

## Session 2: Introduction to SP (SP) and SP Management (SPM)

### Summary of the session

<b>Objectives</b>	<p><u>By the end of the session participants will have:</u></p> <ul style="list-style-type: none"> <li>• Examined the background and broader context of SP</li> <li>• Reviewed the definition of SP.</li> <li>• Examined the SP Pathway.</li> <li>• Learnt the examples of good practice in SPM</li> <li>• Brainstormed the benefits of SPM for MFIs and the industry</li> </ul> <p>Key messages:</p> <ul style="list-style-type: none"> <li>• The purpose of the ‘SP discussion’ is to place the client in the centre of MFI’s attention – we are here for clients.</li> <li>• Social performance and financial performance are of the same importance to the Microfinance Institution and support each other</li> <li>• Social Performance Management is encoded in all the functional areas of the institution – it is not a separate process or a one-time project</li> </ul>
<b>Session Structure</b>	<ol style="list-style-type: none"> <li>1. Introduction (5 mins)</li> <li>2. Background to SP (25 mins)</li> <li>3. Defining SP (25 mins)</li> <li>4. Examples of SPM (10-15 mins)</li> <li>5. Relevance of SPM to local context (15 mins)</li> <li>6. Closure and link to the next session (1 min)</li> </ol>
<b>Time/ Duration</b>	<b>85 mins</b>
<b>Slides number</b>	<b>4-16</b>
<b>Materials</b>	<ul style="list-style-type: none"> <li>• Colour cards</li> <li>• Flipcharts (blank)</li> </ul>
<b>Session delivery</b>	
<b>1. Introduction: (2-3 mins)</b>	<p><u>Say:</u> The purpose of this session is to understand the central concepts of SP and SPM that will be used for the rest of the workshop.</p> <p>Introduce objectives of the session (slide 5)</p>
<b>2. Background to SP (25 mins)</b>  <i>(Exercise with cards and discussion)</i>	<p><b>(2-3 min)</b> – Introduce exercise: <u>Ask:</u></p> <ul style="list-style-type: none"> <li>• What is the promise of microfinance? (slide 6)</li> </ul> <p>It might be necessary to explain the word “promise”, for example: what is the purpose of microfinance, or what is that microfinance promise to achieve.</p> <p><b>(10 mins)</b> As participants give answers, the trainer writes them down on colour cards and puts them on the wall.</p> <p>During this exercise, the trainer keeps in mind the following five groups of microfinance goals corresponding to five accepted goals on the slide 7 “commonly accepted social goals” – do not show the slide yet.</p> <p>Put the cards on the wall and simultaneously group them, do not show the headings of the goals and do not mention the five goals. Just put the cards in five groups without explaining the groups.</p>

Try to make the participants give as many answers as possible. Some answers will definitely belong to one or another category: in such case just write the answer on the card and put the card onto the wall (for example, “to serve poor people” or “Improve incomes of our clients” – such answers are clear and belong respectively to the first and third group above). If answers are too general then the trainer may find it difficult to attribute them to one of the categories. If this is the case, it is necessary to prompt participants further in order to arrive at the exact meaning. For example, if the answer is “to improve clients situation” or general “help the clients”, these can go both for 3 and for 4. So, the trainer might ask (before writing on the card) the questions to guide the participants: for example, “helping the clients in what?” or “could you please provide an example”. When the participant explains exactly what s/he means, the trainer writes down the answer and puts it on the wall. It is important however to accept all answers and not to reject any of them in order to encourage the group to give more answers as well as provide an opportunity for participants to learn new things and systematize the answers.

In the best case scenario, the group will give answers related to all five goals, but it is not a problem if not all goals are mentioned – later on the trainer can add them.

**(5 mins)** Summarize the discussion showing the **slide 7** “commonly accepted social goals”. List the goals one by one, linking them to the cards named by participants. If there are goals which were not mentioned by participants, add them yourself.

- Serving increasing numbers of poorer and more excluded people sustainably
- Improving the quality and appropriateness of financial services available to target clients through systematic assessment of their specific needs
- Creating benefits for clients of microfinance, their families, and communities in terms of increasing social capital, assets, income, and access to services
- Reducing clients’ vulnerability
- Improving the social responsibility of the MFI towards its clients, its employees and the community it serves

Sum up:

The basic promise of MFIs – the double bottom line, which is to run a successful financial institution in order to achieve social goals. A reasonable financial return on activities is expected, in line with positive results in the businesses and lives of poorer people. SP talks about financial goals of the MFI being the means to reach social goals, not the end in itself. What we are ultimately trying to achieve are social goals depicted in our missions and to do this in a sustainable way for the MFI.

Say:

- These are our promises. Do we live up to the promise?

Show **slide 8** “Living up to the promise?” Let the participants read the slide.

**(10 mins)**

Comment and discuss with participants:

*Recently we have noticed increasing negative publicity about microfinance. The issues around commercialisation of microfinance, over-indebtedness and*

	<p><i>questionable collection practices are raised. High – and deceptive – interest rates charged to clients, coercive debt collection practices, rapid growth – leading to: a culture of pushing debt, multiple micro-lending, over-indebtedness of clients. This leads to concerns around reputation risk and mission drift of microfinance. So the question is being asked – who is benefiting and how are profits allocated?</i></p> <p><u>Ask:</u></p> <ul style="list-style-type: none"> <li>• What is the reputation of microfinance in your countries – what do you observe? What do the public/media expect?</li> </ul> <p>Note several opinions. Show <b>slide 9</b> “Debt collection” with picture.</p> <p><u>Say:</u> We observe that the financial viability of MFIs has become the focus, and the positive social results have been assumed to be achieved automatically. Recent developments show this is not true. Hence, comes the attention to SP.</p>
<p><b>3. Defining SP</b> <b>(25 mins)</b></p> <p><i>(Lecture)</i></p>	<p><b>(10 mins)</b> Show <b>slide 10</b> “What is SP”. Conduct a lecture in a following way:</p> <p>Read the definition of SP. Highlight and attract participants’ attention to the <b>process</b>: from what the MFI wants to achieve (mission) to what it is actually achieving (results). SP has been taken on the agenda by the SP Task Force (SPTF) in 2005. Among its many initiatives, SPTF has developed a definition of SP, widely agreed by the industry stakeholders.</p> <p>Highlight that it is a <b>new</b> focus – not going back to NGO roots or charity, but sustainable microfinance balancing financial performance with social results.</p> <p><i>First step – be clear what we aim for. For example, the MFI can ask itself: do we want to serve the poor? Or maybe we want to serve small enterprises? Do we want to serve rural areas or women? Do we want to give access, or do we want to contribute with larger interventions (“credit plus”)? So what is our aim?</i></p> <p><i>It is a call for transparency of what MFIs are really doing, and for knowing of who is doing real microfinance. It is a call for the effectiveness of activities.</i></p> <p><i>MFIs may have various missions: improve the lives of the poor, or provide financial services to low-income people, etc. There is no question of which social mission is the best - all missions are alright. The main issue is: does the MFI deliver on what it promises? If you want to target the poor – do it, but do it effectively. If you want to work with immigrants in the cities – do it effectively.</i></p> <p><u>Say:</u></p> <ul style="list-style-type: none"> <li>• <i>What would you think if you talked to the director of an MFI and she told you that her organization is serving 100,000 clients, her loan portfolio increased by 20% over the past 12 months that the repayment rate among her clients is 96%, and that operational self-sufficiency is 115%? You would probably think she has a great thing going on, and maybe you’d look for ways to invest in that MFI. Then, you go to visit the clients and you learn by accident that the clients sell out their assets to repay the loan. Does the good financial performance of the institution protect clients? Does the MFI contribute to clients well being?</i></li> <li>• <i>At the very least, we expect MFIs not to harm their clients. The higher expectations towards MFIs relate to MFIs doing more – fulfilling their promise of influencing the lives of clients and their families.</i></li> </ul>

**(15 mins)** Show the **slide 11** “SP pathway”, discuss it and whenever possible draw parallels with managing financial performance.

Talk:

*This pathway represents the process of translating the organization’s mission into practice. It is comprised of strategy, operations, the use of information and results. These components are related to each other.*

*The mission sets up a long term direction – your intent. The mission is underpinned by proper internal policies, which define how you do the business – what values are included into your daily work.*

*To support your mission achievement, the Board needs to be trained in Social Performance. Ideally, the Board members are balanced in terms of their experience and background, to make sure the banking and the development background is represented.*

*The strategy translates what you want to achieve into shorter term ideas on how you will achieve what you plan. For example, if you want to serve the poor in rural areas (mission), the strategy defines, that they will be outreached by opening up branches in the smaller towns with markets, and loan officers travelling to more remote areas. The key products will cover farmers needs as well as women headed households with support for education of children.*

*Depending on the strategy, your operations, internal systems and activities are developed, to make sure you can do what you planned. For example:*

- *In risk management: one may decide to drop the policy of “0 tolerance to delinquency” instead training and making the Loan Officers more responsible for the delinquency. Or instead of limiting loan sizes, an institution may introduce capacity assessment.*
- *MIS: an MFI segments portfolio and delinquency by urban and rural clients and business type, to better understand the dynamics between various groups of clients.*
- *Internal audit: the feedback on the client level is collected to verify the compliance with the procedures of field staff.*

*Finally, every month you take a look at produced outputs: how many poor people were targeted? How many of which products were offered? What is the loyalty level? All this information will help you to see, if your strategy and design of operations are supportive to what you plan to achieve.*

*As you can see in the chart, information-use overarches the entire SP Pathway. Information is crucial in taking decisions.*

*Social Performance relates to two extremes: mission of the institution and the institution’s impact on clients. All the ‘stuff’ in between those two extremes needs to be managed deliberately, to ensure you stay on track.*

*SPM system is similar to any other performance management systems. It starts with defining intentions, which then should become objectives with certain targets. For example, within financial performance management MFIs each year set some strategic objectives, such as: increase profitability to certain levels, decreasing the operating expense ratio, etc (demonstrate on the pathway where “setting objectives” is shown), then the MFI decides on a strategy to achieve the financial objectives, e.g. selling more products, or increasing interest rates, or going up-market, etc. (show where strategy is on the pathway). After deciding on a strategy the MFI implements the planned through operations, and then monitors and improves its performance, compares with objectives, sees where*

	<p><i>and why it was good or weak (show where monitoring and improvements are).</i></p> <p><i>Thus, for SP, the process is the same and follows similar steps. The difference is that for social results management this pathway is largely neglected by the MFIs, they do not “manage” it as the financials and usually simply “assume” that the social part is “ensured” once the word “microfinance” is present.</i></p> <p><i>So the conclusion is: SPM is like any other type of performance management system, but with specific and relevant indicators, objectives, etc, - e.g. the content is different, but not the structure. It is not enough to have social goals. The MFI needs to work out how to reach these goals through its daily operations, monitoring of clients, taking decisions and adjusting the strategy based on what is going on in the field.</i></p> <p><i>Let us take a look at some examples.</i></p>
<p><b>4. Examples of SPM</b> – can be presented as an option, depending on the needs of participants <b>(10-15 mins)</b></p> <p><i>(Case presentations)</i></p>	<p>The following examples can be presented as an option – decide yourself if participants need additional examples: <b>(10-15 mins)</b></p> <p><u>Present the following three cases:</u></p> <p><b>Bosnia: (slide 12)</b></p> <p><b>For trainer’s information: this case study demonstrates, how feedback information collected from clients on their opinion on products and services can inform product and service design. The improvement in product and service design increases the loyalty of satisfied clients.</b></p> <p>Women traditionally were the most frequent target group among Bosnian MFIs. However, for a few years, more and more MFIs have been opening for male clients.</p> <p>Bosnian MFIs went through the MFC training in market research tools, after that they conducted studies with their clients, aiming to understand the differences between male and female clients in terms of what their product and service needs are. It appeared that product features are of no difference to men and women. The significant difference was in how the clients are served. Men wanted to have a fast service with simple procedures. As they analyze and compare the product offer themselves, they just wanted good information about the products. For women, the key issue was the relationship with the Loan Officer. They wanted to be provided with a secure atmosphere and reliable advice which they can trust.</p> <p>For both groups, MFIs could offer the same products, but delivered in a completely different way. MFIs adapted their service accordingly.</p> <p>This case shows that SP is about knowing your clients: clients’ needs are driving the strategy and operation design.</p> <p><b>Peru: (slide 13)</b></p> <p><b>For trainer’s information: the analysis of segmented information about clients’ behaviour (drop-out) helped this institution to significantly improve retention of clients through insignificant adaptation of services.</b></p> <p>The MFI operates in rural areas. They started to observe high drop-out rate of clients coming from remote rural areas. While talking with clients and branch staff, they discovered the bus transporting the clients from remote areas comes too early before branch opening hours and leaves soon after the opening hours. The next bus leaves only in the evening. So clients either did not have enough</p>

time to visit the branch, or had to stay the whole day in the town waiting for the second bus. The solution was as simple as changing the branch opening hours. Thus even if the overall drop-out rates for the MFI are at reasonable levels, it is important to analyze the behaviour of the target clientele, but not the overall client base. In such case the MFI will see how exactly it works in fulfilling the social side of the work. In this case the information about drop-out rates among clients in remote areas drove the process of refining operations and making delivery process more affordable for the clients, with whom the MFI sees fulfilment of its social mission. The case demonstrates the importance of different analysis and indicators of SP.

**Philippines:**

**For trainer's information: this case study refers in the number of ways to the SP Pathway: poverty assessment is used as a targeting strategy; the impact maximization unit is responsible for at least 3 systems in the institution supporting the mission: non-financial products delivery, risk management and product development.**

The Negro Women Tomorrow Foundation (NWTF) works 'to provide sustainable financial and client-responsive developmental services to the poor', operating in mainly rural and peri-urban settings, in a context of relatively strong competition – although few other MFIs target very poor people.

In 2006, NWTF had identified gaps in its SPM. These lay in inadequate systems and implementation, including a lack of attention to attracting target clients as the organization focused on expansion and portfolio quality. They identified that the client-targeting means test was not fully designed to reflect poverty levels and was not applied rigorously and accurately as part of operations; product development and adjustments were carried out in a somewhat haphazard manner, and operational shortcuts had led to cutbacks in client training.

In response to these issues, key initiatives for SPM in the past three years the NWTF:

- phased out the means test, replacing this with the Progress out of Poverty Index (PPI), now integrated as a client-targeting tool across operations and providing data for social monitoring;
- set up an 'impact maximization unit' within the research department which has taken over responsibility (from the training department) for most of the client training. The department is also working to streamline product development and work on a streamlined approach to managing default;
- set up an SPM committee with 18 representatives from across the organisation to help set the agenda for SPM and to build buy-in at all levels.

Here in this example, the organization took a structured attitude and integrated important aspects of SPM into daily operations. In this case much of the role in ensuring smooth SP is also with the research department, which provides on-time and quality information.

**The trainer should make sure that the conclusions from each example are clear and demonstrate different aspects of SP.** To sum up, SP is about understanding who your clients are, what their needs are and serving them in an effective and responsible way.

**5. Relevance of SPM to the local context (15 mins)**

Ask:

- Can you come up with some examples from your institutions?

**NETWORKS' TRAINING**

Ask participants: can you come up with some examples of your member institutions?

**(5 mins)**

Note some examples; make sure they demonstrate the relevance of SPM to the needs of MFIs.

**(10 mins)**

Say:

We have learnt that SP is crucial in protecting the clients. It is also a way to set up and implement social aspirations of those MFIs, which want to do more than just protecting clients – those who also want to produce positive results in social aspects of clients' lives.

- Which of these two aspects of SP is more important to your institution?

Note some answers and discuss the benefits of SP with participants. Potential answers can be:

- MFIs in our region have problems with regulators who do not see us as a social business, so these can be solved if we demonstrate our results (Here it is good to ask: what if the results are not encouraging at all? The issue is exactly that we never know about our results until we start seriously looking at the social side of our business and start measuring it.)
- Clients complain about different sorts of product features
- Investors demand social ratings
- Some clients are in dire situations (assets sold, etc), so we need to have good systems in place to ensure to escape from such situations
- We want to target specific clientele (disabled, youth, etc) and therefore we have to develop different mechanisms to ensure that we do it well.
- We do not have major issues, we know that we are "social", but we want to be inline with the industry (challenge such opinion, for example, asking "how do you know you are "social"? Indeed, it might be that the MFI is managing their SP, yet it might be that they are only "assuming".)

**SESSION FOR NETWORKS**

Say:

SP is quite a comprehensive issue. We are talking about outreach to poor, about gender issues, about client protection, about adapting products and services and many other issues. No one would deal with all of this – the selection needs to be done, based on what is needed in the local context.

You filled in your decision trees. You analysed the trends in your markets and what area of SP would be most useful for your members. Based on this, think about the aspects of SP, which are most important for your members, for the clients in your country, and for other stakeholders in your country. Be specific to the context of your country.

- What are the most important aspects of SP?

Write down answers on the flipchart. These can be:

- Improving well being of clients
- Creating new job-places
- Securing incomes for low-income clients

	<ul style="list-style-type: none"> <li>- Promoting gender equality</li> <li>- Giving access to financial services for low-income or poor clients</li> <li>- Improving working conditions for the staff</li> <li>- Other</li> </ul> <p>Take as many points as possible.</p> <p><u>Summarize:</u> There are many aspects of SP and Client Protection and each institution will choose its own to concentrate on. We will discuss these and other issues.</p>
<p><b>6. Closure and link to the next session (1 min)</b></p>	<p><u>Sum-up:</u> There are many situations where a lack of SPM brought problems or potential problems. Each MFI has its own context, while general tendencies also can be observed. While the specific goals and challenges might be different, the SPM can be an answer to many issues related to the social side of the business, and each MFI can find potential benefits in managing their SP.</p> <p>Link to the next session.</p>