in some detail about how you will design your SPM system. As you consider the core elements of your SPM system – the routine monitoring and follow-up research – you will need to answer the following questions with respect to both:

- What information is needed and who needs it?
- What information will you collect?
- How will you collect the information you need?
- From whom will you collect the data?
- How frequently will the information be collected?
- Who will collect, collate, analyse and report the information?

We discuss each question below to provide an overview to how each can play out in the design process you undertake. Box 2.1 illustrates the type of planning decisions that you will make at this stage. Most of these questions involve specific research techniques and methodologies for which more guidance is offered in the Practice Notes that are included as part of these Guidelines. Their descriptions below will guide you to the Practice Notes that you need.

Remember, don’t make your plan too ambitious. Most organisations start out wanting to know more than they can effectively use and end up investing their resources unwisely. Your main challenge is to pinpoint what your organisation really needs to know, rather than that which would be nice to know, and your next challenge is to think about how you can get that information as efficiently as possible, striking an acceptable balance between the quantity and quality of data and the resources you have to manage it. With these words of caution, let us start with the first question.
1. **What information is needed and who needs it?**

The first step towards designing a system that will meet your needs is to be clear about who needs what information. SPM information can be used by your clients, your operational staff, your management or your board members. It can also be used by external stakeholders such as donors and government. Do you need information for day-to-day management decisions; to assist your field staff in understanding their clients and their needs; for clients to better understand their own situation; or to report annually to your board or investors? Look back at the discussion above on how SPM information can be used within your organisation, and for each potential information user think about what would help them in their work and satisfy their need to track performance.
2. **What information will you collect?**

We have seen that to manage your social performance you should be tracking performance in three areas - outreach to your target clients, your clients’ use of your services, and the benefits created for your clients. We now examine what specific information you need to collect to see whether there has been change or progress in these areas. For each of your social performance questions you need to decide what specific information will indicate movement, change or progress. These “pieces” of information are indicators. Indicators are “shortcuts” or simplifications of reality that reduce complex phenomena into understandable measures. For example, enterprise growth can be measured by changes in business assets or monthly sales or number of employees. Family welfare can be measured by changes in food consumption or changes in number of children in school or household assets. Indicators used to measure an MFI’s financial performance include portfolio quality and growth. *Practice Note 5 provides guidance on choosing and using indicators.*

While MFIs must track both financial and social indicators, the latter are complicated by the multitude of possible changes that can be associated with programme interventions, and the many potential indicators that can measure each change. In contrast to indicators of financial performance, social performance indicators are not standardised; they must be selected in relation to your social performance objectives and reflect the context in which you operate. For example, home improvement is often used as an indicator of improved family welfare, but its measurement will vary widely. In El Salvador, a proxy indicator for “home improvement” might be bringing electricity into the home, while in rural Mali, the purchase of a kerosene lamp would be a more appropriate choice.

You need to select indicators that relate to your social performance objectives, and are likely to include measures of outreach, sustainable delivery of services that respond to identified needs of specific target markets, and impact. The categories of indicators presented below are derived from each of these areas, and are designed to help stimulate your thinking around your own unique set of indicators.

**Indicators measuring outreach to target clients**

Segmenting or disaggregating your client base into groups with similar characteristics can enable you to track progress for each group, yielding more in-depth information and identifying questions for your follow-up research. Some target groups, such as women are easy to define and measure. Others client characteristics, such as level of poverty, are much more complex to both define and measure. Further information is available about poverty outreach indicators from www.povertytools.org.

**Indicators measuring effectiveness in meeting client wants and needs**

A range of indicators relate to client satisfaction with the services provided, the quality of these services, and whether they effectively meet clients’ wants and needs. Three examples include:
**Client satisfaction:** When measuring client satisfaction, please note that:

- Client satisfaction changes as other options or better deals raise expectations, or as changes in the client’s own situation result in different needs.

- Satisfaction alone doesn’t indicate a client’s commitment to the institution. Therefore, satisfaction should be analysed in tandem with loyalty.

- The degree of a client’s satisfaction is usually related to a particular aspect of the programme. Thus, a general question such as ‘how are you satisfied...’ will not yield very useful information. You will need to discuss each aspect of your product or service with specific questions.

- Questions about client satisfaction are more likely to give information about client preferences than their needs.

**Client exit:** Measuring client exit poses several methodological issues, particularly how you choose to define a drop-out and the overall exit rate for the programme. These are affected by programme policy and procedures, product design and seasonality, to name a few. Practice Note 3, ‘Learning from client exit’ provides guidance on how to define exiting clients and exit rates.

**Design effectiveness:** Trends and changes identified among clients can help you determine how effectively your internal operations and structures are supporting social performance objectives. Certain indicators, such as employee satisfaction, can also be useful in detecting negative signals before the problem indicated grows large enough to trigger dissatisfaction among clients.

**Indicators describing changes in client status and impact**

In determining your social performance objectives you will have thought about the types of changes that you expect to see as a result of your services. These may be at the level of client, enterprise, household or community and are described in the SEEP/AIMS manual as “domains of impact” (Learning from Clients: Assessment Tools for Microfinance Practitioners; SEEP/AIMS Manual, Chapter 2). Each of these domains relate to different impact pathways, and lead to the selection of specific indicators.

The challenge lies in selecting the indicators that will best serve your needs. But the real art of choosing indicators is keeping their number to an optimal minimum. Tracking a few good indicators well is much preferable to tracking many indicators of questionable quality and which overwhelm you with too much data. To arrive at the optimal number, Imp-Act recommends a process of indicator selection that triangulates different information sources, applies selection criteria and thoroughly tests and refines those chosen, as outlined below.

1. Identify sources of information

2. Map existing data. Look first for relevant information you may already have or could easily collect. Build on existing tools and systems
PART TWO  SPM road map

3 Develop a pool of indicators

4 Develop selection criteria to narrow the pool: What criteria will help you select a few robust indicators? Those may include:

- Indicator sustainability (for how long it will serve?)
- Universality (is it relevant for all clients?)
- Sensitive to change (will it reflect progress well?)
- Easy to measure (cost, ease of data collection)

5 Define measures for each indicator

6 Test and refine indicators and measures.

---

**Case Study 10: Importance of pilot-testing research**

In Peru, researchers sought to understand client perceptions of the services provided by an MFI. In focus group discussions and individual in-depth interviews they asked clients, ‘What problems do you have?’ It soon became clear that the research was producing unexpected results. Clients almost uniformly reported that they had no problems with the MFI’s services.

Rather than accept these results at face value, the research team – led by an experienced anthropologist – decided to repeat the exercise, asking a different question: ‘What makes you angry?’

The clients found plenty to complain about. They were angry with the products offered by the MFI; they were angry about the lack of grace periods; about delays in loan disbursement; about their interactions with loan officers; about relations with other group members.

A simple change in how a question was phrased led to radically different results.


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3. How will you collect the information you need?

A *qualitative or quantitative approach?*

What you choose to track will largely determine how you track it. Some indicators, such as children’s education, yield a number or statistical information that is collected on programme forms or surveys; others, like changes in decision-making within the household, are more sensitive, requiring more in depth conversations with clients. These differences capture the two principal types of information you can collect – widely known as quantitative and qualitative – as well as their corresponding research tools.

Briefly, quantitative methods enable you to answer specific questions about your clients such as ‘how many’, ‘which’ and ‘how often’, and reveal broad patterns of change. In contrast, qualitative methods help you understand the reasons for changes or patterns observed. They allow you to capture what
people have to say in their own words and to explore the reasons and feelings that motivate people to take the actions they have taken. Given the complimentary nature of these two research methods, it makes sense to use both. Qualitative results can explain the context within which one can more fully understand quantitative findings. Conversely, some prefer to conduct qualitative research first, in order to identify the right questions for a broader quantitative survey. These approaches are discussed in more detail in Practice Note 6 (on planning research). Practice Note 2 (on the QUIP) and Practice Note 4 (on surveys) provide examples of tools for each approach.

Choosing tools
A rich array of resources is available to help you collect the information you need to answer your social performance questions. Some tools have been developed or adapted especially for practitioners of microfinance. These are discussed in Practice Note 6, ‘Planning research to assess social performance: guidance for managers’. Market research tools, for example, such as those of MicroSave and SEEP/AIMS, are useful for identifying client preferences or potential products based on the financial landscape or seasonal needs for cash; others help you to focus on how clients use your products. In-depth qualitative interviews help you focus in on complex changes that may be occurring for the client in relationship to her enterprise, her family or her community. Figure 2.3 provides an overview of how a number of commonly used tools can help you to answer your social performance questions. Start with these, and adapt them as necessary to your own institutional requirements for information.

![Figure 2.3: Tools for managing social performance](image-url)
PART TWO  SPM road map

The methods and corresponding tools you choose will largely depend on what you want to learn. It is important to relate your tools to the social performance questions that you wish to answer. In designing your SPM system, remember that your decisions will have implications for cost, time required, and staffing. The type of research tool you choose will affect the way you run the project in terms of logistics, human resources (number of people involved and the necessary skills) and data management. These requirements will inevitably influence your overall SPM plan. Table 2.4 summarises the resource requirements of some of the main tools you may wish to use.

<table>
<thead>
<tr>
<th>TOOL</th>
<th>STAFF SKILL LEVELS AND EASE OF USE</th>
<th>COST AND OTHER RESOURCES</th>
</tr>
</thead>
</table>
| Monitoring forms | ● Simple to collect information with MFI staff  
● Technically challenging to integrate into MIS | ● If kept simple small addition to existing procedures, so not time-consuming  
● If large sample or census then overall time inputs can be quite high  
● Adaptation of MIS can be costly |
| Impact survey | ● Requires skilled staff for design, sampling, supervision and analysis  
● Interviewing can be done by staff with relatively little training | ● Costly in terms of design time and input and staff time in conducting interviews, analysis and report writing. Average cost is $4,000–14,000 |
| Focus group discussion (FGD) (SEEP/AIMS empowerment, loan use and satisfaction tools) | ● Needs skilled staff with clear understanding of objectives – formal training is needed  
● Method is simple to use and adaptable to different situations  
● Value in training senior staff from head office to conduct FGDs | ● Low-cost – main cost is training and staff time  
● 60–90 minutes per FGD  
● Can be done by field staff linked to routine activities, and usefulness to staff make it cost-effective. |
| Participatory group discussions (MicroSave market research toolkit) | ● Needs skilled facilitators with clear understanding of objectives and participatory methods – formal training is needed | ● Low-cost once facilitators are trained  
● One week training plus follow-up needed for facilitators  
● Ideally need a facilitator and note-taker; about 90 minutes per discussion  
● Quick results from many people |
| Individual interview (QUIP) | ● Needs skilled staff for interviews and data analysis  
● Easy to use, but poor application will invalidate results | ● Low-cost – main cost is training and staff time, although skill level of staff may demand relatively high salary  
● 60 minutes per interview |
| Internal learning system | ● Need highly skilled staff to facilitate  
● Formal training and on-going support for staff is needed  
● Can be used by illiterate clients | ● Intensive tool that is time-consuming and needs to fit in with organisational approach to empowering clients  
● Demands significant client time  
● Can be adapted to be used in a low cost and less-intensive way |

Adapted from MicroSave Market Research for Microfinance Toolkit
4. From whom will you collect the data?

This question has two parts:

1. Which of your social performance objectives must be monitored with data drawn from all of your clients, and which can be effectively monitored with data from a sample? Our short-hand for this question is: “census or sample?”.

2. For those tools for which you choose to administer to a sample, how will you select that sample?

Census or sample?
The answer to the first part of the above question implies finding a balance between quality and cost. Usually, larger sample sizes permit more detailed analysis, but at a higher price tag. Collecting the same information from the entire client population will be helpful when you want to compare branches, or client behaviour by geography, product or other variable. But make sure you really do need data from all clients. Sampling is easier and less costly in terms of staff time and logistical expenses required to collect, input, analyse and manage the data.

<table>
<thead>
<tr>
<th>Case Study 11: Monitoring all clients</th>
</tr>
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<tbody>
<tr>
<td>In Bosnia and Herzegovina, <strong>Prizma</strong> opted to collect information from all clients in order to disaggregate against 30 variables captured by its MIS. Using the MIS to “drill down” through the data – for example, to examine the poverty outreach of an individual loan officer, or to compare the performance of clients running the same type of business in different areas – requires data from all clients. The same is true for credit scoring and product pricing. Prizma also includes poverty outreach and client exit as two of its core performance areas. Data disaggregated by branch is used to calculate staff team bonuses – all additional reasons to collect poverty data on entry for all clients.</td>
</tr>
</tbody>
</table>

How will you select the sample?
The answer to the second question (how will you select that sample?) will vary for each tool you choose. Where you seek to generalise results to the broader population through statistical methods, such as when using a quantitative survey, you need to ensure that the samples are large enough to represent that population. Established guidelines about sample sizes are available if you decide to pursue this method. See Practice Note 5: Using surveys.

Where monitoring data is used to give a general picture of performance a relatively small sample may be sufficient. Where you seek to do detailed analysis comparing changes of a number of different variables then it is likely that you will need a much larger sample, or even a census of all clients. To keep your monitoring information up-to-date you will also need to consider including introducing additional clients into your sample each year, so as to include new entries into the programme.
Qualitative information, on the other hand, is not designed to be statistically valid, and sampling generally focuses on including key characteristics for investigation, often being guided by issues highlighted through monitoring or a survey. Different questions point to different sampling strategies, as outlined in Box 2.2. Practice Note 6: ‘Planning Research to Assess Social Performance: Guidance for Managers’ offers more technical discussion on sampling for both quantitative and qualitative approaches.

**Box 2.2: Qualitative sampling strategies**

Depending on what you want to learn, your sample for qualitative interviews might be comprised of:

1. Extreme or unusual cases (outstanding successes or notable failures)
2. Obvious cases that clearly demonstrate the phenomenon you want to assess
3. Differences in client characteristics, or variation (e.g. rural and urban)
4. Typical cases or ones that exemplify an average outcome of programme participation
5. Typical high- and low-performing client
6. Critical cases to make a specific point very dramatically
7. Client-recommended clients to identify who knows the most about a particular phenomenon; or
8. Confirming and disproving cases to document why an individual or group either follows or does not follow a particular pattern.


5. **How frequently will the information be collected?**

The frequency of data collection will be affected by how you plan to use the information and the time required for the changes you are monitoring to occur. For example, if you only need information to inform annual progress reports, you may opt for annual data collection. However, if you need information for day-to-day management, you will need to monitor clients more frequently. But be careful that the information you gather on a frequent basis is not about changes that occur only very slowly (see Practice Note 7).

The frequency of data collection is also related to practicality and cost. The more frequently you collect information, the more precise and current it will be, and the more expensive the process. The cost and time demands of data collection means that you would be wise to collect much less detailed information on a routine basis than would be possible with an occasional survey.

Finally, the frequency with which you need to collect any given piece of information will depend on who uses it and why.
6. Who will collect, collate, analyse and report the information?

Three principle factors will influence your decisions about who will put your SPM system into practice: cost, quality and organisational learning. And of course, you will face this decision more than once – each component of your system will have its own requirements for personnel, and will require you to find the balance between these factors that is right for your situation. *Practice Note 6* provides more information on achieving this balance.

**Cost**

At first glance, it seems obvious that allocating SPM tasks to staff is less expensive than contracting consultants. But factoring in the costs of training and the opportunity costs of time diverted from making loans might change the equation. If your staff are too overloaded to complete their SPM tasks in a timely manner, the benefits of SPM may be compromised. Sometimes getting the job done is worth the extra cash expense. In such a case, staff may be collecting too much information; you will need to evaluate whether your routine monitoring is focused on the most necessary information and remember that other questions can be allocated to follow-up research.

**Quality**

To be effective, your SPM system has to collect good data which requires skills that MFIs may not have in-house. Such skills include adapting and testing tools; interviewing; data entry; analysis; and report writing. If you face this problem, your options are either to train staff or hire outside consultants. Many organisations do both. Generally monitoring should be done by in-house staff, and does not require extensive training. Most organisations will also want to have the capacity to do simple market and follow-up research, for example using the range of recently developed practitioner-friendly tools, such as the SEEP/AIMS client assessment tools or the *MicroSave* market research and participatory research tools (see Resource CD-ROM for more information). Where more in-depth research is needed it will often make sense to contract this out to professionals.

**Organisational learning**

The more your staff are involved in both planning and implementing your SPM system, the more they will have a personal interest in making it work. This is particularly true where the information collected by field staff is directly useful to them in their day-to-day work. Remember, SPM flourishes in a learning organisation – and this implies an engaged staff. Those directly

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**Case Study 12: Staff and client learning**

A number of *Imp-Act* partners prioritised learning by staff and clients in their SPM system. **PRADAN** (India) uses a monitoring system known as the Internal Learning System. This provides pictorial diaries to illiterate women clients. These are completed by the women and analysed individually and in groups. These diaries help the clients monitor and analyse their own progress, and also provide a tool for field staff to be able to assess and discuss progress with clients. **LAPO** (Nigeria) and **SEF** (South Africa) both use their monitoring systems as a tool to assist field staff in learning from their clients and see this as an essential part of the monitoring.
involved with clients are most tuned to client behaviours and needs; they can help shape the questions to ask and interpret their answers. Most importantly, your staff are more likely to use the results when they have been involved in generating them.

The quality of your data can also be influenced by bias, meaning that the information is given with a particular purpose in mind, such as to justify a client’s loan status. Some feel that staff cannot objectively assess their own clients who tend to report what they think their loan officer will want to hear. At the same time, external consultants can jeopardise data quality if they do not have detailed background information on the situation in which they are working or the clients they are interviewing.

**Making staffing decisions**

Table 2.5 outlines the strengths and weaknesses of three models that MFIs can consider for staffing SPM: totally in-house, wholly contracted-out and an intermediate approach. Under the first, SPM is core to operations and involves all staff in some way. At the other end of the spectrum, SPM is largely contracted out to specialists so as not to distract staff and management from ‘core’ operational tasks. An intermediate model is to invest in a permanent internal unit of one or more specialist staff in an internal research and development unit under the direction of a senior manager. Such units often combine social performance management with other responsibilities, including market research, marketing, donor liaison and public relations. At SEF in South Africa operational staff carry out most of the data collection as part of routine operations, but specialist staff in the monitoring and evaluation unit are responsible for aggregating the data and writing routine programme-wide reports.
### Table 2.5: Three models for staffing SPM

<table>
<thead>
<tr>
<th>INTERNAL AND INTEGRATED</th>
<th>INTERMEDIATE</th>
<th>EXTERNALLY CONTRACTED</th>
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</thead>
<tbody>
<tr>
<td><strong>Strengths</strong></td>
<td><strong>Strengths</strong></td>
<td><strong>Strengths</strong></td>
</tr>
<tr>
<td>• Total control over work done</td>
<td>• Can combine many of the strengths from the other two models.</td>
<td>• Specialised skills brought to process</td>
</tr>
<tr>
<td>• Work fully reflects internal criteria (timing, cost, utility, reliability)</td>
<td></td>
<td>• Opportunity to carry out the work intensively</td>
</tr>
<tr>
<td>• Easy to control distribution of findings</td>
<td></td>
<td>• Formalised process of defining scope (and cost) of work</td>
</tr>
<tr>
<td>• Chance to learn by doing and to build a pervasive learning culture.</td>
<td></td>
<td>• Opportunities to transfer knowledge and skills to staff</td>
</tr>
<tr>
<td>• Easier to adapt and change work as it evolves</td>
<td></td>
<td>• Potential for more credibility with external audiences</td>
</tr>
<tr>
<td>• Avoids expensive consultants.</td>
<td></td>
<td>• Avoids cost of employing specialised staff full-time.</td>
</tr>
<tr>
<td><strong>Weaknesses</strong></td>
<td><strong>Weaknesses</strong></td>
<td><strong>Weaknesses</strong></td>
</tr>
<tr>
<td>• Staff may lack necessary skills</td>
<td>• Can avoid many of the weaknesses from the other models.</td>
<td>• Difficult to systematise learning as part of on-going management</td>
</tr>
<tr>
<td>• MFI may not be able to keep specialised staff busy full-time</td>
<td></td>
<td>• Consultants have their own agenda</td>
</tr>
<tr>
<td>• Staff easily distracted by other tasks</td>
<td></td>
<td>• Consultants fail to understand fully the context and priorities of the MFI</td>
</tr>
<tr>
<td>• May be greater potential for bias</td>
<td></td>
<td>• Consultants are distracted by other activities</td>
</tr>
<tr>
<td>• Reduced credibility to external audiences</td>
<td></td>
<td>• More difficult to ensure effective communication and use of information</td>
</tr>
<tr>
<td>• Risk of weak cost control, especially taking into account opportunity cost of time.</td>
<td></td>
<td>• More costly to set up and monitor</td>
</tr>
</tbody>
</table>

### 2.3 Words of wisdom in SPM design: simplify, test, revise

The planning process outlined in this section involves many decisions about many details. Despite the significant amount of technical information you will consider at this stage, we urge simplicity once again. As we noted earlier, Imp-Act has found that most organisations collect too much data. Either they lack clarity about the information they really need; or continue to be drawn to the collection of “nice-to-have” as well as “essential” information. You should focus on a limited amount of information that you can use in practical, cost-effective and timely ways to enhance organisational performance. Your goal should be to collect data efficiently, while maintaining minimum standards for quality and usefulness. Finding this balance is a challenge (see Case study 15 for an example of how one organisation made the task of data collection manageable and useful). The system you finally end up with should:
PART TWO  SPM road map

- Collect the minimum number of indicators possible; it is better to track a small number of indicators, but do so regularly and reliably
- Collect data from as few clients as possible – use a sample of clients whenever appropriate
- Collect data as infrequently as possible
- Collect data with the minimum degree of precision required
- Minimise data analysis – plan enough time for data analysis and look for opportunities to computerise your systems
- Report in a simple format.

As you carry out this set of personnel decisions from data collection to analysis, recognise the power of computers. Computerisation is necessary if you plan to regularly collect a lot of data or carry out quantitative analysis. A well-established MIS that can incorporate your monitoring data will provide you with a powerful tool for tracking performance over time. However, do make sure that you carefully plan the modifications that may be necessary to your MIS to enable you to record and report on social performance indicators. For some organisations this has proved more time-consuming and costly than they anticipated.

Build on what you have. Review your existing information systems to see what information you are already collecting. To make your job easier, Imp-Act recommends the following:
- Use data from the financial portfolio to help you monitor social performance. For example, clients’ savings patterns (e.g. frequency and amounts) may be an important indicator of their financial health.
- Adapt your existing systems to collect information useful for SPM. For example, adding data about how clients use their loans may enable you to compare the performance of different business types.
- Look for every opportunity to gather the experience and insights of your staff and clients, and build these into your SPM system, including both formal elements (e.g. reports, application forms, interviews) and informal exchanges in meetings and conversations.

Piloting your SPM system

During the design process, you will invest significant time and thought in what information to collect and how to collect it. Once you have made the many decisions this phase requires, you and your staff will be eager to start the work, to put the new system into operation. However, Imp-Act strongly recommends a period of testing and revision before full-scale launch. You are introducing an innovation, a new set of activities for one or more branches that will affect daily operations and responsibilities for multiple staff members. You want to know that each system component is right. Each tool you choose needs to be tested with a sample of clients to ensure that it is asking the right questions; that the indicators you have chosen are
appropriate; that both the interviewers and the clients understand the questions and that the MIS has been correctly updated to handle the new data.

Such a system 'test drive' will probably turn up errors to correct. Plan time for revision and re-testing before roll-out. Though seemingly tedious, proper testing will save money in the long run.

### Case Study 15: Complexity simplified

**FINCA International** joined Imp-Act to identify a small number of social indicators to include in a new MIS for all of its affiliate programmes. Initial pilot work (in Uganda) highlighted the danger of producing too much information without understanding how it would be routinely used. Discussions across countries about the choice of indicators also highlighted the complexity of the task. Consequently, the project seemed to be at a standstill for almost two years.

Eventually, FINCA narrowed its focus to monitoring the poverty status of clients, partially in response to new US legislation. At the same time, the board was becoming more concerned about “mission drift” as a result of the organisation’s growth through commercialisation. A small team began to experiment with a rapid survey approach, using palm pilots. Early rounds demonstrated to the board that useful statistics could be generated quickly, reliably and cost-effectively, building support for further investments in a system that could be institutionalised across country programmes.
Component 3: Using and institutionalising your SPM system

3.1 Ensuring the information makes a difference

Gathering information on your MFI’s social performance is only part of the overall process. Once collected, data needs to be communicated to staff, reported in relevant forms to a variety of stakeholders, and translated into practice. This component is critical to the success of your system and involves not only the important work of identifying recommendations to improve the programme—the system “use”; it also requires attention to funding, staffing and maintaining the system—in short, its “institutionalisation”.

This component sees SPM becoming a real part of your organisation and your routine work. Social and financial data are used together as they affect each other. Strong social performance will translate into financial gain, which in turn is needed to sustain the social benefits your programme activities foster for clients.

Since the effects of SPM will affect all levels of your organisation, managing the process may require you to revisit most departments, systems and policies. Figure 2.4 shows SPM as system-wide, informing how you manage the entire internal enabling environment of your institution (your structure, culture, policies, procedures, appraisal, reward/incentives, internal
reporting, communication etc.). It provides the social performance lens through which you can monitor how organisational systems support progress towards your social goals. For example, incentive systems for staff need to achieve the right balance between operational efficiency and effective service delivery to clients. The diagram also situates SPM within a wider context, showing how the external enabling environment effects your ability as an organisation to achieve your social mission. It also links the internal organisational need for information for management to the needs of your external stakeholders for information about your social performance. This can either be by MFIs reporting on their social performance according to recognised benchmarks and good practice, or through an external assessment of your SPM systems and results using review, audit or rating. These issues are discussed in more detail in Practice Note 8 on social performance reviews.

But perhaps the greatest challenge in using and institutionalising your SPM system is maintaining the flexibility you will need to respond to what you learn from clients. Over the years, MFI financial performance has been achieved in large part by standardization, aggressive expansion with one product and one delivery system that can be easily replicated. As the industry matures however, MFIs must be more sensitive to clients, market shifts, and competitors – and more flexible in their ability to change in response to both problems and new opportunities. The drive for efficiency is taking into account an emerging need to be client-centred and market-driven. Social performance management is an important step in this direction – a direction that, for many MFIs, represents a dramatic shift in organisational culture. We encourage you to embrace the challenge.

The feedback loop: a framework

The feedback loop (Figure 2.5) provides a practical framework for thinking about how to ensure that the information gathered with the SPM system will get used. Practice Note 1 provides more in-depth discussion of this framework.

The feedback loop highlights the aspects of SPM that go beyond data collection. Be careful not to get stuck in the first half of the loop. Do not worry about having too little data to take action. In fact, especially at the outset, it will be important for you to share early results and reward small successes.

The framework also points to the value of participation. The many tasks and activities cannot be concentrated in one place. If possible, empower middle managers to take actions at the branch level, as they will understand the relevance of the information to their particular branch and clients. Ensuring that information is both shared across branches and acted on at field level could yield the most innovative responses to social performance findings.
3.2 Institutionalising SPM

Even the most well-designed SPM system will require some effort to incorporate it into an MFI’s organisational structure and daily routine. You need to align your SPM system with other functions such as human resources (see Box 2.3), marketing, financial management, budgeting, strategic planning, and communication. You will also probably need to adjust operational procedures, adapt the MIS, and ask the finance department to account for the resources spent on SPM.

<table>
<thead>
<tr>
<th>Box 2.3: SPM’s impact on human resources</th>
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<tr>
<td><strong>Staffing:</strong> Revised job descriptions may be needed for current staff and may influence the criteria you use to hire new ones.</td>
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<tr>
<td><strong>Outsourcing:</strong> Develop procedures outlining when, and for what purpose, outsourcing will occur. Try to establish a longer term cooperation with external consultants to build their understanding of your systems and needs, and to avoid the delays of orientation each time one is called in.</td>
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<tr>
<td><strong>Staff training and development:</strong> Staff training in the multiple aspects of data collection and analysis will be a permanent requirement of the system as new staff enter the organisation and existing staff change positions.</td>
</tr>
<tr>
<td><strong>Rewards and incentives:</strong> The new responsibilities associated with SPM may require adjustments to reward and incentive systems as well as annual staff evaluations.</td>
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Case Study 16: LAPO’s (Nigeria) research and development department

Despite having strong support from the managing director, LAPO’s research officer experienced many practical constraints; the operations department viewed his work as peripheral to operational decisions. To overcome this barrier, LAPO made the decision to bring research and development into operations, committing internal funds to a new research and development department with three staff. Now, the research manager participates in weekly operational meetings. His work is valued and fully integrated into operational priorities.

Advice on institutionalisation

Beyond these adjustments, key advice from Imp-Act partner experience includes the following:

Make sure you have support from senior management and the board: A strong and supportive management is essential to ensure that SPM is effective. Include key management staff from different departments.

Ensure staff buy-in at all levels: Staff may initially resist SPM as additional work. Involve them early on; spend time planning and discussing the institutional changes with them. Encourage staff, clients and other stakeholders to participate and give their views. You may also need to adjust your incentive system to stimulate staff commitment and, of course, balance the benefits of the system against what it costs in staff time.

Identify a system “champion”: At least one dedicated staff member should coordinate the SPM process and act as its advocate.

Start with small steps: Do not try to do too much too quickly. Small steps are more effective in introducing new initiatives, making them more manageable, and fostering gradual capacity development over time.

Try to achieve some useful results quickly: Early demonstration of the system’s usefulness will enhance staff support.

Find sufficient resources: Developing an SPM system takes staff time and money in the short-term that will ultimately be cost-effective in the long-run.

Find the appropriate mix of staff and external input: While your staff should have a part to play in the system, external consultants can relieve time/labour constraints and bring in research expertise that is needed on a periodic basis.
3.3 Improving your SPM system

An SPM system cannot be static; it will evolve along with your programme. To verify that it continues to generate quality information as it evolves, Imp-Act recommends a periodic review of the system – known as a social performance review. Practice Note 8, ‘Reviewing the social performance of microfinance institutions’ provides a more detailed discussion. This third aspect of institutionalising SPM focuses on quality control and includes:

- Identifying strengths and weaknesses in the system
- Assessing the quality of data generated and its findings
- Reporting on how effectively SPM findings influence and inform practice.

Your SPM system needs to produce information that is reliable enough for both improving performance and reporting to your stakeholders. Given its importance, we recommend an annual review – for example as part of annual planning when social objectives may be adjusted to ensure the continued reliability of findings.

The most important judge of a system’s quality is the trust that management places in it. If action is taken in response to the identification and analysis of a specific issue, and this action leads to positive change or resolution of the original problem, this is a strong indication that the SPM system is working well. Also formal quality control and audit methods may be used to ensure the reliability of the information generated by your system. These include:

- **Scientific research methods** are the standard way to ensure data objectivity and reliability; however these are likely to be complex and costly for MFIs.
- **Internal quality controls** can be established with spot checks on the rigour of data collection and processing by an internal auditor or management.
- **External auditing** verifies that the SPM processes and systems conform to good practice guidelines in response to the interests of external stakeholders.
The scale of such reviews will depend upon the size of your organisation and the extent to which SPM has been integrated into its operations. Reviews can be done as an internal exercise, or involve external reviewers to meet the requirements of external stakeholders.

**A framework for the social performance review:** The following six questions provide a useful framework for a review of your SPM system. Note that these are the same questions outlined in Part I as the core of SPM because at this point, we have returned to the beginning of the loop.

1. What are the MFI’s social performance objectives and how does it seek to achieve them?
2. How do you monitor who uses and who is excluded from using your services?
3. How do you monitor and understand the reasons why some client leave or become inactive?
4. How do you monitor and understand the effect of your services on your active clients?
5. How do you use social performance information to improve your services?
6. How do you improve the systems through which you answer these questions?
Conclusion

The purpose of social performance management is to serve clients better. By monitoring progress towards your social objectives, you will know where you are and where you have to go. Without a conscious investment in such a process, social performance remains in the realm of lofty ideal, divorced from practice. Yet the challenge can be daunting; poverty alleviation, empowerment, leadership, family welfare and community development – common social goals among MFIs – do not lend themselves to standard definition or measurement. Nevertheless, the global community of microfinance practitioners has embraced this challenge. They now have tools designed especially for this purpose that have been tested and adapted for many situations. As MFIs test, pilot and revise, they offer their colleagues a rich body of experience from which to learn.

The process outlined here captures much of that experience and offers a framework for those who are ready to begin their own journey into social performance management. By adopting this framework, you will be in a better position to decide how your MFI will become more client-centred and find your path to and through the new concepts and mandates – market research and product development and customer service – increasingly capturing our attention. But don’t let this path choose you. Take the time to develop a simple system that is right for your institution. Start at the beginning, with your mission. It is your driver.
Further resources

A Resource CD is included as part of these Guidelines. This includes copies of what we consider to be the most useful and practical documents to help you in the design, implementation and management of your SPM system.

The resources are divided into nine sections:

1. Introduction to social performance management: These documents provide further reading into the movement of the industry towards a stronger focus on clients, as well as an introduction to the major texts and resources upon which the resource section will draw.

2. Strategy development: These documents will help you think through the objectives for your SPM system. Being clear about what you want to achieve helps you decide what to monitor and measure as you design your SPM system.

3. Planning your SPM system: These resources provide more detail about the many choices that need to be made in the design of an SPM system – from whom do you collect information, how often, who collects the information, how is it analysed and used? They will help you to choose an approach that fits with your needs and objectives.

4. Routine monitoring: These documents provide more detail about the design of monitoring systems and present experience from other organisations.

5. Choosing indicators: These documents will help you understand in more detail how to choose appropriate indicators that meet your information needs and are appropriate to your organisational capacity.

6. Choosing tools: Your approach to SPM determines your choice of tools. This section gives a broad overview of the various tools used in monitoring and assessment – qualitative, quantitative and participatory – and how they can be used together.

7. Client exit: These resources will help your organisation address the problem of client exit, including how to define it, why and how to collect information on exits, and how to use the information to improve services.

8. Institutionalisation: This set of resources focus on how information collected through SPM can be applied for learning purposes, as well as for influencing change within the organisation that aims to improve service.

9. Social performance reviews: These resources look at how SPM systems can be reviewed and improved, and also look at the issue of external transparency through the use of external auditing.

The full set of resources from this CD are also available to download from the resources section of the Imp-Act website www.Imp-Act.org