Social performance fund briefing: Key lessons for MFIs[1]

INTRODUCTION

This briefing note series reflects on the lessons learned throughout the Social Performance Fund project[2] (see **Box 1**). Within this project, partner networks worked with MFIs to raise awareness and build capacity for SPM. With the project at a close, this note considers what we learned about the state of practice at MFI level with regards to SPM implementation (or readiness for implementation).

This briefing is aimed at MFIs, and the organizations that support them (including networks, technical assistance providers and other industry bodies). Recommendations and key tips for MFIs are also included.

The Universal Standards for Social Performance Management ("Universal Standards") are a comprehensive manual of best practices created by and for microfinance professionals as a resource to help financial institutions achieve their social goals. The development of the Universal Standards represents a significant investment in terms of time, experience and resources — facilitated by the Social Performance Task Force, and drawing on the work of countless organizations and global initiatives (including the *Imp-Act* Consortium, the Smart Campaign, MIX, CERISE, MF Transparency, *MicroSave* and the ILO).

The Social Performance Fund ("the Fund") for Networks was created in 2011 to increase awareness and adoption of SPM by microfinance service providers globally. To achieve this, it focused on leveraging the capacity and outreach of national and regional networks to support Universal Standards adoption. Importantly, the Fund also had a number of secondary (internal) aims, such as:

- Testing the practical utility of the Universal Standards to achieve SPM scale-up across the industry
- Mapping the microfinance industry landscape in a coherent way to understand the state of practice (by early adopters) and the state of readiness (for new adopters) around SPM
- Understanding the potential of networks in terms of facilitating SPM scale-up using the Universal Standards, as well as identifying the different roles networks currently play
- Gauging the current enabling environment and incentives for SPM scale-up in terms of the priorities of investors, regulators, and others.

See **Table 1** (overleaf) a summary of key results, and **Annex 1** for a detailed overview of project aims and activities.

UNDERSTAND YOUR MOTIVATION FOR CHANGE

Lesson: Most MFIs start working on SPM to tackle pressing risks (internal or external)

Commonly, MFIs want to fix gaps related to their most influential stakeholders: clients, staff, board and management, and their regulator. Thus, MFIs are mostly interested, in the first instance, in fixing the gaps related to client protection and/or improving practices related to staff treatment. The most frequently addressed gaps were: lack of client complaint mechanisms, lack of poverty measurement, lack of (or insufficient) codes of ethics, and weak general awareness on SPM. While most MFIs identify up to 20 gaps, they started working on 1-3 of these within the space of the project – and often these involved working across the different dimensions of the standards. Even where gaps addressed one standard or dimension, they were often linked with various operational departments, requiring more than 1-

Table 1: Social Performance Fund project results

Awareness raising component	Implementation component
33 networks supported[3] 12 scholarships for MFIs to participate in annual SPTF meetings 2,523 MFIs participated in Universal Standards presentations 181 awareness-raising activities conducted 20 local language translations 1 video about the Universal Standards	10 networks support SPM implementation with members[4] 2 scholarships for MFIs and 23 for networks to participate in annual SPTF meetings 37 MFIs submit 133 managerial tools and solutions 21 MFIs fully completing SPM work plans 92 MFIs improving SPM practice introducing 1-3 improvements 28 case studies written to analyze good practice 8 case studies and 1 video translated into English, French, Spanish and Russian

2 improvements to improve it.

- Commercialized MFIs are usually drawn to SPM from the perspective of client protection, as this is often a topic of interest to local regulators.
- Traditional NGO MFIs are usually more focused on Dimension 1, however, if they transform the focus on social goals can be lost.
- Many MFIs started to work on SPM, especially on client protection, due to a regulatory requirement (actual or potential) For example, in Azerbaijan, **AMFA** found that once the regulator obliged MFIs to provide a client complaint mechanism, its members became much more interested in learning about complaint mechanism tools and examples.

Lesson: External actors could play a stronger positive role in promoting and implementing SPM

Despite the potentially positive role they have to play in scaling up SPM, by and large, external stakeholders often do not want to take on this role. We observed that while regulators often play a "trigger" role (generating interest among MFIs for change, especially in terms of client protection), investors (another key stakeholder for MFIs) do not typically push for stronger SPM, and by remaining silent/inactive, they actually discourage MFIs from improving SPM practice. (see **Box 2**)

- Top management in project networks' MFI members agreed that the incentive for SPM should come equally from external sources (such as social investors) as well as internal motivation.
- If an investor or regulator is interested in SPM, MFIs tend to implement it more quickly.
- In some cases, investors can help MFIs by providing TA resources to support implementation of changes (e.g. **AMFIU** approached its members' investors).
- The key driving factor for SPM improvement in cooperatives in Ecuador is the regulator, which is introducing a requirement for a "social balance sheet" report.

Lesson: MFI Board members need to be educated on the importance of SPM

Some top management teams expressed concern over their institution's ability to improve SPM given the fact that some of their institution's board members have limited knowledge or awareness on the issue.

Box 2: Key tips for getting started

- There are plenty of resources available online which can help you train your board, staff on SPM. On the SPTF **Resource Centre** you will find tools, case studies, and presentations. You can also participate in **online trainings** to help you understand the overall SPM concept and specific aspects of practice.
- Start by looking at the areas where you already plan operational improvements (e.g. marketing, operations, HRM, MIS, etc.) and ensure you use an SPM lens. Often this will require additional work or external technical support, but you will be able to use the same change management process to improve both your bottom lines.
- Keep a pulse on national regulatory and legal developments. In a majority of countries, existing regulations in customer protection are being extended to include more segments including the non-banking sector.
- Review whether your investors have signed onto the **Principles for Investors in Inclusive Finance (PIIF)**. If so, they are required to do fairly detailed social reporting, which may signal what your investors care about.
- Talk with your investor to find out what interests them in terms of SPM and what kind of support you can count on in your organizational improvements. Also regularly communicate your interests and values to your investors. For example, some MFIs in Ecuador decided to do so at least twice annually.

[3] The full list of networks is available **here**.
[4] AMFA (Azerbaijan), AMFIU (Uganda), APSFD-IC (Ivory Cost), CMF (Nepal), COPEME (Peru), MCPI (Philippines), MFN (Global), PMN (Pakistan), RFR (Ecuador), and TAMFI (Tanzania).

BUILD UNDERSTANDING AND COMMITMENT AMONG KEY DECISION-MAKERS

Lesson: SPM is still not well-understood by MFI decision-makers, and often treated as a separate "project" from overall performance management

SPM is still often seen as a "stand-alone" activity, which is not integrated into operations. While MFIs invest in SPM activities, they often do not invest in integrating them into on-going operations, rendering the activities unsustainable (financially, and also operationally). It also makes them likely to be abandoned during times of change, or even when new issues arise. For example, the commercialization of microfinance in Peru made those MFIs that were experienced in SPM less interested in the project, as when those staff responsible for SPM left the organizations, the SPM agenda disappeared as well.

MFIs still do not manage social and financial performance together. This is because of how SPM is promoted (as a separate activity), which creates a barrier to organization-wide integration.

Many MFIs use various measurement tools (e.g. poverty scorecard) but data analysis and integration into decision-making processes is still a challenge due to weak MIS and lack of analytical staff capacity.

Practitioners often think that just having a specific system in place (e.g. incentive system), or conducting market research, means implementing SPM. Therefore it is important to explain how, in practice, an MFI integrates the Universal Standards into a particular process (e.g. human resources management or marketing) and refer to it as "good management practice" (not as a "social performance management practice"). SPM isn't just about doing client research, or staff labor climate surveys, or understanding the experience of clients using services. Rather, it looks at these (and other processes, such as operational, risk, financial management processes) from the point of view of delivering benefits to clients and protecting them from harm.

The majority of current MFI policies, procedures, activities, tasks, tools are aligned to purely business or commercial objectives (not social objectives). Many MFIs are surprised once they start managing performance toward their mission, as they realize that they haven't been achieving the kind of outreach that they thought they were (See **Box 3** for tips on building buy-in).

Lesson: SPM is long-term process requiring strong board and management commitment

Gaining initial interest is key, but not as important as building understanding across the organization, and securing resources for the transformation process. In this way, it's important to recall that SPM implementation is a process, not a one-off activity.

Commitment from decision-makers is important; SPM implementation will fail without high-level support and the appropriate allocation of resources. While there are always those who are more resistant to change, and board members in particular often do not understand SPM, it is important to work until you have gained buy-in from management and the board. SP Fund project partners developed various strategies for overcoming these obstacles. For example, to increase levels of commitment from top management, **AMFIU** joins board meetings to orient board members and senior management on SPM. **CMF** organized individual workshops for MFIs management to explain SPM to them and discuss recommended improvements.

If the institution is committed to change, there should be a focal person or small team within senior management

Box 3: Key tips for building buy-in

- Build buy-in and understanding from the top. Find a "sponsor" for transforming the organization into a more socially-focused one. This can be an influential Board member or senior manager. To identify the right person, organize awareness-raising activities with relevant people to help them understand what SPM is, and identify the motivation for the MFI to implement it. The SPTF website has useful resources for conducting these, and the MFC also organizes SPM-focused Board or senior management trainings/discussions on request.
- Make time for building understanding and commitment across the organization, and recognize that this is an on-going task, rather than a one-time activity. Education about SPM and gaining buy-in should be built across all the points mentioned in this section.
- Obtain buy-in by showing real benefits of making changes in the institution. Benefits can be identified only by doing an analysis of internal and external factors that make you motivated about SPM (see page 1). It's crucial to show real benefits and outcomes of the proposed change.
- Before moving from assessment to implementation, make sure the action plan gets integrated into your business and operational plans.

responsible for that process. The improvements were much easier to implement when they were integrated into the business plan for the following year, since staff and resources were allocated to introduce them. Having an SPM champion without having integrated SPM into the business plan brought no results, as an SPM champion without resources can achieve very little.

THE SCOPE AND APPROACH TO SPM SHOULD MATCH YOUR PRIORITIES AND CAPACITY

Lesson: MFIs of different sizes use different approaches to SPM, and face different challenges

This project highlighted that the smallest MFIs frequently have no capacity, no systems in place, focus on financial performance and good results; medium-sized MFIs struggle with financial performance, which takes primary focus; the biggest MFIs focus on SPM since they want to be leaders and there are expectations to do so on the part of their stakeholders (e.g., investors/donors).

Many MFIs lack formal policies, or lack policies to systematize practices; this is particularly true for small and medium MFIs, which makes the integration of SPM even more difficult.

Lesson: Small MFIs face particular challenges implementing SPM across the organization, due to informal systems and/or insufficient capacity

Small MFIs often do not have capacity and resources to implement improvements on their own. Also, due to lack of formal processes, small MFIs tend to rely strongly on particular staff and their knowledge of how to do things. It means that transformation towards a more SPM-aligned MFI would require training all the staff in an MFI (not only an SPM champion, as in many projects) to help improve SPM practice in the context of informal organization.

For NGO MFIs, SPM integration is very superficial due to a lack of general systematization of processes. This includes institutional memory: when the SPM focal person leaves, the SPM project often ends.

Many small MFIs lack appropriate infrastructure: for example they might have ample data, and are trained in analyzing it from an SPM angle, but then they may lack a good MIS to facilitate this (especially when all the data is stored in Excel). Furthermore, the quality of analysis suffers from a lack of staff with programming or

Box 4: Key tips for developing the right SPM integration approach
- For small MFIs: use a "quick wins" approach, meaning changes that are relatively affordable, can be implemented in no more than 12-18 months, and will produce noticeable positive change.
- For medium MFIs: integrate SPM elements into your initiatives aimed at improving financial performance
- For big MFIs: integrate SPM into current management systems
- MFIs with informal processes should put more stress on staff training and re-training since operational quality and consistency can be based more on staff understanding and memory of how things should be done.

analytical skills; unlike mainstream banks, MFIs lack analysts on staff.

For smaller MFIs, often a "quick wins" approach will be more effective than large-scale change projects. These can still garner positive and significant results, demonstrating that an MFI doesn't have to wait to be "big" or "sustainable" or "professionalized" to start making SPM changes (see **Box 4**).

ORGANIZATIONAL OR PROCESS ASSESSMENT WILL HELP YOU DEFINE YOUR NEEDS

Lesson: Engaging staff from different departments and positions allows a meaningful assessment, plan and ultimately effective SPM integration

Involve key managers in the assessment process – identifying gaps, planning and implementation is quicker and more effective when it is a process driven by managers in several departments rather than implemented by 1-2 staff alone (e.g., the SPM champion). This is because in practice, assessment requires engaging different people from across the organization. When training is delivered to only a selected representative of an MFI, the staff who will need to lead assessment in their respective department are unlikely to understand or be committed to the process. One tip is to organize a meeting/workshop for relevant staff to present SPM, collaborate on the diagnostic assessment and action planning. These workshops usually take 1-2 days, and help to build cross-departmental understanding.

Get a diagnosis which ends with an in depth-discussion on the action plan. In the action planning meeting, the MFI needs to involve decision-makers who can make

decisions on priorities and resource allocation, as well as delegate implementation of the improvement to a relevant department. Having an SPM Champion who coordinates these efforts, and is the expert to whom others in the change process may always turn for support, is helpful – but the champion's responsibility is to support, not to do the work (as many MFIs think).

It is possible to make progress without doing a comprehensive assessment of all SPM practices. Some very busy MFIs did not decide to do the whole (SPI4) assessment. Instead, managers sat down together to identify priority areas through a brainstorm activity, and integrated elements of SPM into those processes. MFIs may want to engage an external facilitator (e.g. from the local network) to guide the process (see **Box 5**).

DEVELOP AN "ACTIONABLE" ACTION PLAN THAT MATCHES AVAILABLE RESOURCES. LEVERAGE OTHER CHANGES TAKING PLACE, AND BE REALISTIC IN YOUR PLANS.

Lesson: Start by identifying which gaps you can address on your own (in terms of skills and funding), and which will need support from your network or other external partners.

Gaps and priorities are two different things. In a list of gaps, MFIs will prioritize some more than others, and those gaps that are not a priority will be ignored. Where issues should be more strongly prioritized, think through the operational consequences of ignoring them; MFIs can be more willing to spend money on something to avoid a potential risk.

Gaps prioritized should line up with the broader set of priorities at play in an MFI. For example, where plans are being developed to professionalize the HR function, then this should be done with SPM in mind.

MFIs should not start the work until they identify the true motivation to do it and can make the business case for it. SPM integration requires time and resources, so an MFI needs to know the level of effort from the beginning.

Lesson: To make your SPM-related changes actionable, it's important to integrate them into your annual operational plan

Many MFIs work with different initiatives on SPM and some of them have many SPM plans in place (one MFI had four). The issue is that different initiatives do not often coordinate, and if SPM is not part of strategy, then

several concurrent activities are in process which makes it difficult for MFIs to manage them.

Generally MFIs developed assessments and plans on all standards, however: those that linked the planned SPM work to the implementation of other priority project (e.g., introduction of mobile product) in their MFIs were more successful in addressing issues from section 3 on products and needs of clients.

After assessment and action-planning, MFIs were able to achieve only minor tweaks, since they lacked resources for major changes. The latter required integration of improvements into business planning for the following year, to ensure that the right levels of staff and resources are allocated.

Having an SPM action plan that is separate from the business plan and business planning cycle makes it difficult to achieve it. When an MFI is in the middle of a business cycle, introducing "quick wins" is possible.

Lesson: Understanding the nature of change (content or process) and proper planning are key when working on improving gaps.

For each item of the action plan, it is helpful to specify in detail what changes are involved in each major action item, indicate resources required, delegate a person responsible and people to support them in the implementation.

Changes required can be process- or content-related. If they are process-related, this usually requires a small adjustment (e.g. introducing a presentation on SPM on the board agenda, when the board is poorly-informed about the SPM activities in place in the MFI). If a change is content-related (technical), it may require a consultant to help introduce it (e.g. incorporating social performance goals into the incentive system, or developing measurement system to monitor an MFI's social objectives). It was much easier for MFIs to introduce process changes than content changes. It makes sense to consider in the first instance how to improve existing processes, (e.g. to do things on a bigger scale or in a more efficient way).

APPOINT AND BUILD THE CAPACITY OF A LEADER, AND A DELEGATED TEAM OF STAFF TO IMPLEMENT CHANGES

MFIs should nominate an "SPM Champion" as a project manager/coordinator to guide other staff in aligning their work to SPM (rather than putting SPM in a "silo" apart from other activities). The SPM Champion should be a senior manager who has access to all senior staff and director, so when problems arise they can quickly discuss it with relevant parties.

Consider using a cross-departmental team. Depending on the scope of implementation for SPM this should include persons whose departments will be affected by change or can contribute to the change.

Where the SPM plan includes changes to an entire function, MFIs should train all staff affected by the changes so they understand their revised responsibilities. It is useful to learn how others have adapted different functional areas, procedures and tasks to SPM (see **Box 6**).

MONITOR THE PROGRESS YOU MAKE ON PLANNED IMPROVEMENTS

MFIs should use the same standards to monitor the progress of implemented plan as with any other changes introduced in the organization. It's important that the progress is reported to the management as well as to the board (see **Box 7**).

Box 6: Useful tools for MFIs

- **Standards framework:** Useful for awareness-raising activities on the Universal Standards or, in abbreviated form, on SPM. Available in English, French and Spanish **here**.
- **Examples by dimension:** Real case examples and tools such as examples of policies, procedures illustrating each dimension are available from the STPF **here**.
- **Case studies** developed by SP Fund grantees describing good practices in many operations area are available from the MFC website **here**.
- **Tools and case studies** related to client protection can be found on the **Smart Campaign website**. Many of the resources are available in English, French, Spanish and Russian.
- **Video on the Universal Standards:** A good option can be to use the video developed by project partner Good Return, explaining the standards (see this in **English**, **French** and **Spanish**).
- **Tailored Board and member presentations:** If you plan a presentation for your MFI's Board or staff you may download dedicated presentations **here**.
- **Universal Standards Implementation Series:** recordings available **here**.
- Contact your local network for assistance. Often networks play the role of local resource centre and they may help you finding the right tool or provide examples from the local market.

Box 7: Key tips for effectively supporting MFIs

- To make your SPM related changes actionable, integrate them into your operational plan for the year. Make sure that resources are allocated.
- Ensure that any SPM diagnosis includes a significant action-planning component. Involve key decision makers including top management and functional managers to prioritize findings from assessments and decide on actions to pursue (including resource allocation).
- When deciding on priorities in terms of SPM gaps to address, first think what are the changes you have been planning already and how you can add SPM lens into those; second think about the improvements you can do yourself before deciding on bigger change projects that require significant resources and external help; it is better to start small and expand your SPM work as you progress and learn.
- Start with such activities that shows visible changes. Measure the impact of those changes to the clients, institution, staffs It will further motivate especially staff to work on improvements and may help to gain your investor/donor support.
- Before investing in implementation, check available knowledge resources (e.g. local networks or the SPTF SPM resource center). If these do not serve your purpose, identify a consultant that is well-qualified to provide you with what you need.

	Awareness raising component	Implementation component
Aims	Build awareness and commitment around the Universal Standards among a large number of MFIs Identify MFIs ready to adopt the Universal Standards.	Demonstrate that the Essential Practices of the Universal Standards can be implemented.
Activities	Targeted awareness-raising campaigns, including presentations to MFIs, boards and other local stakeholders. Translation of Universal Standards into local languages Experience-sharing events for networks.	Identify at least 50 examples of existing good practices and managerial solutions in place supporting implementation of essential practices described by the Universal Standards Document in more depth at least 20 examples and tools in the form of practical case studies highlighting the operational details and the business case for using them Support practice improvement towards compliance with the Universal Standards in 10 countries with at least 70 MFIs (on average 7 MFIs per network will be assisted towards full/partial compliance with selected dimensions). Facilitate Universal Standards field-testing and contribute to standards refinement by the Social Performance Task Force (SPTF) Contribute to the process of indicators and benchmarks development for the USSPM carried out by the SPTF by identifying concrete solutions being practiced by different types of MFIs operating in different contexts Develop and test practical approaches and tools with advanced networks to roll out more broadly in the longer-term (i.e.: less-experienced networks will initially focus on awareness-raising only).
Support provided	Online trainings on the Universal Standards organized by the SPTF in French, English and Spanish Key communication materials delivered by the SPTF for use by networks in 4 languages Graphic templates of communications materials, for adaptation into local languages. Funds to translate Universal Standards to local languages and/or produce informational materials (small grants of up to USD 2500) Scholarships to participate in SPTF annual meetings.	Funds to networks to implement their work (grants of USD 45,000) Scholarships to participate in SPTF annual meetings Guidelines for discussing the Universal Standards with MFIs and identifying priority improvements Guidelines for identifying good practices, tools, managerial solutions and templates Guidelines for conducting workshops to disseminate tools with members Guidelines for administering award for tools sharing Guidelines for case study write-up.
Key results	33 networks supported 12 scholarships for MFIs to participate in annual SPTF meetings 2,523 MFIs participated in Universal Standards presentations 181 various awareness raising activities conducted 20 local language translations 1 video about the Universal Standards.	10 networks support SPM implementation with members 2 scholarships for MFIs and 23 for networks to participate in annual SPTF meetings 37 MFIs submit 133 managerial tools and solutions 21 MFIs fully completing SPM work plans 92 MFIs improving SPM practice introducing 1-3 improvements 28 case studies written to analyze good practice 8 case studies and 1 video translated into English, French, Spanish and Russian.