SOCIAL PERFORMANCE MANAGEMENT

In A Purposive Way

PREFACE

In the course of the short history of Microfinance, as we came to know the concept nowadays, the issue of social impact has been a very hot topic of debate. What beneficial effect has microfinance created to the poor it sought to alleviate and serve? Answering the question was not easy, because the way microfinance has been evaluated has not been about its impact but on its financial performance. Most, if not all, of the measures currently being used by institutions, big and small, pertain primarily to the financial health of the organization and the quality of the portfolio. Very little social impact is measured, if at all.

Thus, several years ago, there was a clamor that there is a need to determine what value adding has microfinance made to society. And therein lies the debate, should microfinance measure their social impact or their social performance. As this debate continues, several institutions have already come up with measure on social performance.

ECLOF International is no different. We seek to understand the efficacy of our own work to the people we aim to serve, those in the rural areas, women, and youth. Similar to most institutions, our dilemma is that we do want to measure our performance but where do we start going about this.

Thus, when this project was started, the first question asked is what do we measure? The answer was simple, we wanted to measure our social performance, not our social impact. We wanted to measure something that is within our own control, and this was clearly social performance. Although it may be desirable to measure our impact, it is impossible to categorically state which part of the positive or negative impact is directly attributable to our work.

The next question we were faced with was what parameters of social performance do we have as guide so that we will go about measuring the performance in a systematic and purposeful manner. We had none. Although there were tools available for measurement, still we needed a framework to guide the work. It became clear then what is the order of priority we have to do.

Firstly, instead of focusing on tools of measurement, we need to create a framework on the social performance of ECLOF. And second, after we have come up with this framework, how do we measure our performance.

As a result of this work, the team came up with ECLOF Social Performance Management framework which we call ECLOF SPM Molecule. More importantly, we found out that at the center of an effective SPM system are appropriate core values.

This framework is not unique to ECLOF. It was greatly influenced by the framework of the European Microfinance Platform. We made some changes to meet ECLOF's own unique system and priorities.

The finished product is not for exclusive use, other institutions are free to use and adopt the same framework. After all, the goal is have as many microfinance institutions as socially relevant as possible.

ECLOF International would like to acknowledge the work of our consultant Ms. Meanne Rodolfo and her team. Their tireless effort to make short work of a difficult process even at odd hours and rest days, made this a possible

Finally, we would like to state that without the invaluable support of Episcopal Relief for Development (ERD) this project would not have been possible.

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1 SOCIAL PERFORMANCE OVERVIEW

"Microfinance works best when it measures – and discloses – its performance; accurate, standardized performance information is imperative, both financial information and social information."

(from the G8-endorsed CGAP "Key Principles of Microfinance")

The microfinance world of today is a world of fast growth, changes in the market and in the legal framework and most importantly stiff competition. In this environment, achieving and staying in tune with the mission is a real challenge. The social aspect of the mission, reaching the poor and financially excluded, is the reason for the existence of MFIs. Most MFIs have an explicit social mission, but this mission is rarely pursued as part of a deliberate and managed strategy—the achievement of the social mission of microfinance is too often assumed to be an automatic process. As with financial goals, it is likely that MFIs can more successfully achieve social goals if they can identify, assess, monitor, and manage progress towards them. Social performance needs to be managed and reported as systematically as does MFIs' financial performance.[1]

Social Performance (SP), or the social bottom-line, is about making an organization's social mission a reality. The Social Performance Task Force defines social performance as:

"The effective translation of an institution's mission put into practice in line with accepted social values that relate to serving larger numbers of poor and excluded people; improving the quality and appropriateness of financial services; creating benefits for clients; and improving social responsibility of an MFI."

Traditional evaluation has focused on end results and impact. However, impact is just one element of social performance. Social performance looks at the entire process by which impact is created. It therefore includes analysis of the declared objectives of institutions, the effectiveness of their systems and services in meeting these objectives, related outputs (for example, reaching larger numbers of very poor households) and success in effecting positive changes in the lives of clients.[2]

Social Performance Management (SPM) is an institutionalized process that involves setting clear social objectives, monitoring and assessing progress towards achieving these, and using this information to improve overall organizational performance. A social performance assessment enables an institution to measure its social performance relative to its social mission and objectives.

In sum, social performance looks at the entire process by which impact is created. It therefore includes analysis of the declared social objectives of institutions, the effectiveness of their systems ad services in meeting these objectives, related outputs (for example, reaching larger numbers of very poor households) and indeed success in effecting positive changes in the lives of clients.

The output of this task will enable ECLOF International and its National ECLOF Committees (NECs) to identify, assess, monitor and report whether they are fulfilling their social mission and to determine how they can improve social mission fulfillment over time. The ECLOF SPM System achieves this purpose through the transparent disclosure of social performance to clients in a way that both increases social accountability to clients, and provides useful information for improving the effectiveness of internal processes aligning organizational performance with a social mission.

1.1 Goals and Objectives

The project goals and objectives are the following:

- To take advantage of SPM to fulfill their social goals more effectively, while also improving the financial bottom line;
- To be able for all member-NECs committed to their social mission, to undertake more deliberate strategies in reaching their target clients, developing services that both meet their clients' needs and market demand, as well as drive more appropriate change in clients' lives; and
- To have an opportunity to share their experience with peers, learn from a global discussion platform and access different SPM related resources.

1.2 SPM and Corporate Social Responsibility (CSR)

Corporate Social Responsibility, also called corporate conscience, corporate citizenship, social performance, or sustainable responsible business) is a form of corporate self-regulation integrated into a business model. CSR policy functions as a built-in, self-regulating mechanism whereby business monitors and ensures its active compliance

[1] *SEEP Network Social Performance Progress Brief, 2006.*
[2] *CGAP Microfinance Gateway.*

with the spirit of the law, ethical standards, and international norms. The goal of CSR is to embrace responsibility for the institution's actions and encourage a positive impact through its activities on the environment, consumers, employees, communities, stakeholders and clients/members. Furthermore, CSR-focused businesses would proactively promote the clients interest by encouraging community growth and development, and voluntarily eliminating practices that harm the public sphere, regardless of legality. CSR is the deliberate inclusion of client interest into corporate decision-making, that is the core business of the company or firm, and the honoring of a triple bottom line: people, planet, profit.[3]

The World Business Council for Sustainable Development in its publication "Making Good Business Sense" by Lord Holme and Richard Watts, used the following definition:

"Corporate Social Responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large".

The same report gave some evidence of the different perceptions of what this should mean from a number of different societies across the world. Definitions differ, from "CSR is about capacity building for sustainable livelihoods. It respects cultural differences and finds the business opportunities in building the skills of employees, the community and the government" from Ghana, to "CSR is about business giving back to society" from the Philippines.

Traditionally in the United States, CSR has been defined much more in terms of a philanthropic model. Companies make profits, unhindered except by fulfilling their duty to pay taxes. Then they donate a certain share of the profits to charitable causes. It is seen as tainting the act for the company to receive any benefit from the giving.

On the other hand, the European Commission hedges its bets with two definitions wrapped into one: "A concept whereby companies decide voluntarily to contribute to a better society and a cleaner environment. A concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis".

Broadly defined corporate social responsibility is the impact of how companies manage their core business. Some go further than others in prescribing how far companies go beyond managing their own impact into the terrain of acting specifically outside of that focus to make a contribution to the achievement of broader societal goals. It is a key difference, when many business leaders feel that their companies are ill-equipped to pursue broader societal goals, and activists argue that companies have no democratic legitimacy to take such roles. That particular debate will continue.

There is a difference between social responsibility and social performance. SR can refer to any sector (sector without a social mission can be socially responsible) and limiting an activity's negative impact on stakeholders (employees, clients community) or the environment, while SP refers specifically to the microfinance sector: bringing well-adopted services to enhance social and economic benefits. Social responsibility is often summarized by the expression "do no harm" & social performance as "do good". In this sense, social performance is enhanced social responsibility, or SR ++.

In the Cerise SPI, social responsibility refers to an MFI's commitment to accountability and ensuring its activities do not have negative effects. Social responsibility extends to employees/staff (decent work conditions, appropriate human resource policies), clients (consumer protection policies), the community and the environment (respect of local cultural-socio-economic contexts, environmental protection policies).

3 *www.wikipedia.org*

2 HOW TO USE THIS GUIDE

Most of what is contained in this Guide are adaptations of recent principles and tools in Social Performance Management (SPM). The team endeavored to have these principles and tools refined and contextualized for use by ECLOF International's National Executive Committees (NECs).

In ECLOF's context, SPM is viewed as Creating a Social Performance Purposive Environment. The goal is to manage its institutions (NECs) strategically as a social enterprise towards the fulfillment of its double bottom line[4] mission. That is, its business and social objectives.

The overriding challenge to managing a social enterprise[5] is balancing business objectives with social objectives. Thus, the final goal of ECLOF's NECs is to improve the lives of its target population through new or value-added economic opportunities. On the other hand, NECs are tasked to become (totally or in part) financially viable to sustain efforts in improving the quality of life of its target population.

The Imp-ACT Consortium in its book, "Putting the Social into Performance Management: A practice-based guide for microfinance" elaborated that SPM is about achieving social goals and being socially responsible. SPM related to how an organization aligns its strategic planning and operational systems to an understanding of client vulnerability and poverty. Because MFIs work with vulnerable and poor communities, they also have an implicit objective to protect clients from over-indebtedness and harm – as well as to treat their staff responsibly.

The consortium identified three components of SPM:

- Setting clear social objectives and creating a deliberate strategy to achieve them;
- Monitoring and assessing progress towards achieving social objectives; and
- Using social performance information to improve overall organizational performance.

[4] *Managing Double Bottom Line: A Business Planning Reference Guide for Social Enterprises, 2000.*

[5] *Social enterprise is a generic term for a nonprofit enterprise, social-purpose business or revenue-generating venture founded to support or create economic opportunities for poor and disadvantaged populations while simultaneously operating with reference to the financial bottom line. A social enterprise may use revenue it generates to reduce the need for external donor dollars to cover program costs, or as a means to cross-subsidize other social programs. A social enterprise can also be referred to as an "affirmativ e business," "business development service provider," "employment creation enterprise," or "microfinance institution" depending on the type of business it is in, the language of the nonprofit sector, the business model used, and the target population it serves.*

These components call for the microfinance institutions to answer six key questions:

- What are your social objectives and how do you plan to achieve them?
- Who uses your program's products and services?
- Why and when do clients leave the program or fail to fully utilize your services?
- What is the effect of your program to current clients?
- How will you use information about social performance to improve your services?
- How do you maintain and improve the quality of the systems you use to answer these questions?

It is in this context that this Social Performance Guide has been put together. It intends to provide the different NECs of ECLOF International with a benchmark on how to strategically improve its social performance through accurate measurement of outcomes.

This guide takes into consideration Key Indicators in Creating Social Performance Purposive Environment. The figure below summarizes these indicators:[6]

Figure 1. SPM Key Indicators

The indicators are divided into six (6) major areas of analysis namely: (1) governance; (2) leadership and management; (3) social responsibility to staff; (4) responsive products and services for clients; (5) responsible financial performance; and (6) monitoring systems;

[6] *Adopted the Universal Standards for Social Performance, European Microfinance Platform.*

3
GOVERNANCE

Governance is necessary anytime a group of people called stakeholders comes together to accomplish an end result. Governance is a process by which a board of directors, through its management guides an institution in fulfilling its corporate mission and protects the institution's assets over time. A board of directors is established to provide oversight and give direction to the managers of an institution.[13]

Fundamental to effective governance is the ability of individual directors to work together to accomplish a balance between strategic and operational responsibilities. Effective governance occurs when a board is able to provide guidance to management in strategic issues and is effective in overseeing management implement the strategic plan goals and initiatives. Both sets of priorities are required to successfully navigate an institution through its short and long-term growth.

What is Good Governance?

Good Governance is about both achieving desired results and achieving them in the right way. Since the "right way" is largely shaped by the cultural norms and values of the institution, there can be no universal template for good governance. Each institution must tailor its own definition of good governance to suit its needs and values.

"Good governance is perhaps the single most important factor in eradicating poverty and promoting development."

Kofi Annan, Secretary General, United Nations, 1997-2006

Box 1. Corporate Governance

Corporate Governance:

- *Involves a set of relationships between a company's management, its board, its shareholders and other stockholders* [14]
- *Provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined* [15]
- *The process by which a board of directors, through management, guides an institution in fulfilling its corporate mission and protects the institution's assets over time* [16]

[13] *Microsave*
[14] *OECD Principles of Corporate Governance, 2004*
[15] *Ibid.*
[16] *ACCION International, 1998.*

Why is it Important to Focus on Good Governance?

Governance has assumed increasing importance for several reasons. As microfinance institutions grow in their outreach, the size of their assets, as reflected in their portfolio, also grows to considerable size. Ensuring effective management of this growth requires added input and involvement from the board of directors.

- Increasing numbers of MFIs are becoming regulated and assuming the responsibilities and challenges of a regulated entity. Capturing deposits from savers and investors is an important challenge and requires the greatest oversight.
- MFIs are operating in increasingly competitive markets, and maintaining or increasing market share has become an important component of their strategic objectives.

Governance has become an important topic as evidence mounts on the critical role it plays in determining societal well-being. Not surprisingly, governance as a term has progressed from obscurity to widespread usage, particularly in the last decade.

Box 2. Common Challenges and Gaps in Governance[17]

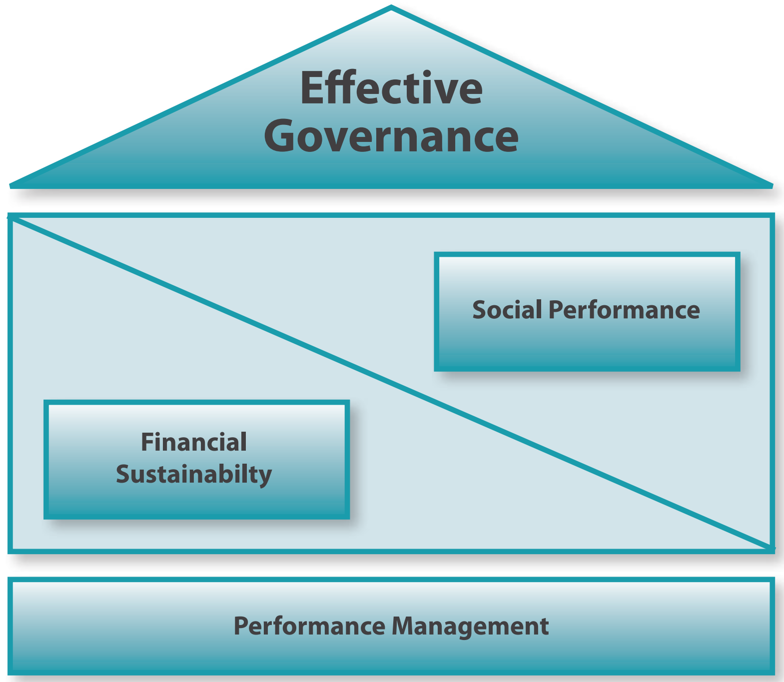
The most common challenges relate to MFI governance in practice and to capacity building for governance, and include the following:

- *The dual focus of microfinance – social and financial – is not at the forefront of board engagement and strategic planning.*
- *Insufficient attention is paid to the board's fiduciary*[18] *responsibilities towards staff and clients.*
- *Social performance is viewed as an optional extra rather than something that should be woven into the board's structure, agendas and oversight function.*
- *Training does not reinforce the message that the provision of microfinance services requires a clear strategy and monitoring to achieve social goals.*
- *The focus of training tends to be on financial metrics, with an absence of examples of social performance metrics.*
- *In the absence of social performance metrics, there are only standardized incentives for chief executive officers (CEOs), without reference to social performance. The board is responsible for CEO remuneration and incentives.*

[17] *Imp-Act & Microsave: Governance Guidance Note*
[18] *Fiduciary essentially refers to this notion of trust, with the board acting on behalf of the MFI's interests as a whole, including all stakeholders, not just a single shareholder or group of shareholders. Fiduciary should not be interpreted as being limited to upholding financial value.*

- *The board needs to differentiate corporate social responsibility from social performance management.*
- *The balance between the two bottom lines – social and financial – may shift as equity investors join the boards of MFI as shareholders. Investors provide capital for growth but come with financial returns expectations.*
- *Due to the drive for financial sustainability and commercialization, there is a real risk of mission drift. This risk is more acute when MFIs "transform," often from a more mission-focused non-profit to a regulated for - profit.*

Figure 1. Integrating SPM into Governance: Emerging practices



As noted above in Box 3, there are few examples of how the MFI combine or add SPM into governance aspect. Highlighted below are some of the best practices that can be introduced as part of governance capacity building:

3.1 Measure Strategic Fit of the MFI

In Social Performance Purposive Environment, one level of measurement is the Strategic Fit. This is anchored on one method of strategizing approach, which takes on a more rational, sequential and analytical approach. It adopts a logical, step-by-step process and relies more on the faculties of the left-brain. Rational strategizing, as the label implies, uses the "science" of correct reasoning. It posits that inductive or deductive thought processes must follow a sequential, linear pattern. It relies heavily on analyzing causes and their effects to enable the strategist to predict what consequences will happen as a result of certain human interventions. The rational approach relies heavily on charting trends, recognizing patterns and mapping possible scenarios with the hope of forecasting outcomes as events unfold.[19]

This management tool requires that there must be an assessment of the strategic fit or consistency among the Vision-Mission-Objectives – Key Result Areas and Performance Indicators set, Strategies, Programs, Activities and Tasks adopted, the Organizational Structures, Systems and Resources applied and the People Competencies, Capabilities, Skills and Attitudes. Do they support one another? Do they form a symbiotic, integral whole?

[19] *Strategic Planning and Management, 2006.*

3.2 Clearly Define the Board's Role in Balancing Financial and Social Goals[20]

Traditional microfinance capacity building and assessments have looked at the board's role primarily through a financial lens, focusing on corporate oversight and fiduciary responsibilities. SPM facilitates the board's ability to ensure a double bottom line, balancing financial and social goals. Effective governance at board level is the context for SPM, as the board has to:

- Ensure that there is a clear mission, that the mission is translated into realistic goals, and that the implementation strategy is designed and monitored to achieve this.
- Understand the social and financial implications of its decisions and actively seek to balance social and financial priorities.
- Meet stakeholders' diverse and often divergent expectations and priorities (including those of government, private investors, donors and clients).
- Maintain or develop skills among board members to ensure that this remit is fulfilled.

3.3 Balance the Training Program for the Board[21]

First impressions are key, but MFIs often throw new board members straight into the next board meeting without adequate orientation. Orientation and training for new board members do not have to be too formal; speeches about the founder's story of how the MFI began or visits to see clients and field staff can be an integral and enlightening part of training for new board members. However, the MFI must actively ensure that each new board member is already initially equipped to understand and execute both their financial and social responsibilities.

3.4 Create a Balanced Perspective and Understanding of SPM among Board Members/Trustees

Board members are often chosen for their technical background or expertise, and usually include professionals with considerable banking, accounting, business and legal experience. They may also include "development professionals" – for example, those with an NGO or research background. It is sometimes assumed that the presence of such professionals can ensure that the board is fully equipped to guide a double bottom line agenda.

[20] *Imp-Act Consortium & MicroSave Guidance Note.*
[21] *Ibid.*

However, in practice, this may not be the case. The existing experience of board members is not necessarily the key driver for SPM. Balancing the double bottom line and understanding what is involved in SPM have evolved relatively recently as a technical area. It is important, therefore, that board members, as well as management, are exposed to the principles, the developed concepts and metrics of social performance and SPM. Having a social rating or a social audit can help this process, and should involve both management and the board.

For strategic guidance, the MFI needs the right "mix" of people on the board so that it can both guide the organization and stay focused on its institutional mission. It is critical that there is a balance between social and financial "voices" at board level, and that there is someone to champion social performance and the client perspective. Ideally, some board members should have experience of working with and understanding the target clients' issues, needs, and development concerns.

3.5 Demystify the Mission to Clarify Social Goals and Objectives

A clear understanding and consensus on mission is the starting point for integrating SPM into governance. However, for many institutions (including MFIs), the vision and mission statement may adorn the office walls, and be mentioned in the annual report and business plan, but it is not clear whether they serve any purpose beyond some form of advertising.

For an MFI, it is the board's responsibility to ensure that the mission statement is meaningful, and is translated into objectives and metrics that the board can promote and monitor.

The mission of any MFI, irrespective of its context or methodology, must directly address two if not all three of the following questions:

- Where and who do you want to reach? (outreach)
- How will you meet target clients' needs? (products and services, client retention and satisfaction)
- What are the desired effects? (theory of change)
  Answering these questions, and defining key terms (which may include 'rural', 'urban', 'poor', 'low income', 'employment', 'livelihoods' and 'dropouts') is a process that should involve the board and other stakeholders to ensure optimum buy-in.

This process provides the basis for setting social goals and objectives, integrating these into strategic planning, communicating them throughout the organization, and monitoring the extent to which they are being achieved. Indicators to track these social objectives balance the indicators to track financial objectives.

3.6 Adopt and Implement a Statement of Values or Code of Conduct

A written code of conduct can help an MFI to articulate and formalize its orientation and values. The board and senior management may share responsibility for framing these; the board must at least endorse or sign up to them.

Regional and country networks have begun to introduce codes of conduct for their MFI members. For example, the international SMART campaign has introduced six principles of client protection, and MicroFinance Transparency is publicizing effective interest rates of micro-credit in different countries for different products and MFIs.

Board members need to be familiar with these initiatives. Capacity building materials should include references to national, regional and global efforts to improve practices on key issues such as client protection, the environment, or climate change.

Training should also emphasize the relevance of the board's involvement in approving and adhering to a code of conduct. Signing up to a code of conduct is the starting point for the board to ensure that guidelines for good practice are implemented across all operations and monitored for compliance.

3.7 Track Progress Towards Social Goals and Monitor Values

To ensure that social performance concerns are adequately addressed through the governance process, the board should set clear targets or guidelines, and be actively engaged in monitoring the MFI's social mission and compliance with stated values. Just as they review financial information, the board should review, analyze and discuss information on relevant social performance indicators. Tables 1 and 2 give examples of relevant indicators that can be routinely tracked.

Table 1. Examples of indicators for the board to monitor social goals

Social goal 1 Outreach	Social goal 2 Appropriate services	Social goal 3 Ccty6hange
• % clients by village, town, city • % clients from less-developed regions • % new clients living below defined poverty line/income level • % women • % women-headed households • % clients from vulnerable groups	• Analysis of client access to different products • % of clients satisfied with product terms • % drop-out rate	• Analysis of client access over time (by cycle, amount) • % of clients at 5years or more who are below a given poverty line • % of individual clients who have graduated from group lending

Table 2. Examples of indicators for the board to monitor social values

Social Responsibility to:		
Staff	**Clients**	**Community & Environment**

• % of women on staff at different levels
• % of staff satisfied with different aspects of working conditions
• % of staff attrition at different levels
• Actual pay vs. living standards
• Reasonable working hours or compensation vs. work-hours
• Incentive plan
• Career path
	• % of client with loans from other MFIs
	• Number of client complaints received and resolved
	• % of clients aware of product terms
	• % of loan renewal or re-loan
	• % of outreach
		• Depends on local context:
		  • What are the community values that the MFI stands for – and indicators to monitor these
		  • What are the environmental issues that apply to clients and to organizational practice – and indicators to monitor these

3.8 Consider Setting-Up a Social Performance Committee

A social performance committee, set up as part of the governance structure, serves to signal the importance of social performance for the MFI. The committee will be responsible for carrying out specific tasks that relate to:

- Ensuring the credibility of social performance information;
- Engaging staff at all levels;
- Prioritizing social performance issues to be addressed by the board, management and staff;
- Drawing in relevant expertise for social performance research and analysis.

3.9 Making Risk Management A Value-Adding Function in the Board Room

Today risks are a part of being in business. Although the outcome of key uncertainties is often dictated by luck, the impact of these outcomes is not. Good risk management can help mitigate the impact of negative outcomes and help institutions take advantage of positive ones.

Risk management is a systematic approach to identifying, measuring, monitoring and managing the various risks faced by an institution. Within microfinance institutions, risk management systems and capacity building initiatives have mostly focused on financial and operational risks. But other unmitigated risks, such as reputation risk, can result in serious financial risk and loss of goodwill towards an MFI.

Figure 1. Sets out the key categories of risk that MFIs face, including financial management, operational, reputation and external risks. It also shows how different types of risk are interconnected. The reputation of an MFI is the central factor, and is affected by all types of risk. A comprehensive risk management strategy and capacity building initiatives must be developed using a social performance lens so that social performance risks are addressed together with other risks.

Box 2. Current Good Practices

- Implement the Client Protection Principles refer to Client Protection
- Know Your Client (KYC) – collect and use client profile information
- Client Education
- Systematically collect and use client feedback
- Track and analyze exit rates
- Manage human resources and staff perceptions
- Assess whether clients' enterprises have negative environmental or social effects
- Communication and transparency
- Role of Governance
- Role of Internal Auditors

It is important for MFIs to remember that it takes a long time to build a good reputation, but only a short time to destroy it. Therefore, being pro-active about how to mitigate reputation risks before they occur is one of the best ways to reduce risk of financial loss. Defining the mission and applying it to all operations ensures that the MFI does not risk mission drift, and this, in turn, is critical to reputation.

The challenge for MFIs is to manage growth while ensuring that there are adequate institutional systems to support mission and values. When several MFIs are growing rapidly in the same geographical area, there is also the challenge of managing competition.

3.10 Internal Control and Audit

Internal control and audit begin with raising key questions to consider:

- Do MFIs systematically incorporate social responsibility and client protection principles into their policies?
- Are the internal auditors trained and experienced in measuring social performance management?
- Do internal auditors use tools designed to assess the organization's social performance?
- Are MFIs equipped to monitor and assess the quality of the services they provide to clients, including changes in clients' lives?

Microfinance capacity building on internal controls and audit has mostly focused on financial concerns, especially protecting against fraud in the areas of cash management, savings and loan operations, write-offs and procurement. As social businesses, MFIs also need checks and balances to ensure that they perform against their social objectives, as stated in their mission. Internal auditors can and should verify the MFI's compliance with its policies and procedures related to social performance. Internal controls and audit should also ensure that quality standards are maintained in service provision, as quality is often compromised by shortcuts and cost-cutting measures.

Integrating social performance into internal controls and audit aims to inspire MFIs to improve their operational social performance and offers guidance on how MFIs can systematically check compliance with their social mission in the following areas:

- Social responsibility towards key stakeholders
- Client protection
- Quality of service provided to clients
- Monitoring impact on clients' lives

Up-and-Coming Good Practice[22]
The following emerging practices are helping MFIs to integrate SPM into internal controls and audits:

- Raising awareness about the importance of monitoring social performance
- Verifying progress in achieving social responsibilities
- Preventing client over-indebtedness
- Monitoring how clients use loans
- Ensuring collection practices follow code of ethics
- Mitigating client vulnerabilities and ensuring client protection
- Ensuring quality of service and transparency
- Checking availability and reliability of social data in the MIS
- Protecting staff against biases

Table 3. Sample policies and controls to ensure social responsibility[23]

Policy	Controls to ensure implementation
CLIENTS Our MFI is committed to quality service, which includes easy application processes, timely disbursements, provision of information about service terms and conditions, accurate assessment of repayment capabilities, and friendly staff	Monitor average loan processing time Spot-check loan officers' repayment capacity calculations Spot-check loan collection approaches Interview clients to assess their knowledge of service terms and conditions, and soliciting feedback on client–staff relationships
STAFF Our MFI is an equal opportunities employer. Qualified applicants are considered for employment without regard to age, race, religion, sex, national origin or sexual orientation.	Monitor diversity of selected candidates against applicants Assess salaries to check for gender and other biases Conduct exit interviews with staff Check compliance with local law and transparency of salary scale

[22] *Adopted Imp-Act Consortium.*
[23] *Heavily draws from Imp-act Consortium SPM Resource Center.*

Policy	Controls to ensure implementation
GENDER AWARENESS Our MFI ensures that our staff, both women and men, are able to interact with one another with respect and a sense of equality, and promote a vision of women's empowerment.	Train staff on gender awareness Client and staff interviews
STRENGTHENING COMMUNITIES Our MFI works to strengthen community bonds and we do everything in our power not to disturb or break any previous ties within communities.	Conduct community assessments Check how community complaints are resolved
ENVIRONMENTAL PROTECTION Our MFI does NOT support enterprises that have negative environmental impacts, e.g. Logging	Review loan applications by business type Conduct visits to clients' businesses

AS MFIs INTEGRATE SPM into their internal controls and audit, three (3) key lessons will ensure success:

- Stay focused on social goals.
- Prioritize the process, not the result.
- Ensure consistency.

TRY THIS OUT!

- *Is Social Performance reflected in your mission statement? How? Is this translated into policies?*
- *Does your values reflect commitment to achieve the mission?*
- *Have you identified what is your double bottom line? Has this been communicated throughout your institution?*
- *Does the Board consider its responsibilities toward SPM?*
- *What are the trade-offs in balancing the social and financial performance?*

4 ETHICAL LEADERSHIP AND MANAGEMENT

4.1 What Role does Leadership play in SPM

Leaders are very focused on change. Recognizing that continual improvement can be achieved in their people and their activities can be a great step towards continued success. Being able to lead their teams through change, rather than manage them through it has infinite rewards.

Social Performance Management requires Leadership to influence all stakeholders to recognize continual improvement in the achievement of both social and financial missions of the organization. It takes effective leadership qualities to lead the team through continuous organizational reflection or assessment and allowing the team to focus on innovative ways to institutionalize Social Performance Management at all levels. Leadership is the "heart" that keeps people in the organization anchored on its social mission and ensures that benefits of the activities and tasks of the organization redound to all the clients (internal and external).

4.2 What is the Role of Management in SPM

One of the key characteristics of a manager is very basic in the sense that they are someone who was given their authority by the nature of their role. They ensure work gets done; focus on day-to-day tasks, and manage the activities of others.

A manager focuses on tactical activities and often times have a more directive and controlling approach. Being tactical is not altogether a negative approach as this is a skill set that is greatly needed in business especially in the fast paced environments in which most of us work and live. Being able to organize people to accomplish tasks can be a great asset.

In short, management is the "brain" of the organization. As much important as the task of influencing stakeholders to recognize and accept change as part of an organization's improvement, is the task of building structures, processes and systems that are essential to make things happen. Leadership provides the "fuel" to ignite passion towards genuine social performance management; Management ensures that this passion is translated into concrete, measureable results.

4.3 Management and SPM

4.3.1 Plan and Implement

Planning ascertains where the organization is now and deciding where it will be in the future. It involves setting goals or objectives and strategies by all managers (sense of direction and purpose). The plan provides the organization with understanding about how their systems fit the whole (coordination). It specifies who is responsible for the accomplishment of a particular goal or objective (control).

Planning and Implementing Strategy

1. *Allocate implementation responsibility to the appropriate individuals or groups. (Delegation)*
2. *Draft detailed action plans for implementation.*
3. *Establish a timetable for implementation.*
4. *Allocate appropriate resources.*
5. *Hold specific groups or individual responsible for the attainment of corporate, divisional, and functional goals. (accountability)*

4.3.1.1 To achieve social objectives and financial targets

An objective is an end result, and it is often referred to as a "target" in development literature and proposals. Objectives serve as quantitative measures within a fixed time frame that propel the organization toward accomplishing its mission. The time frame for achieving the objectives should correspond with viability and other mid-term goals set forth in the mission statement. Secondary objectives for marketing, human resources, and production flow from these main objectives, and subsequently; operational strategies are built upon them.

For example, financial viability is determined by forecasting the enterprise's break-even point then benchmarks are set and aligned with the business plan, which details strategies for achieving these objectives.

The illustration below summarizes this:

Figure1: Objectives align with Mission and Vision

4.3.1.2 Must be SMART

The objectives must address both bottom lines—business and social—of your organization and can be divided into two categories: social impact objectives and financial sustainability objectives. Regardless of type, objectives must be SMART:

- Specific – well-defined and clearly stated
- Measurable – quantifiable or absolutely calculable
- Achievable – realistic under the circumstances
- Relevant – supporting accomplishment of the mission and contributing to realizing the vision in the long term
- Time-bound – time based (corresponding to the period of the business plan)

4.3.2 Allocation and Alignment of Resources

Creating a balance between social and business objectives is a challenging task given the limited resources available to an institution. An essential part of management function is to establish a control process.

4.3.2.1 Consistent with priorities

Establishing control process includes setting standards, goals, or targets against which performance is to be evaluated. Managers at each organizational level need to set their own standards. Standards must be consistent with the organization's strategy that is, for a low cost strategy, standards should be focused closely on reducing costs. Managers can measure outputs resulting from behavior or they can measure the behavior themselves. The more routine the task, the harder it is to measure performance or output, causing managers to measure an employee's behavior, e.g., that an employee comes to work on time rather than the employee's output.

4.3.2.2 Consistent with corporate values

In comparing actual performance against chosen standards, managers must decide if performance actually deviates, often, several problems combine creating low performance. Standards must be also consistent with corporate values. Results have then to be evaluated and management should take the necessary corrective actions. Part of this is to assess if the standards have been set too high or too low. Personnel may need additional trainings or equipment? This is often hard since the environment is constantly changing.

4.3.3 Generation of information

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

Your organization may have weak information systems when the following can be observed:

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

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

4.3.3.1 Review and assess performance visa'-vis goals, objectives and target

Availability of social performance information is vital in reviewing and assessing performance in relation to the set goal, objectives and target. This emphasizes the importance a robust information system that accommodates social performance data for easy review and monitoring. Social Performance Management is more than the indicators or information technology use. It is about how you use the available tools and information to effect change throughout your organization, operations and staff, and how those changes translate your social mission into practice.

4.3.3.2 For decision-making

Just as you manage and measure performance against budget and financial projections, it is also important to systematically manage and measure performance against social objectives. An effective MIS allows for the collection of relevant and timely social performance information that is processed and disseminated in a way that facilitates decision-making. But to be effective, decision-makers must be able to use the information to make the necessary adjustments to operations. In some cases, new information might even prompt a rethink about strategy. This shows how vital an effective MIS can be to linking strategy and operations.

Nine essential questions answered by an effective information system

1. *What information is needed and by whom?*
2. *Who will use the information and how?*
3. *Where will data come from?*
4. *How often will data be collected and analyzed?*
5. *Who will collect data and how?*
6. *When should data be collected?*
7. *Who will process the data and how?*
8. *What data analysis will be done and who will do it?*
9. *How will the information be communicated and reported?*

4.4 Leadership and Management

What is the difference between management and leadership? It is a question that has been asked more than once and also answered in different ways. The biggest difference between managers and leaders is the way they motivate the people who work or follow them, and this sets the tone for most other aspects of what they do.

The table below summarizes and gives a sense of the differences between being a leader and being a manager. This is, only an illustrative characterization, and there is a whole spectrum between either ends of these scales along which each role can range. And many people lead and manage at the same time, and so may display a combination of behaviors.

Table 1. Leader vs. Manager[24]

SUBJECT	LEADER	MANAGER
Essence	Change	Stability
Focus	Leading People	Managing work
Have	Followers	Subordinates
Horizon	Long-term	Short-term
Seeks	Vision	Objectives
Approach	Sets Direction	Plans detail
Decision	Facilitates	Makes
Power	Personal Charisma	Formal authority
Appeal to	Heart	Head
Energy	Passion	Control
Culture	Shapes	Enacts
Dynamic	Proactive	Reactive
Persuasion	Sell	Tell
Style	Transformational	Transactional
Exchange	Excitement for work	Money for work
Likes	Striving	Action
Wants	Achievement	Results
Risk	Takes	Minimizes
Rules	Breaks	Makes
Conflict	Uses	Avoids
Direction	New roads	Existing roads
Truth	Seeks	Establishes
Concern	What is right	Being right
Credit	Gives	Takes
Blame	Takes	Blames

[24] www.changingminds.org

While leadership and management both have essential roles in the function and effectiveness of organizations, they are not the same thing. They are, in fact, distinct and separate processes, serving different purposes. Management provides the organization with predictability, consistency and stability. Leadership positions people and organizations for change. The danger of failing to make the distinction between management and leadership is that people mistakenly begin to equate leadership — a process of influence — with a position of authority.

4.4.1 Overview of the 5 Levels of Leadership[25]

4.4.1.1 Level 1 – Position

Position is the lowest level of leadership – the entry level. The only influence a position leader has it that which comes with the job title. People follow because they have to. Positional leadership is based on the rights granted by the position and title. Nothing is wrong with having a leadership position. Everything is wrong with using position to get people to follow. Position is a poor substitute for influence.

People who make it only to level 1 may be bosses, but they are never leaders. They have subordinates, not team members. They rely on rules, regulations, policies, procedures and organizational charts to control their people.

4.4.1.2 Level 2 – Permission

Level 2 is based entirely on relationships. On the Permission level, people follow because they want to. When you like people and treat them like individuals who have value, you begin to develop influence with them. You develop trust. The environment becomes mush more positive – whether at home, on the job, at play, or while volunteering.

[25] *Heavily draws from the book: The 5 Levels of Leadership: Proven Steps to Maximize Your Potential, John C. Maxwell, 2011.*

The agenda for leaders on Level 2 isn't preserving their position. It is getting to know their people and figuring out how to get along with them. Leaders find out who their people are. Followers find out who their leaders are. People build solid, lasting relationships.

> *"You can like people without leading them, but you cannot lead people well without liking them."*

4.4.1.3 Level 3 – Production

On the Production level leaders gain influence and credibility, and people begin to follow them because of what they have done for the organization. One of the dangers of getting to the Permission level is that a leader may be tempted to stop there. But good leaders don't just create a pleasant working environment. They get things done. That's why they must move up to Level 3, which is based on results.

Also on this Level that the leaders can become change agents. They can tackle tough problems and face thorny issues. They can make the difficult decisions that will make a difference. They can take their people to another level of effectiveness.

4.4.1.4 Level 4 – People Development

Level 4 used their position, relationships, and productivity to invest in their followers and develop them until those followers become leaders in their own right. The result is reproduction; Level 4 leaders reproduce themselves. Two (2) things always happen on this Level:

- First, teamwork goes to a very high level – because the high investment in people deepens relationships, helps people to know one another better, and strengthens loyalty; and
- Second, performance increases – because there are more leaders on the team, and they help to improve everybody's performance.

Also, level 4 leaders change the lives of the people they lead. Accordingly, their people follow them because of what their leaders have done for them personally. And their relationships are often life-long.

4.4.1.5 Level 5 – Pinnacle

The highest and the most difficult level of leadership is the Pinnacle. While most people can learn to climb to Levels 1 through 4, Level 5 requires not only effort, skill, and intentionality, but also a high level of talent. Only naturally gifted leaders ever make it to this highest level. Level 5 leaders develop people to become Level 4 leaders.

If people are respectful, pleasant, and productive, they can establish a degree of influence with others and gain followers with relative ease. Developing followers to lead on their own is difficult. Most leaders don't do it because it takes so much more work than simply leading followers. But here are the pay-offs – Level 5 leaders develop Level 5 organizations. They create opportunities that other leaders don't. They create legally in what they do. People follow them because of who they are and what they represent – meaning, their leadership gains a positive reputation. As a result, Level 5 leaders often transcend their position, their organization, and sometimes their industry.

Figure 2. Overview of the 5 Levels of Leadership

5	**Pinnacle (Respect)**	**People follow because of who you are and what you represent**
4	**People Development (Reproduction)**	**People follow because of what you have done for them**
3	**Production (Results)**	**People follow because of what you have done for the organization**
2	**Permission (Relationships)**	**People follow you because they want to**
1	**Position (Rights)**	**People follow you because they have to**

4.4.2 Define the Organization's Values

To lead the team with character and integrity, the leader must set an example. The team looks at the leader. The leader must know own values as well as organization's values.

Good leaders follow their personal values as well as organizational values.

4.4.3 Set the Tone

Now that you know your organizational core values, you can begin to set the tone and create the right environment for your team and your organization. Again, leading by example is the best way to do this.

- It is what you do, not what you say, that demonstrates to your team what you care about.
- Next, establish consequences for team members who do not follow corporate values
- You need good consequences as well. Set up some kind of reward system for team members who consistently act according to the organization values.
- Reinforce good values by storytelling.

4.4.4 Recognize Ethical Dilemmas

- **Identify "trigger" situations** – Certain situations seem to attract ethical dilemmas. Some of these are areas like purchasing, hiring, firing, promoting, and calculating bonuses.

  There can also be other unexpected situations. You could make a mistake – will you admit it to your boss, or try to cover it up? Or you could discover that a colleague is acting unethically – do you protect the person or tell someone?

  By recognizing when these situations might occur, you can make the right decisions when and if something actually happens.

- **Prepare in advance** – What would you do if you knew one of your colleagues is about to be fired, but you are not legally allowed to tell her?

  Putting yourself in these imaginary situations can help you work through your feelings and decide what you would do if the situation became real. In real life, you may have only seconds to reach a decision. Of course, you will not be able to imagine every possible ethical dilemma you might face, but this exercise WILL help you get to know your values, and it can prepare you for the decisions you may have to make.

- **Listen to your "inner voice"** – Your conscience often tells you that something is not right, even if this is just a feeling of uneasiness with something. If you face a situation that makes you uncomfortable, or goes against one of your core values or beliefs, then make sure that you stop and think things through rationally.

- **Re-evaluate your decision before you act** – If you're in a difficult situation and you are not sure what to do, make a decision. But before you act on that decision, ask yourself how you would feel if your actions were in the organization newsletter or on the evening news for everyone to see. Would you be proud of what you did? If not, then reconsider your decision.

Table 2. 10 Common Management & Leadership Mistakes[26]

1. *Lack of Feedback*
2. *Not Making Time for your Team*
3. *Being Too "Hands-off"*
4. *Being Too Friendly*
5. *Failing to Define Goals*
6. *Misunderstanding Motivation*
7. *Hurrying Recruitment*
8. *Not "Walking the Walk"*
9. *Not Delegating*
10. *Misunderstanding Your Role*

Key Points!

Ethical living – and leading – takes courage and conviction. It means doing the right thing, even when the right thing isn't popular or easy. But when you make decisions based on your core values, then you tell the world that you can't be bought – and you lead your team by example.

Once you identify your organization's core values as well as your own, you can start to set the tone with your team and your organization. Actions always speak louder than words, so make sure you do as you would wish others to do.

[26] *www.mindtools.com*

TRY THIS OUT!

- *Are the values of the organization reflected by the leadership and management of your organization or institution? In what way?*
- *Do you have a leadership and management-training plan? Is this integrated with the double bottom and organizational values?*
- *How does your organizational values settle with the following three key areas:*
    - *Ethical Values – what does it mean to do the right thing for the right reason?*
    - *Relational Values – how do you build an environment of trust and respect with others?*
    - *Success Values – what goals are worth spending?*
- *What should an institution do to prevent mission drift? How can it address the specific needs of vulnerable clients?*
- *How does the institution determine if they are living up to the mission and values they espoused?*

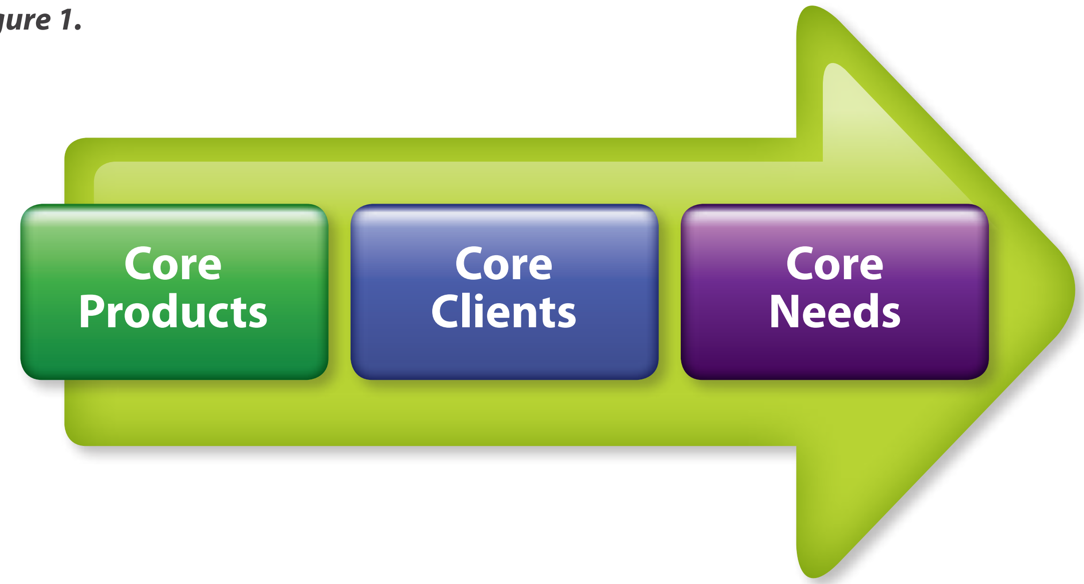
5 RESPONSIVE PRODUCTS AND SERVICES

Microfinance provides new opportunities, builds the confidence and self-esteem of the poor and empowers the disadvantaged groups such as women as well.
Yet, microfinance alone cannot improve roads, housing, water supply, education, and health services; thus, it should be complemented with other development interventions in input and output markets; building networks and linkages; increasing access to both producers and buyers in both domestic and international markets; and building the capacity of clients.

Why Develop Products and Services?

- *The need to effectively respond to the demands and preferences of customers. The poor are not one homogeneous group with similar needs. They need products that present a solution to their problems.*
- *The need and potential for deeper outreach especially to the hard-core poor who are currently not reached by most MFIs.*
- *The need to create mechanisms to bridge the gaps created by poverty, illiteracy, gender, and remoteness.*
- *The need to have products that are simple enough to be understood by clients and easily administered by the MFI.*
- *The need to have an impact on reducing income-poverty.*
- *The need for reducing vulnerability by introducing asset protection services.*
- *The need for sustainability by generating higher revenues to cover operational costs.*
- *The need to raise new sources of capital for loans.*
- *The need to reduce delinquency built upon customer service / appropriate products*
- *The need to retain loyal clients and reduce client loss*

Figure 1.



5.1 Product Innovation: Requisites for Measurable Outcomes

- ***5.1.1 Establish measure with beneficiaries in mind***
- ***5.1.2 Get the input of key stakeholders***
- ***5.1.3 Measure hard and soft data***
- ***5.1.4 Keep it simple***

5.2 Variety of Products and Services

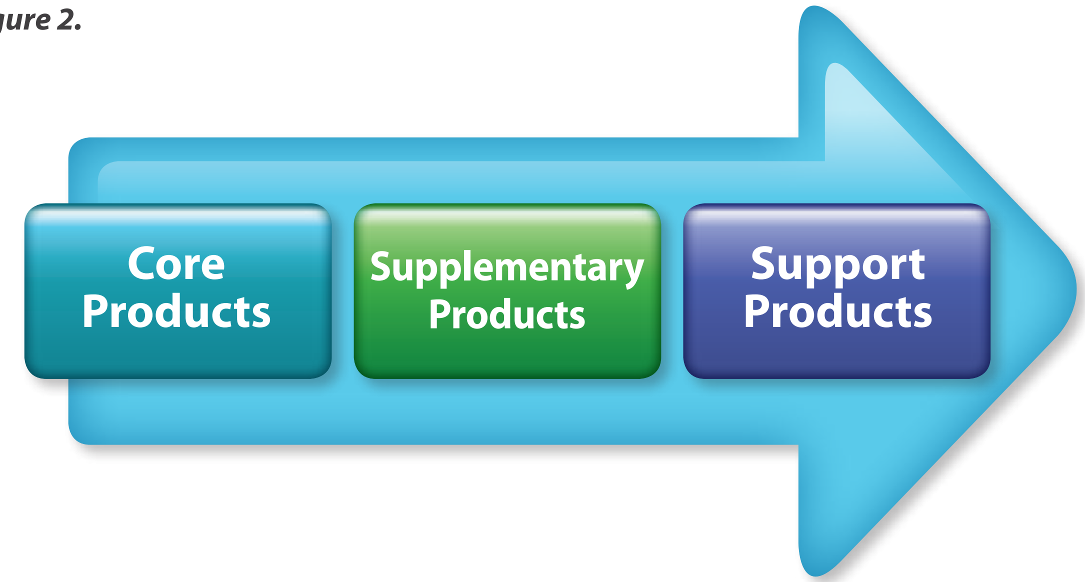
Client needs and participation in an institution's program differ depending on their age, sex, level of education, demographic location and type of source of livelihood. It is important to determine how each need is represented in the overall portfolio of an MFI. Offering variety of products and services would not only make an MFI more inclusive but would provide for the opportunity to serve these different levels of needs.

Retaining clients and attracting new ones increasingly depends on the institution's ability to meet client needs and help them make the most of the institution's services.

The package of products and services offered should give clients:

- Services more appropriate to their needs
- More product choices
- Better customer service

Figure 2.



5.3 Innovative & Appropriate Products and Services

Providing high-quality services that are well adapted to clients' needs requires innovative rollout techniques and a proactive strategy combining access to financial and non-financial services.

Designing with innovation entails the following:

1. Monitoring of success of products in terms of client satisfaction
2. Monitoring of the social contribution of the product to the client and their immediate community
3. Ensuring that the new/innovative products being introduced are complementary & supportive of the VMG
4. Pilot testing of new product in a selected area of operation for a period of time followed by product evaluation before full implementation.

Example:
MFI XYC adopted Grameen Methodology in its loan program even with the Agricultural community it started to serve. PAR Ratio go as high as 90% for its first 4 months of operation, and went down to 2% on the 5th month. The cycle went on… it took a thorough review for the MFI to realize that the farming sector are on "survival mode" from the time they plant their crop until after they harvest.

5.4 Non-Financial Services

The social goals of microfinance is said to be part of the historical shift in industry practice from a nearly exclusive focus on the financial performance of the institution to a more active concern for their clients. One concrete step in responding to this is the introduction of different non-financial services to the clients that would increase their capacity and skills in managing their source of livelihood.

Non-financial services can improve the effectiveness of the financial services provided to clients: they can give more capacity for the client to use loans or savings in a more effective way. If an MFI offers loans to start-up businesses or vulnerable clients and if they are not assisted in their procedures, they may later have little chance of succeeding alone. Therefore, it may be necessary to offer them non-financial services complementing the financial ones, both services being linked and consistent with one another. Social services may reduce vulnerability of the clients and may increase their potential.

Non-financial services usually take the form of capacity building and training.

Example:
Agricultural microfinance institution would introduce the following non-financial products:
1. *Practical organic farming training to clients*
2. *Livelihood training for activities in-between harvest*

5.5 Market Research and Product Development Tool

Product development has four (4) distinct phases:
1. **Evaluation and preparation** begins when the institution decides to formally investigate the development of a new product. The institution will mobilize staff and other resources to work on the development effort and create a work plan. This guide will help you determine whether the institution is ready to undertake new product development.

2. **Design and development of a product prototype** involves drafting the initial features and characteristics of the new product. To design a prototype, the development team must understand the clients' needs and the competitive landscape to determine what the market (clients) will buy.

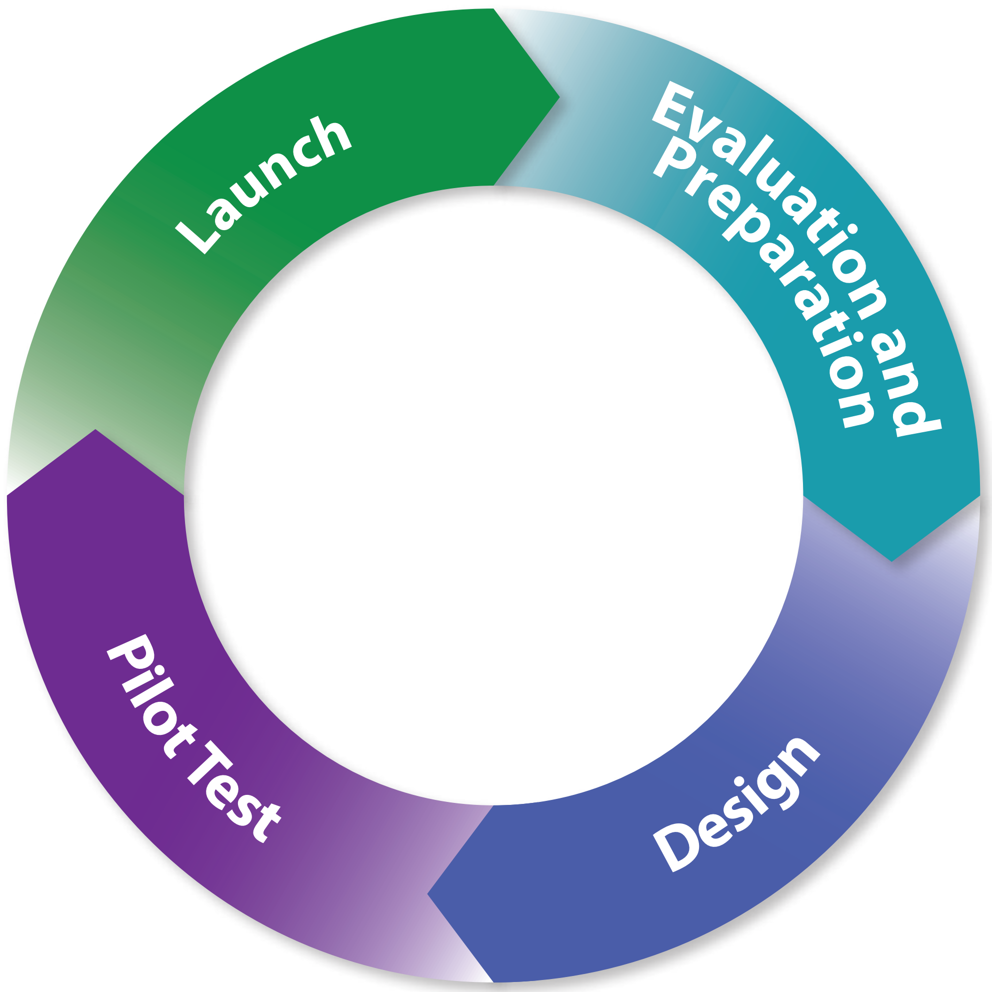
3. **Pilot testing of the prototype** is an opportunity to offer the product to a sample group of clients to determine whether these customers need, and will buy, the product. The results of the pilot test will help your organization determine whether demand exists for the new product, what modifications or changes to the terms and conditions are needed to make the product more appealing, and what features or processes need adjustment.

4. **Product launch** involves making the new product available to the organization's entire market. Introducing the new product to the bigger market assumes that the organization is confident that the characteristics and features of the product are in line with the needs of clients and that the institution is prepared internally to incorporate a new line of business.

Product development process does not end after the product is launched. It is an ongoing process of refining the terms, characteristics, and conditions of a product based on client feedback and market analysis. In fact, most often product refinement (rather than new product development) is precisely the "innovation" that is needed. This process should be a strategic and integral part of the institution's ongoing business operations to maintain competitive advantage in the marketplace.

Three key factors that influence the development of new products are:
- Customer needs;
- Competitors; and
- Core competencies (institutional strengths).

Note that in the new product development process (depicted in Diagram 1), these three sources influence every stage of the development process. The circular shape of the diagram emphasizes the interdependency of the phases. Once a product has been introduced, the organization needs to continue to monitor its success in meeting customer needs and adapt the product as necessary. If customer needs shift significantly or you decide to pursue a new market niche, you must return to the idea-generation stage.



Refer to Appendices B & C for the Overview of Market Research and Product Development Process

TRY THIS OUT!

- *How do you ensure that client needs are built into your products and services?*
- *What feedback mechanism do you have, if any?*
- *How are the corporate values enshrined in your personnel manual?*
- *If the organization's social mission is to improve the lives of the poor and the poorest of the population it serves, does they recognize how best to deliver those products and services? Did they assess over time if it is performing these tasks effectively? Or did they alter its products, services and deliver as needed?*
- *Identify causes of over-indebtedness and its impact to client's ability to use credit effectively.*

6 SOCIAL RESPONSIBILITY TO STAFF

Laying the grounds for Social Performance Management: Creating a Socially Responsible Workplace.

Redounds from the effective management of human resources results to successful implementation of an MFI mission. As people are the key to success of every organization, it is important that a MFI should be able to manage its people in a workplace that recognizes and promotes social mission and responsibility along side with growth and sustainability. This should be the first priority in its action list.

A socially responsible workplace commits to the following:

1. MFI commits to providing care and appreciation to its staff;
2. MFI environment is a venue for employees' learning and development;
3. Commitment to equal opportunities, diversity and inclusiveness; and
4. Human Resource Policy Framework is linked with MFIs Social Mission.

6.1 MFI commits to providing care and appreciation to its staff

6.1.1 Equity Pay

Salary is a monetary form of compensation in exchange for well-defined expected work responsibilities based on position description and competency requirement. A well-defined salary structure provides determination of hierarchies of jobs/positions, defines pay level and scope for pay progression. This provides a logical framework for which pay policies can be effectively implemented and monitored with the aims to achieve equal pay. A good pay structure also communicates a career and pay opportunities available to employees.

MFI may identify its appropriate pay structure aligned with the organizations outfit and culture. A regular review of the pay structure shall also ensure competitiveness from and among industries and financial viability in carrying out the salary rates.

MFI may choose from the different types of pay structures[27] that defines the organizational values:

Type of Structure	Features	When appropriate
Narrow-graded	A sequence of job grades - 10 or more narrow Pay ranges 20% to 40% Progression is usually linked to performance	In a large and bureaucratic organization with well defined hierarchies
Broad-graded	A sequence of between 6 and 9 grades Fairly broad pay ranges e.g. 40% to 50% Progression linked to contribution and may be controlled by thresholds or zones.	Desirable to define and differentiate grades more accurately as an aid to better precision when grading jobs Grade drift problem exist More scope wanted to reward contribution
Broad-banded	A series of, often 5 or 6 'broad' bands Wide pay bands typically between 50% and 80% Progression linked to contribution and competence	In-delayed, process-based, flexible organizations Where more flexibility in pay determination is wanted Where the focus is continuous improvement and lateral development
Job Family	Separate grade and pay structure for job families containing similar jobs Progression linked to competence and/or contribution	When there are distinct marker groups which need to be rewarded differentially When there are distinct groups of job families
Pay Spine	A series of incremental pay points covering all jobs Grades may be superimposed Progression linked to service	In a public sector or voluntary organization where this is the traditional approach and it therefore fits the culture Where it is believed to be impossible to measure differential levels of performance fairly and consistently

[27] *Michael Armstrong, A handbook of Human Resource Management Practice 10th edition, 2006, London & Philadelphia*

6.1.2 Benefits

Benefits

indirect and non-cash compensation paid to an employee. Some benefits are mandated by law and others vary from firm to form to industry to industry.

Benefits are maybe in the form of non-monetary of remunerations on top of salaries aiming to provide more assistance to employees for the organization to be able to attract, retain and motivate high quality employees. Benefits also are forms of humanitarian effort of providing for personal needs of the employees (health security, financial assistance, education, prestige, vacations, pensions, etc) and in a way creating commitment to the organization.

Benefits that are addressing responsibility to staff:

1. Benefits that are mandated by law
   a. Social Security
   b. Unemployment compensation
   c. Workers compensation
2. Benefits that addresses the health, safety and security of staff
   a. Medical and hospitalization benefits
   b. Life and Accident Insurance
3. Parent leave (maternity and paternity leaves)
4. Rest and Holidays (vacation and sick leaves)
5. Financial assistance during emergencies

6.1.3 Rewards & Incentives

As part of promotional activities of the organization on social mission and the creating awareness to all its employees, the organization must link performance and program to rewards and incentives. Providing incentives and rewards can boost employees' motivation and confidence in their work.

In designing a reward and incentive scheme related and relevant to social mission or to any other performance expectations, MFI must also consider balancing cost of operational performance and financial returns. A well studied cost and benefit analysis can be very helpful in avoiding unprofitable incentive scheme.

MFI must always consider incentivizing above average performance or exemplary contribution. Incentive scheme must be an instrument in developing performances from good to better outcome. It must be supportive to the social mission and culture that the MFI wants to shape.

Examples of performances that can be provided with incentives:
- Outreach indicators
- Drop-out rates
- Portfolio distribution
- Inclusion/contribution on socially oriented project of the MFI
- Customer-oriented suggestion that are implemented by the MFI
- And others that may be applicable in developing employee behavior

Incentive and rewards may be in any form:

Monetary Rewards and Incentives	Non-monetary Rewards Incentives
• Individual Cash incentive • Group Cash Bonus	• Vacation and holiday tour • Involvement on special project (prestige) • Free movie pass for a family • Date with the COO/President • Discount coupons to stores • Additional Leave for a successful output

6.2 MFI environment is a venue for employees' learning and development

6.2.1 Training and Development

Part of being successful with people is the organization's generosity in providing tools in equipping employees' knowledge about the organization and their work and enhancing employee skills. For the organizations to reflect its effectiveness in people it must create an environment where learning and development are accessible. The learning environment must also mirror the organization's trust and commitment in promoting its social mission through orientation, structured learning programs, informal trainings and workshops.

Planned learning, training and development activity is an effort by the MFI to enhance and improve employee competency level and organizational performance. Learning approaches may be in the form of structured training, mentoring, coaching, job shadowing, peer exchanges, and/or self-directed learning. An ideal learning and development program is periodically reviewed and refined to make it cutting-edge relevant to the requirements of the MFI and its personnel.

Figure 2: Training and Development Cycle[28]

Planning for your MFI's Systematic Training and Development Plan

In planning for your Training and Development plan, MFI may consider 4 phases which includes the following: 1) Assessment, 2) Design 3) Implementation, and 4) Evaluation.

The training and development plan must include the following:
Employee Orientation and Induction Program that introduces to the employee the MFI's social mission
A. Training program on social mission awareness
B. Involvement on activities related to social mission

[28] *Adopted from A Handbook of HR Management Practice, 10th edition (2006).*

MFI CHECKLIST for Training and Development

- *Is training and development Plan available in your MFI?*
- *Have your employees attended at least one (1) training in a period of 1-3 years?*
- *Is your social mission awareness and understanding integrated or blended in your MFI's training and development plan? Example: job induction, regular informal and formal training, etc.*
- *Are training outcomes evaluated and improved for better outcome?*

6.2.2 Performance Evaluation

Performance evaluation process is established with applicable tools in evaluation and employee's performance is fairly assessed at least once a year.

Performance review is a systematic and formal approach to assessing the agreed expected work performance within a defined period based on current job description and work plan. A common performance review is at least provided once a year.

It is effective that performance review results are documented that provides a clear feedback on employee's performance. Its intention must also be clear to both the superior and the employee. In assessing performance set criteria or key result aeas (KRAs) must have balance among:

1. Achievements in relation to objectives;
2. Level of possessed and applied competencies (knowledge, skills);
3. Job behavior;
4. Degree of behavior in achieving the organization's core values and systems;
5. Day-to-day effectiveness.

5 Step Guide to Effective Performance Evaluation System

1. *Develop an evaluation form*
2. *Identify performance measures*
3. *Set guidelines for feedback*
4. *Create reward and corrective measures procedures*
5. *Set an evaluation schedule*

Key Points

A. A performance evaluation system can motivate staff to do their best for themselves and the practice by promoting staff recognition and improving communication.
B. Evaluations should be conducted fairly, consistently and objectively to protect your employees and your MFI practice/s.
C. An effective performance evaluation system has standardized evaluation forms, performance measures, feedback guidelines and performance corrective procedures.[29]

See Appendix A for Sample of a Performance Evaluation Form

6.3 Commitment to equal opportunity, diversity and inclusiveness

A socially responsible MFI is committed to providing equal opportunity to everyone and values diversity and inclusiveness.

Equal opportunity, diversity, and inclusiveness are effective if integrated in:

- Recruitment and Selection and Hiring:
- Promotion
- Training and Development
- Pay Equity; and
- Other Employment Condition

Equal opportunity as defined:

– Absence of discrimination, as in the workplace, based on race, color, age, gender, national origin, religion, or mental or physical disability[30]

– Sometimes known as Equality of Opportunity, is a term that has differing definitions and there is no consensus as to the precise meaning. In the classical sense, equality of opportunity is closely aligned with the concept of equality before the law, and ideas of meritocracy.[31]

[29] *Office Management, Marilyn Manning, Ph.D., Patricia Haddock, 1990*
[30] *http://www.answers.com/topic/equal-opportunity*
[31] *http://en.wikipedia.org/wiki/Equal_opportunity*

Going beyond equal opportunity is creating a MFI environment which welcomes and values diversity and inclusiveness. Diversity can refer to differences such as race, gender, language, nationality, education, profession and work experiences. The challenge is for MFI to be able to adapt and manage the diverse workforce and fully leverage the talents and skills of all employees in creating a work environment that promotes inclusiveness where all employees can contribute.

Recruitment and hiring

- Is workforce plan based on MFI business objectives and goals?
- Clear qualification for each position
- Recruiting materials reflects visible diversity

Promotions

- Who gets promoted in your MFI?
- Is your MFI consistent in evaluating and selecting whom to promote regardless of race, color, personality, gender, etc?
- Is promotion for everyone?

Pay Equity

- Is there disparity issue of who gets the highest paid in similar position?
- Is your pay structure designed based on job/work responsibilities rather than who is in the position?

Training and Development

- Are all employees can access MFI training and development plan or to a selected few or group?
- Are employees given the opportunity to plan their careers and see a long-term opportunities for them?

Figure 4. Sample of a Statement on Diversity and Inclusiveness

Diversity and Inclusiveness at Shell

With a core a strategic team in Central HR as well as representatives in Shell businesses worldwide, Diversity and Inclusiveness is an integral part of the Shell Group. It has a vital part to play in underpinning its continuing success by ensuring Shell attracts, recruits and retains the best people – regardless of their gender, nationality or background.

Figure 5. Sample of a Statement on Diversity and Inclusiveness

Statement on Inclusiveness

The Council on Foundations was formed to promote responsible and effective philanthropy. The mission requires a commitment to inclusiveness as a fundamental operating principle. It also calls for an active and ongoing process that affirms human diversity in its many forms, encompassing but not limited to:

- **Ethnicity**
- **Race**
- **Gender**
- **Sexual Orientation and Identification**
- **Age**
- **Economic Circumstance**
- **Class**
- **Geography**
- **Philosophy**

We seek diversity in order to ensure that a range of perspectives, opinions and experiences are recognized and acted upon in achieving the Council's mission. The Council also asks members to make a similar commitment to inclusiveness in order to better enhance their abilities to contribute to the common good of our changing society.

As the national voice of philanthropy, the Council is committed to promoting diversity. We are equally committed to including a wide range of perspectives, opinions, and experiences as we work to achieve our mission. Similarly, we ask Council members to commit to diversity and inclusiveness to enhance their own work. To that end, we provide them with the tools, educational programs, and opportunities they require to more effectively serve the common good.

– Council on Foundations

6.4 Human Resource Policy Framework is Linked to MFI's Social Mission

Creating a healthy work environment in a MFI could be achieved if both individual and organization's welfares are efficiently supported and interests are protected. These could be attained if:

1. Work systems and policies are harmonized.
2. Provisions for health, safety and security are in place.
3. Commitment to diversity and inclusiveness is upheld .
4. Compliance on business and labor governing laws is followed.
5. Communication system exists.
6. Adherence to the provision for continuing growth and development for the staff and the organization is evident.

To better realize this, MFI should have a framework of policies that is firm yet adaptable to changing needs and time.

It should be the intention of MFI to have human resources policies that create a workplace where social responsibility to its staff is reflected while adhering to the goals and objectives of the organization.

The following should be standard features of the human resource framework:

- **Policies are documented, and approved by appropriate authorities and clearly communicated to all employees**
  It is the responsibility of the Management of MFI (usually from the HR Unit) to develop and organized practices into a policy in a well written manner, approved by appropriate authorities and made available and accessible to staff and management.

  A socially responsible HR Manual reflects commitment on the issues that govern work, welfare, growth, development and actions of employees.

  There should also be a commitment from the MFI to communicate HR policies through its communication programs, strategies and plans, ensuring that employees are clearly informed understand and able to comply with the policies.

- **Policies are compliant with the governing laws, labor and human rights**
  In preparing a policy, authorities must regularly review and adhere to the governing laws such as the following:

  - Employment and labor standards;
  - Occupational health, safety and security;
  - Human Rights;
  - Workers compensation;
  - Privacy and confidentiality; and
  - Other applicable in your MFI

- **Policies are regularly reviewed and applicable changes are adopted when necessary.**
  MFI must have provisions in the review of policies, such as a provision on schedule of review of policies where authorities (Management and Board) takes time to review policies within a reasonable period. A typical review period is two to three years.

  MFI must also be ready to adopt policies in accordance to any changes in governing legislation.

See Appendix B for Sample of a Table of Contents of a Typical HR Manual

TRY THIS OUT!

- *How can you compare your compensation plan with that of the market and comparative institutions? Do you provide incentive plans? How about non-financial benefits?*
- *How do you recognize poor performance? Is it lack of ability or low motivation?*
- *Is social performance reflected in your human resource plan, in what way?*
- *Can you say that your hiring policy is inclusive and non-discriminatory? Is this reflected in the mission, values, or policy?*
- *Have you evaluated your organization's motivation system? Are you doing everything you can to recognize and reward people's contributions?*

7 RESPONSIBLE FINANCE[32]

Linking financial and social performance encompasses the entire set of processes implemented by an MFI to generate positive outcomes for its clients and for the communities it serves. Thus, in order to assess an MFI's social performance and the linkages with financial operations, we should be looking at the systems and procedures MFIs have in place and the effectiveness of these institutions at monitoring progress towards organizational objectives.

Towards the development of standards for good performance:

- ***Do pursue a double bottom-line approach:*** *Social performance is not a separate area of an MFI's operations, but is very much linked with financial performance. However, we need more data on how MFIs achieve their mission to be able to create meaningful benchmarks for the industry.*
- ***Do consider the operating environment and enabling factors.*** *MFIs need an enabling operating environment, including technical assistance and appropriate monitoring, to perform at their best. These elements support the must be taken into account when setting performance standards.*
- ***Do focus on creating the right incentives.*** *Taking social performance management seriously best enhances responsible financial performance. Best practices on social performance from both funders and MFIs have to be identified, supported and rewarded so that good standards of performance can be truly achieved. Standards create incentives for compliance, and if they incentivize the wrong activities they can lead to worse outcomes for clients.*

7.1 Defining Responsible Financial Performance

7.1.1 Growth of the MFI

What are the trade-offs, if any, between social performance and growth? The answer depends on each MFI and its operating environment.

[32] *Heavily draws from the Micro-banking Bulletin of Microfinance Information Exchange (MIX).*

Fast-growing MFIs run the risk of neglecting responsible finance principles and shifting from the original target populations to different markets and products. Growth is impacted by a number of factors, among which are:

- The presence of credit bureaus;
- The existence and quality of financial supervision and regulation;
- Macroeconomic and systemic shocks;
- The credit policies, risk management policies, and systems available for the MFI.

Table 1. How to think about growth

- ***Don't focus on MFI-level growth in isolation:*** *growth rates for individual MFIs are not by themselves sufficient to signal problems, except at very high levels. Context is necessary.*
- ***Do look at where growth is occurring:*** *adding clients in the same locations, rather than expanding – are more prone to portfolio quality problems, which can be a sign of poor social performance. Looking at sub-regional data may be helpful in this regard.*
- ***Do look at the market as a whole:*** *when markets become saturated, risk increases for all participants, even those with slow growth rates. At the same time, MFIs with high growth rates in under-served markets may be reaching new clients – a key part of current social performance standards.*

7.1.2 Financial Sustainability: Profitability

Profits have been among the most controversial topics in the microfinance community and are intricately linked to our views on the social impact of microfinance institutions. Can institutions make profits and improve the lives of their clients at the same time? Can we identify institutions with profit levels that threaten the welfare of their clients?

To answer these questions, we need to measure profit levels using a simple set of standardized indicators; before considering standards for profits, we will need to explore what those measures can tell us. In the end, returns stand as a good measure of financial performance, but do not provide clear guidance for building standards on social performance.

Some ways in which profit levels could inform us about social performance:

- Persistent negative profits are a risk factor for social performance. If an institution consistently has a large gap between revenues and expenses, it threatens the sustainability of the institution. In this case, the institution would either need subsidies to survive – meaning that funds would need to be re-allocated from other, potentially preferable, uses - or it would need to eventually stop operations – meaning clients would be denied services and would potentially need to fall back on inferior options.

- Low profits may signal poor social performance. Low returns can be caused by low portfolio quality, which is potentially a sign of 'poor quality microfinance'. Low returns can also reflect organizational inefficiency (which may be passed on to clients) or high levels of executive compensation.

- High profits may signal poor social performance. If an institution makes very high profits, it may be charging clients more than is necessary, paying staff too little or ignoring risks in its portfolio.

Table 2. Building a better performance measures

- ***Do set a floor for profits:*** *Institutional sustainability is important and fundamental to any view of social performance. Institutions that consistently are unable to cover costs may drain finite donor resources or force customers to eventually rely on worse options. At the same time, returns are somewhat volatile and any floor should cover a reasonable window of time.*
- ***Do not set a ceiling for profits:*** *We cannot look at profits in isolation. We need additional context to understand how profits are earned and how they are distributed. Setting a cap on profits rewards institutions for poor social performance if lower profits are driven by inefficiency, high risk or other factors. Research indicates that high costs do not always translate into worse outcomes for clients.*
- ***Do start looking at the fundamental factors that an MFI can directly control:*** *As we dig into profit figures, we can see that high and low profits alike are driven by specific factors – interest rates, staff policies, risk management practices – many (although not all) with a relation to social performance. Standards for responsible financial performance will provide better guidance if they target their focus on those factors, rather than on profit measures that combine disparate types of information.*

7.1.3 Financial Efficiency

From the point of view of social performance, MFIs should try to improve efficiency while balancing social responsibility to staff (appropriate salaries and incentives to staff) and social responsibility to clients (thorough the provision of high quality services at low cost and sound consumer protection principles).

Multiple factors determine the actual costs of MFIs includes the following:
- Provision of other financial services beyond credit (with particular emphasis on savings mobilization)
- Provision of non financial services (like education or health programs)
- Population density of actual clients
- Physical and financial infrastructure

Two (2) complementary indicators of efficiency:
- Operating expense as a percentage of average gross loan portfolio (OER), usually known as operating efficiency
- Cost per borrower as a percentage of GNI per capita

Table 3. Understanding Efficiency

- ***Do consider differences in salaries and cost of living as one of the main drivers of costs.*** *At the high level, at least consider regional differences. Even better if country benchmarks are considered. The industry can work to identify international benchmarks for average salaries in financial services industry (or other related industries), to analyze differences in efficiency levels between across countries.*
- ***Do consider differences in loan size, age and scale as the main factors driving operating costs:*** *Smaller loans are more expensive per dollar lent. Socially responsible MFIs that care about the sustainability of their operations and the provision of services in the future must charge enough to cover costs. A universal standard that ignores differences in loan size, age and scale will adversely affect young MFIs, small MFIs and those MFIs disbursing the smaller loans, and most likely, reaching the poorest clients. This could also incentivize institutions to move further up-market to improve efficiency.*
- ***Do remember the unknown.*** *There are still other relevant variables associated with efficiency that have not been properly evaluated because of the lack of sufficient evidence, including the provision of other financial and non-financial services. Many case studies have analyzed these issues, including, education, training for micro-entrepreneurs, and remittances, but have often found different results for different programs.*

7.2 Suggested Strategies for Responsible Finance

7.2.1 Client Protection

Client protection is a key tenet of microfinance. This is demonstrated by the extraordinarily large number of organizations that are endorsing the Client Protection Principles—a set of global principles aimed at ensuring microfinance clients are treated fairly and responsibly and do not become over-indebted.[33]

Client protection in microfinance is not a new issue. Various MFIs and networks have developed pro-consumer policies for their operations during the past three to five years, driven either by social concerns or, in some cases, allegations of unscrupulous lending practices that were hurting the industry.

The Client Protection Principles promote ways for microfinance providers to take practical steps to treat clients fairly and respectfully while avoiding practices that might harm them. These Principles are distilled from the path-breaking work of providers, international networks, and national microfinance associations to develop pro-consumer codes of conduct and practices.[34]

The six (6) Client Protection Principles[35]

7.2.1.1 Avoidance of Over-Indebtedness

The MFI must take reasonable steps to ensure that credit will be extended only if borrowers have demonstrated an adequate ability to repay and loans will not put the borrowers at significant risk of over-indebtedness.

Similarly, the MFI takes adequate care that only appropriate non-credit financial products (such as insurance) are extended to clients based on their need and capacity. MFI regularly monitors levels of borrower over-indebtedness and uses that information to improve products, policies, and procedures;

Credit approval policies give explicit guidance regarding borrower debt thresholds & acceptable levels of debt from other sources.

[33] *CGAP, 2009.*
[34] *Ibid.*
[35] *Smart Campaign.*

When available, the institution checks a Credit Registry or Credit Bureau for borrower current debt levels & repayment history. When not available, the institution maintains and checks internal records and consults with competitors for the same.

Internal audits check household debt exposure, lending practices that violate procedures including unauthorized re-financing, multiple borrowers or co-signers per household and other practices that could increase indebtedness.

Create a staff incentive policy that balances portfolio growth with portfolio quality.

7.2.1.2 Transparent and Responsible Pricing

The pricing, terms and conditions of financial products are adequately disclosed to clients and set in a way that it is both affordable for the clients and sustainable for the institution. It includes actual interest rate computation and its equivalent effective rate, processing or service fees collected, insurance premiums if any.

It is important that disclosure of such cost to clients are intentional on the part of the institution – thus, the whole exercises of interest and fees computation is part of the client orientation process.

Take this illustration below:

Lack of transparency affects the client and the MFI

	Lack of Transparency	*Effects*: Client	*Effects*: MFI
1	Client does not understand the maintenance fees for her savings account.	…sees that her savings have decreased and thinks the bank has robbed her.	…loses business when client tells others about her experience.
2	Client is not aware that she receives only three free ATM withdrawals before incurring fees.	…is demoralized and does not trust ATM transactions.	…loses benefit of investment in new technologies.
3	Client believes that if she does not file an insurance claim, the premium will be returned to her.	…concludes that insurance is a rip-off when she does not have the premium returned.	…finds that products intended to add value and attract clients actually have the opposite effect.

7.2.1.3 Appropriate Collections Practices

Credit Collection policy and procedures must have clear process that are neither abusive nor coercive. It is important that clients understand from the beginning the purpose of the MFI's loan program and its processes.

Clients are treated with dignity even when they fail to meet their amortization. A credit counseling session is practiced and staff is trained to handle such.

Example:
Inappropriate collections practices have negative consequences for the institution, as well as the clients. Some of these consequences are:

- *The abused client mistrusts the institution, and tells others. The institution gains a bad reputation.*
- *When the threat of humiliation looms over the client, they may go to extremes to repay their loan- such as selling productive assets or pulling children out of school.*
- *When credit staff knows they can use coercion to persuade clients to repay, they have little incentive to learn good portfolio management.*

7.2.1.4 Ethical Staff Behavior

MFI must develop a corporate culture that values high ethical standards among staff and ensuring safeguards are in place to prevent, detect, and correct corruption or customer mistreatment.

Managers and supervisors review ethical behavior, professional conduct, and the quality of interaction with customers as part of staff performance evaluations.

The organization has a robust internal audit and fraud control system that detects customer mistreatment, such as soliciting kickbacks and favors or using coercion.

Example:
Part of the general orientation of all staff upon hiring is a review of the Core Values of the institution with role-playing. Time and again, supervisors would conduct periodic review of these values and its application.

7.2.1.5 Mechanisms for Redress of Grievances

Timely and responsive mechanisms for complaints and problem resolution for the clients must be in place and monitored regularly.

Example: *Something from Speed of Trust by Stephen Covey*

A very satisfied client will talk about his/her experiences with 3-4 people, but a dissatisfied client will tell 8-9 people

When a dissatisfied client's complaints are received, answered, and solved, there is a 90% that he/she will return to the institution

90% of dissatisfied clients whose problems are not resolved will never return to do business with the institution again.

7.2.1.6 Privacy of Client Data

The privacy of individual client data will be respected in accordance with the laws and regulations of individual jurisdictions, and such data cannot be used for other purposes without the express permission of the client (while recognizing that providers of financial services can play an important role in helping clients achieve the benefits of establishing credit histories).

- Some practices that can be adopted are: Employees sign a confidentiality agreement at the same time as their employment contract.
- Clients give written permission before the institution can use their image and/or story in marketing materials.
- The institution has a periodic program for clients to update their data and incentivizes them to participate.
- The collections agent, branch manager, and the headquarters Collections Department can only access information about collections.
- Physical copies of client data are secured in branch locations and digital information is in a secure database.
- The institution uses a power-sharing system: only the branch can change client information, while headquarters can access data from all branches.
- Institutional information available on the 'intranet' cannot be printed or downloaded for use outside the office.

7.2.2 Industry Standards and Codes of Conduct

Achieving best practice is one way your MFI can improve its operations and service, ultimately increasing your business competitiveness and the morale of both clients and staff. Good practices can be attained by following standards, codes of practice or even benchmarking your business against others in the industry.

Some of the Good Practice Standards can be obtained from the following:

- The Client Protection Principles in Microfinance (SMART Campaign)
- Microfinance Consensus Guidelines: Good Practice Guidelines for Funders of Microfinance (CGAP)
- Microfinance Investment Vehicles Disclosure Guidelines (CGAP)
- XML Data Standards for Microfinance Information Exchange
- Microfinance Consensus Guidelines: Guiding Principles on Regulation and Supervision of Microfinance

7.2.3 Financial Capability and Consumer Awareness

Financial Capability *is a broad concept, encompassing people's knowledge and skills to understand their own financial circumstances, along with the motivation to take action. Financially capable consumers plan ahead, find and use information, know when to seek advice and can understand and act on this advice, leading to greater participation in the financial services market.*[36]

Financial capability and financial literacy are becoming increasingly important in a world of changing financial markets and products, increased life expectancy and changing individual needs for financial well-being. Increasingly, ordinary people are required to navigate their way through an array of financial products in order to meet their needs for managing their resources, identifying and reducing the risks they face and providing for their future.

Increasing life expectancy means that workers may spend longer in retirement than previous generations, impacting on their real financial needs. Despite these issues it is suspected and in some cases proven that many people lack the key skills and knowledge necessary to identify and address their changing needs. In seeking to measure financial capability we provide a baseline for the current levels and evidence on which to base policies and priorities.

[36] HM Treasury 2007.

Most Topical and Challenging Financial Education Issues:

- *Creating and implementing financial education strategies*
- *New realities of savings*
- *Enhancing awareness or risks transferred to clients/individuals*
- *Credit challenges and opportunities resulting from the financial problems*
- *Developing and delivering financial literacy programs (including kids and youth)*
- *Increasing financial access for underserved groups or sector*
- *Identifying efficient practical guide or tools and innovative techniques to implement financial education programs*

TRY THIS OUT!

- *Do you practice transparency in your pricing? In what way?*
- *How do you ensure that your collection practices remain ethical?*
- *Is your organization have in-placed timely and responsive mechanisms for complaints and problem resolution for clients? Are these mechanisms useful in resolving individual problems?*
- *If an organization improves its contribution to the development and poverty reduction, how does this impact its financial performance?*
- *Is there a trade-off or a mutually beneficial relationship between social and financial performance?*

8
MONITORING SYSTEMS

Monitoring Systems inform the MFI whether it is on the right track with regards to its social mission and social objectives. Monitoring entails the routine and regular collection of information for the purpose of comparing performance to organizational mission. It may also include systematic research, focused group discussion and other periodic surveys or methods of getting client feedback.

Why the need for monitoring systems?
- Measuring the impact as required by the MFI's mission
- Tracking progress against targets
- Making adjustments to improve performance
- Early warning system

Some of the specific monitoring systems that need to be developed by an MFI to monitor social performance are as follows:

8.1 Monitoring of Poverty Outreach

The process of monitoring the institution's level of outreach to poor people based on its defined market/client plus its responsiveness to client satisfaction.

This process may include segregation / identification of clients according to certain categories or market niches: most vulnerable, performing poorly and those eventually leaving the program. This should help the MFI define where it should invest in retaining clients. If these vulnerable clients are strategically important, more attention can be invested in retaining them. If they do not constitute an important group – such as those who are over indebted (i.e. loan shopping) the MFI can save time and resources on efforts to keep them.

- **Breadth of outreach**
  Includes the number of borrowers, the percentage of clients with non-enterprise loans, and voluntary savers as percentage of borrowers.

- **Depth of outreach**
  Measures average loan size, percentage of female clients, and percentage of rural clients.

- **Length of outreach**
  Assesses financial performance – profitability and portfolio quality.

- **Scope of outreach**
  Includes number of distinct enterprise loan products, number of other financial services, the type of savings offered, and the percentage of clients with three or more products or services. This also includes geographical distribution of clients and women.

- **Cost of outreach**
  Calculates the financial costs in providing services, including number of days taken to process loans and number of visits that staff makes.

- **Worth of outreach**
  Measure client retention rate, the loan loss rate, and portfolio growth that can be attributed to clients.

8.2 Program Growth - Loan Usage Monitoring System (Client Business Performance)

A system that tracks the intended and unintended impact of the program on clients' lives, on the community and identification of the role of the MFI in promoting these changes.

Tools used to evaluate the standard of living of clients:

- ***Monitoring tools*** *capture basic information about which an MFI serves by gathering data on a regular basis from a sample of all clients. These tools might include a few straightforward indicators that offer some basic information about the clients served by the MFI. [**Example:** Prizma in Bosnia and Herzegovina has developed a poverty scorecard that measures and assigns weights to seven simple, inexpensive-to-collect indicators strongly correlated with poverty. The scorecard ranks clients by both their relative and their absolute level of poverty, allowing the MFI to monitor trends in client status.]*

- ***Selection tools*** *can help an MFI choose certain categories of clients. This is particularly relevant for the selection of poor clients if the principal objective of the MFI is to fight against poverty by targeting the most deprived.*
  - ***Upstream tool 1: Classification by participatory wealth ranking.***
    Participatory wealth ranking (PWR) classifies families on the basis of their level of poverty as determined by the community's own criteria. This tool is based on the idea that poverty depends on locally determined characteristics and that

a single indicator imposed from outside may be biased. While, for example, ownership of a house might indicate the poverty level of a household, it is not necessarily a good indicator in an area where the population benefits from government housing programs. PWR helps to identify the target population of the "poor" and distinguish between the "poor" and other groupings (e.g., "very poor," "moderately poor")

- ***Upstream tool 2: The Cashpor housing index.*** *The Cashpor housing index identifies the target population of the "poor" and distinguishes among the other wealth groupings on the simple basis of the quality of housing.*

- ***Evaluation tools*** *can also be used to understand who is actually participating in the program (and who is excluded from it). This allows the MFI to determine if the targeting objectives are being attained. Such information can then be used to adapt products and services to the real needs of clients. Determining the standard of living of clients is useful in any subsequent evaluation of the program's impact and generally constitutes part of the first phase of impact evaluation.*
  - ***Downstream evaluation tools.*** *These tools are used to verify the standard of living of clients who have access to an MFI's financial services. While they do not measure impact as such (i.e., "What is the effect of the services?"), they determine the extent of the MFI's outreach (i.e., "Who has access to the services?"). Evaluation criteria are determined on the basis of the characteristics of the clients to be analyzed, including:*
    - *Indicators of standard of living and of poverty within the MFI's area of intervention; and*
    - *Type of activity (farming, small businesses, etc.) if the MFI targets specific profiles.*

These tools generally necessitate client surveys and national or local data as a point of comparison.

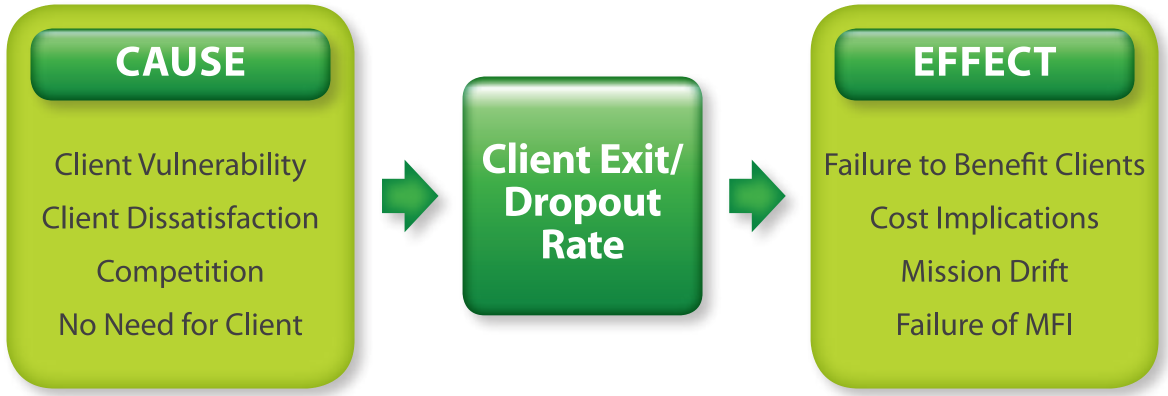
- ***Downstream tool 1: The poverty assessment tool of CGAP and the International Food Policy Research Institute.*** *The poverty assessment tool (PAT) aims to answer two simple questions: Who are the MFI's clients and what is their standard of living relative to non- clients? The PAT is based on a five-page questionnaire about family structure, education, and principal occupations of adults, food security, housing quality, other goods and access to services.*
- ***Downstream tool 2: The ACCION approach to client poverty evaluation.*** *ACCION International evaluates the absolute level of poverty of clients in relation to the rest of the population by using information collected by the MFI from its clients. The ACCION evaluation tool is thus based on existing data. The first phase of the project involves the analysis of the data existing in the MIS of several partner MFIs and a comparison of the results with data drawn from national surveys of households (essentially, the World Bank's Living Standard Measurement Studies).*

8.3 Client/Poverty Exit

Experience shows that client exit (or drop-out) is a major factor affecting the sustainability and growth of MFIs. The rate is a reflection of the relationship between the MFI and its single most important resource, its clients. Monitoring the trend in the exit rate can yield valuable insights on an MFI's performance and credibility. Dropouts can be a cause as well as an effect of factors internal and external to the organization.

Analyzing the exit rate – and following up with research into reasons for dropout – is an important part of market research for microfinance. Data can be analyzed to assess dropouts by branch, by client category, by loan cycle, or by other client characteristics that may be captured in the MIS. This represents a key component of effective social performance management by a microfinance institution.

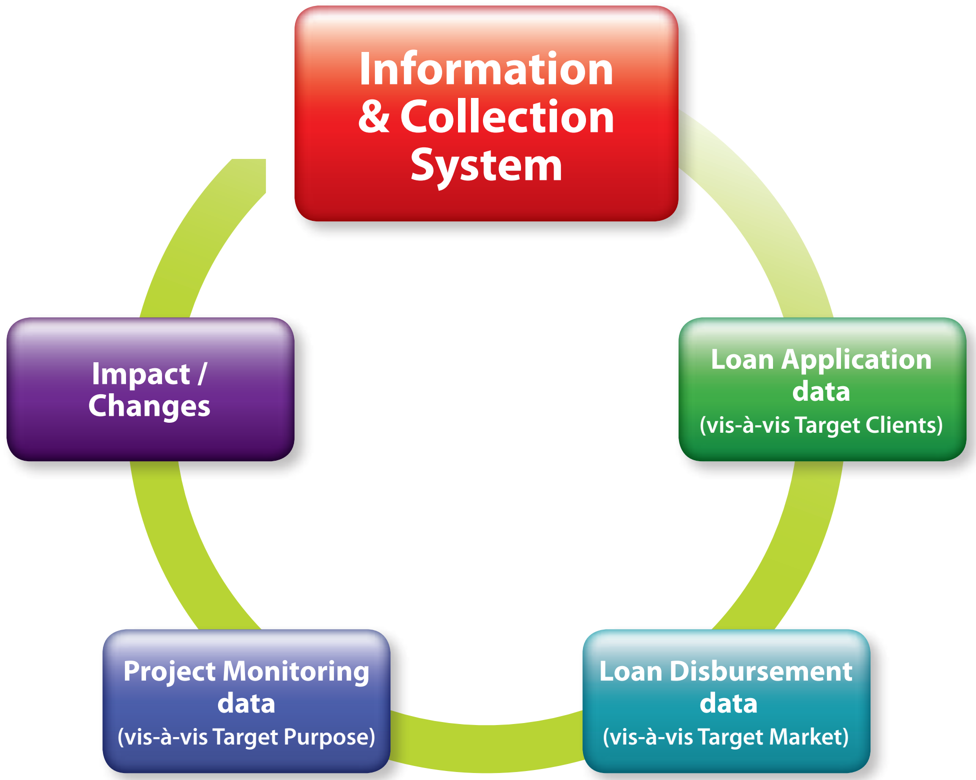
Figure 1. Monitoring of Client/Poverty Exit or Dropouts



8.4 Information Collection and Reporting Systems

The MFI's reporting system should be able to capture its desired impact as stated in its mission, pertaining to social performance. The materiality of these reports are measured whether they cover the important dimensions of social performance as determined by the MFI's mission and ultimately to use the information to improve the MFI's social performance from services to policy and decisions to be made.

Figure 2.



Sample: Data Collection Table (per client)

Loan Application	Loan Disbursement	Project Monitoring
• Family needs • Current Status of livelihood	• Purpose of Loan • Suppliers • Current family needs	• Loan usage • Changes in assets • Changes in the status of livelihood • Recommendation on product design and delivery

TRY THIS OUT!

- *How do you monitor and understand the ways in which clients use your services, whether or not their needs are met, and why some clients leave or become inactive?*
- *How do you monitor who uses, and who is excluded from using, your services?*
- *How do you monitor and understand the effect of your services on current clients?*
- *How do you use social performance information to improve your products and services?*
- *How can monitoring help improve social performance?*

9
ASSESSMENT TOOLS

Different social performance tools focus on different facets of MFI performance. CERISE focuses on the institutional process and internal systems through assessing intent, activities, and indicators of output. CGAP, Grameen, and Ford Foundation assess social performance at the client level through information related to poverty profiles and change outcomes. The M-CRIL and Microfinanza social rating tools cover intent, design, systems, and client-level information on outputs (who are the clients, how appropriate are the financial services). A rating sample can be a baseline, with the same sample followed up after 2–3 years to provide information on outcomes (and dropouts).

CERISE: Social Performance Indicators Initiative (SPII)

The objective of the SPII, a joint venture of CERISE, CGAP, and the Argidius Foundation, is to articulate a conceptual framework for defining social performance in microfinance and to develop a set of social performance indicators for MFIs with broad social relevance. The tool (http://www.cerise-microfinance.org/publication/impact.htm) is a questionnaire and guide aimed at evaluating the intentions, actions, and corrective measures implemented by an MFI in order to determine whether it has the available means to attain its social objectives.

The SPII posits four dimensions of social performance: (1) outreach to the poor and excluded, (2) adaptation of products and services to target clients, (3) improving social and political capital, and (4) corporate social responsibility. Indicators were selected with MFIs based on the criteria that they could be self-reported by managers or loan officers, they already resided or could be integrated in the MFI's management information system, and they could be rapidly verified by an external audit.

SPII questionnaires can be filled out internally for better knowledge of the MFI and its goals and activities, and to provide an opportunity for internal thinking about its social objectives. It can be also discussed, if necessary, with an external figure (technical partner, consultant, donor, evaluator, rating agency, etc.) in order to handle the results and discuss the significance and implications of the results beyond the indicators. CERISE is currently working with rating agencies to integrate its approach into standard financial ratings.

The SPII process indicator scores are used to compare social performance across multiple institutions and contexts. The indicators are reported in the second part of the tool. The first part allows the MFI to explain its social strategy and its choices against the background of its priorities and socioeconomic environment in order to establish which of the four dimensions are most important for the MFI. The third part deals with financial performance (using Mix Market indicators – http://www.themix.org/en/index.html) in order to link financial performance to social performance. The underlying idea of the SPII tool is that financial performance remains a sine qua non for MFI sustainability.

Where the information is already available the questionnaire can be filled out internally in three hours. Where information has to be collected from local branches, the information- gathering time may extend up to 2 to 3 days. The questionnaire can be run every two or three years, or whenever the MFI is undertaking (re) definition of its social objectives. In time, tools of this type could be used as an aid in drawing up a social report on the MFI's activities (either annual or biennial). The involvement of an external consultant requires at least half a day of additional work, plus a day to draw up a summary report if necessary.

The tool is useful as teaching aids (e.g., what do we mean by social responsibility, etc.). The indicators offer a broad vision of the definition of social performance (not just limited to targeting the poor). The same indicators can be used for different types of MFIs working in different environments. The tool was developed through a participative process with MFIs and other microfinance actors, which gives it legitimacy and recognition within the sector.

The objective is to continue improving this type of tool, defining reporting format, understanding how social performance can be attained and improved for diverse types of MFIs.

Box 1.Cerise Tool – Dimensions and Indicators

Dimensions	Indicators
Outreach to poor and excluded (25 points)	• MFI mission • Geographic and socio-economic focus • Tools for targeting • Size of transaction • Collateral
Adaptation of services and products to clients needs (25 points)	• Range of services • Quality of services • Access to non-financial services • Client participation in product design
Improvement of social and political capital of clients (25 points)	• Transparency of financial transactions • Client participation in MFI decision-making • Social cohesion • Client voice in national and local government
Social responsibility of the institution (25 points)	• Human resource policy • Social responsibility to clients • Social responsibility to community

CGAP and the Ford Foundation: Developing Social Indicators for MFIs – Monitoring Progress on the Millennium Development Goal (MDG)

Various impact studies have shown that financial services to poor people can result in longer-term economic and social gains for households. However, rigorous, large-scale impact assessments are often not feasible for MFIs because of the high costs involved. Attributing impact specifically to the actions of financial institutions becomes even more problematic. The Social Indicators Project therefore aims to track the social performance of MFIs by monitoring changes in client social and economic well being without attempting to attribute causality.

Donor and national government consensus around the MDGs offers a strategic point of departure to pursue an initiative aimed at advancing knowledge and practice in measuring the social performance of microfinance institutions. Five of the MDG have particular relevance when considering the social performance of MFIs: (1) Eradicate extreme poverty and hunger; (2) Achieve universal primary education; (3) Promote gender equality and empower women; (4) Reduce child mortality; (5) Improve maternal health.

The Social Indicators Project will have two levels of indicators: one or two "industry indicators" for each of the five relevant MDGs that would be universally applicable, and then a set of "proxy indicators" for each of the industry indicators that would vary based on what is appropriate in each country context of participating MFIs. The industry indicators will be a small set (5 to 10) of "clear, globally comparable, low-cost indicators" that will correspond to the five MDGs noted above. These indicators will examine whether:

- MFIs are reaching the very poor;
- Client households are increasing incomes and gaining assets;
- Greater numbers of children are going to school;
- Women are becoming more empowered; and
- Health conditions are improving. A common reporting format will be developed for MFIs to use in reporting on the indicators that will enable comparison across clients of various MFIs.

Because MFIs work in different country and regional contexts, a set of "proxy indicators" for each of the industry indicators also will be developed. These proxy indicators could vary based on what is appropriate in each country context but would be benchmarked to the industry indicators to produce a uniform reporting format. For example, if the industry indicator for the MDG of eradicating extreme poverty and hunger was "percentage of clients living on less than $1 per day," proxy indicators might be quality of housing materials orquality and diversity of household and business assets, depending on what is most appropriate in different countries.

Validation exercises, using World Bank LSMS (Living Standards Measurement Survey) data and national household expenditure survey data, will be conducted to both select appropriate industry indicators and to ensure that country level proxy indicators benchmark to the industry indicators. Around 20 institutions from a diverse range of countries will be participating in piloting these indicators and reporting to the industry of their results.

An important goal of the project is to provide a common reporting format that can be used by MFIs to show whether they are reaching the very poor, and whether client households are increasing incomes, gaining assets, improving schooling and health conditions, and becoming more empowered. The project coordinator, in consultation with participating MFIs and with the advisory panel, will develop a reporting format that specifies how, when, and how often the indicators will be reported for the project.

Box 2. Poverty Scorecard for the Philippines

Indicator	Points	Actual Score
A. What are house's outer walls made of?		
a. Light materials (cogon, bamboo, sawali, nipa)	0	
b. Strong materials (aluminum, brick, wood, asbestos)	10	
B. What kind of toilet does the household have?		
a. Not water sealed	0	
b. Water sealed	7	
C. Does the household own a gas stove?		
a. NO	0	
b. YES	21	
D. Do all children ages 6-17 go to school?		
a. NO	0	
b. YES	9	
c. No children	26	
E. How many TV does the household own?		
a. NONE	0	
b. One	17	
c. Two or more	36	

Grameen Foundation USA and the Poverty Progress Index (PPI)

Grameen Foundation USA (GFUSA) has as its ultimate goal the elimination of absolute poverty in the shortest possible time frame. To this end, the organization has developed a tool called the Poverty Progress Index (PPI) to support the work of MFIs to reach and serve the poorest members of their communities. This tool accurately and cost-effectively assesses client poverty levels and movement across poverty thresholds. MFI managers can thus segment their portfolios by the poverty levels of their clients and determine what products and services meet their clients' needs and, as a consequence, contribute to the achievement of the Millennium Development Goals (MDGs) of reducing extreme poverty.

The PPI is a country-specific tool that is a composite of easy-to-collect, verifiable, non-financial indicators. These indicators are tailored to each country's particular economic situation but typically include the family size, the number of children attending school, the type of housing, and what the family normally eats. Indicators are derived from national household surveys (e.g., the Philippines' Annual Poverty Indicator Survey or APIS) and are selected based on the degree to which they predict a household's poverty level. The PPI provides an accurate snapshot of microfinance clients' poverty levels and measures movement across poverty thresholds.

GFUSA is building PPIs for all the markets where its partners operate in the Philippines, 4 partners of GFUSA have began pilot-testing the PPI. These MFIs are TSPI, CCT, NWTF and CARD.

Imp-Act (Improving the Impact of Microfinance on Poverty: Action Research Programme)

Imp-Act is a global action research program designed to improve the quality of microfinance services and their impact on poverty. Imp-Act promotes the development of reliable social performance management systems, which include impact assessment. These systems reflect and respond to client needs, as well as the priorities of MFIs and their stakeholders.

The program was a collaboration between 30 MFIs in 20 countries and a team of academics from the UK universities of Bath and Sheffield, and the Institute of Development Studies, Sussex University. The Imp-Act program was initiated by the Ford Foundation, which funded all Imp-Act activities.

The Imp-Act Program has evolved into a consortium that brings together six (6) leading organizations working internationally in the field of SPM: Microfinance Centre for Central and Eastern Europe and the NIS, CARD Mutually Reinforcing Institutions (Philippines), EDA Rural Systems (India), Freedom from Hunger, IDEAS and the Microfinance Council of the Philippines. The Consortium will spearhead a global initiative that will advance social performance and create conditions for a massive scale-up of good practice SPM, leading to a much greater recognition of the role of SPM within the mainstream of microfinance. The Imp- Act Consortium is able to provide vision, leadership and quality control to the process of scaling-up SPM.

Over the past 12 months, a training course has been developed and piloted with over 100 participants for some 50 MFIs. The project will build on this as well as the proven capacity of Consortium members in SPM training, capacity building and research.

The project will carry out a set of training, mentoring and learning activities delivered in six regions (including the Philippines and Southeast Asia) by Imp-Act Consortium members and partner organizations, supported by an international Secretariat (based at the IDS, Sussex University) responsible for ensuring quality and consistency.

Micro-Credit Ratings International Limited (M-CRIL): Social Rating of MFIs

M-CRIL is now offering a Social Rating product. This is a significant new service which provides a graded assessment of an MFI's ability to reach and serve target markets. Separate from, but linked to Credit Rating, Social Rating will contribute to greater transparency about what microfinance is achieving. It will assist investors in making good use of resources for microfinance. It also provides useful information to MFIs for them to develop more effective systems and services.

Social Rating is a tool to assess whether an MFI is achieving (or is likely to achieve) development objectives. Rating, until now, has focused on financial and management performance of microfinance institutions (MFIs). The sustainability of an MFI is very important, but tells only half the performance story in microfinance. Financial sustainability is only a means to an end. Most MFIs and those who support them (investors, banker, policy-makers, donors) have a social mission. A social mission comprises development objectives such as: reaching people excluded from formal financial services, providing financial services appropriate to the target group, empowering the poor and vulnerable and contributing to the reduction of poverty.

Social Rating covers the steps involved in translating social mission into practice. The social parameters covered by a rating include: social mission and strategy (explicit or implicit statement, alignment with wider development objectives, institutional adherence, systems to track), outreach (depth and width: operations in underdeveloped areas, socio-economic profile of (recent) client households, marginal groups, poor and very poor families) and client feedback (understanding of microfinance services, satisfaction with delivery systems, and product; drop-out rates and reasons for drop out).

Social Rating is not an impact assessment, but a predictor of impact. By covering the steps leading to change, Social Rating is a good predictor of impact.

A two-member team carries out the Social Rating over a 2-3 week period. It involves:

- At MFI head office (1-2 days) – discussions with MFI management and staff; review of MFI systems (management, service delivery, reporting), documentation and any related studies
- In sample areas (4 rural/urban areas: 5 days) – focus groups and questionnaire-based interviews with 130 recent clients and any dropouts in the sample area. Poverty assessment of clients is done through a combination of methods: household income (compared to $/day at purchasing power parity), participatory wealth ranking and a scored index of socio-economic indicators
- Reporting – analysis, tabulation and scoring (7 days); the scoring and grading are derived from practical standards of optimality (e.g., >60% clients living on <$/day scores 10) and adapted for different models of microfinance; as for Credit Rating, the draft report is reviewed by the MFI being assessed, and by M-CRIL's Rating Committee.

Box 3. M-CRIL Rating Tool: The Framework

Context • Country and regional development indicators (from secondary sources) MFI profile and financial services
Intent and Design • Social performance management – mission clarity; alignment of systems with mission
Process: Social responsibility • To clients including, where applicable, gender approach and member governance • To community • To staff • To environment
Results: Achievement of Social Goals • Outreach – depth and breadth of outreach • Financial services – variety, appropriateness, and transparency

ACCION Social Tool

SOCIAL is an acronym for the six elements of social performance that the ACCION tool seeks to capture: social mission, outreach, client service, information transparency, association with the community, and labor climate. It evaluates the success of an MFI in fulfilling its social mission and its contribution to broadly accepted social goals. It offers a comprehensive social assessment of MFIs to complement the financial assessment provided by CAMEL (see Box 4 below).

Box 4. Key Components of ACCION's Tool

Social Mission
- Articulation of mission
- Evidence of understanding & commitment to mission
- Measurement of fulfillment of social mission

Outreach
- Coverage
- Depth of outreach
- Products and services for underserved clients

Client Service
- Client satisfaction
- Adequacy of products and services being off ered
- Use of mechanisms to obtain feedback from clients

Information transparency/Consumer protection
- Transparency
- Efforts to ensure consumer protection

Association with the community
- Relations with surrounding community
- Contribution to the wellbeing of the community

Labor Climate
- Staff satisfaction
- Mechanisms to gain feedback from staff

ACCION believes that its tool helps improve organizational effectiveness by highlighting strengths and weaknesses in social performance and revealing how clients, staff, and the community perceive the MFI. It fulfills the needs of third parties, such as socially responsible investors or donors, who may require such information. It follows the example of many private businesses by giving shareholders a social performance report that demonstrates increased transparency and decision making that considers more than just financial results. It establishes a baseline against which change or evolution can be tracked and allows MFIs to measure social performance regularly.

ACCION implements its social performance assessment through interviewing management, staff, board members, and clients and reviewing strategies, business plans, and minutes of board meetings. It analyzes information from MFI client databases and validates them through comparisons with external surveys, national data, MIX data, market studies, and other secondary information. It also creates geographic coverage maps to determine both the breadth and depth of coverage.

FINCA's Client Assessment Tool

FINCA's[38] Client Assessment Tool (FCAT) is a comprehensive tool that includes demographic information, loan information, household expenditures, asset accumulation, social metrics (health, housing, and education), business metrics, and client satisfaction and exit interview questions.

FINCA has implemented this data collection tool since 2003, with support from the Templeton Foundation. Each summer, research fellows deployed to the field conduct 30–45 minute interviews with clients using handheld devices to capture clients' responses. FINCA is currently updating FCAT and will provide fellows and the tool to eight MFIs during summer 2007.

SEEP/AIMS Tools Learning from Clients (Assessment Tools for Microfinance Practitioners)[39]

Tool 1: Impact Survey
The principal quantitative tool in the set, the Impact Survey, comprises thirty-seven questions. It is administered to a sample group of clients and a comparison group.

Tool 2: Client Exit Survey
This short survey, a quantitative tool, is administered to clients who recently have left the program. Its purpose is to identify when and why clients left the program and what they think its effect on them has been, as well as its strengths and weak-nesses. Practitioners like this tool because it is simple to use and provides valuable information. Many use it regularly, as part of a program monitoring system.

Tool 3: Use of Loans, Profits and Savings Over Time
This qualitative tool is an in-depth individual interview focusing on how the client has used his or her loans, business profits and savings over time. Its multiple purposes

[38] FINCA (Foundation for International Community Assistance) is best known for having pioneered the "village banking method" throughout Latin America and Africa, and more recently, Eurasia.
[39] SP Progress Brief, March 2007,Volume 1, Number 3.

include determining how loan use and allocation decisions change over time, as well as documenting changes in the individual borrower, enterprise, family/household, and community that are associated with participation in the program.

Tool 4: Client Satisfaction
This qualitative tool is a focus group discussion that explores clients' opinions—what they like and dislike—of specific features of the program, as well as their recommendations for improvement.

Tool 5: Client Empowerment
This qualitative tool focuses on women clients and uses an in-depth interview to determine if and how women have been empowered by their participation in the program. Clients are asked a series of questions about themselves, their enterprise, their family/household, and their community at different points in time (past and present).

Microfinanza Social Rating

Microfinanza Rating[40] has created two different types of social rating. The first, the Social Rating Survey, is similar to the M-CRIL rating tool. It too covers the range of social performance dimensions, including the social and economic context in which the institution works; its mission, strategy, and systems; the quality of its services; its social responsibility; and client-level information. In this rating, Microfinanza Rating surveys clients directly.

The second tool, Social Rating, is a simplified version of the first tool and excludes client surveys. Instead, the rating assesses information available at the institutional level, including staff interviews. But it too provides diagnostic information on how well the institution is achieving its social mission by meeting its social responsibility goals and providing quality services to its clients, especially the poor.

Planet Rating

Planet Rating conducted pilot evaluations using the CERISE and SPA tools during 2005 and 2006 and then went on to develop its own tool. Planet Rating's tool differs from the M-CRIL and Microfinanza social ratings in that it relies completely on available data at the MFI level. Planet Rating carried out six pilot ratings in Mali with its own tool in July–August 2007.

[40] ***Microfinanza Rating*** *is a rating institution that offers social ratings, financial ratings, and impact assessment services to MFIs and stakehold- ers, such as donors, social and commercial investors, networks, and regulators.*

10 APPENDICES

A. Sample Table of Contents of a Typical HR Manual

(ADOPTED FROM http://www.hrcouncil.ca/hr-toolkit/documents/CAHRC_HR_Manual.do)

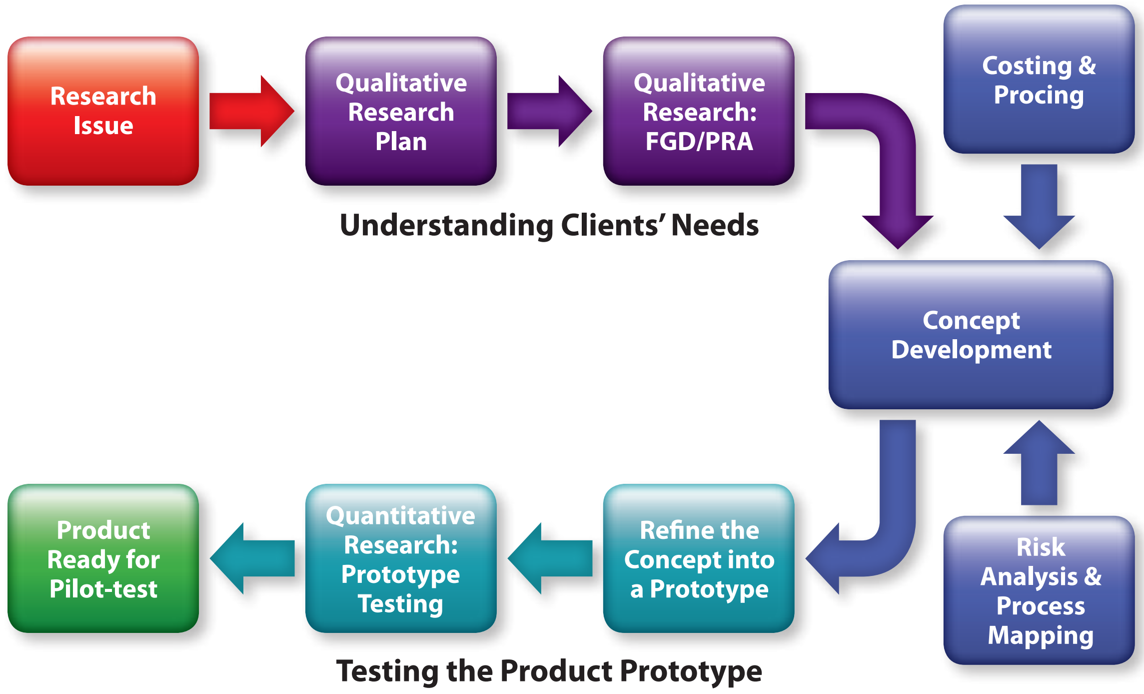
Human Resources Manual | **Sample**

CONTENTS

Human Resources Manual — Sample

B. Market Research & Product Development Overview

(Adopted The New Micro-enterprise Best Practices Guide to New Product Development, Development Alternatives, Inc.)



C. The Product Development Process

(Designing Innovative Products, Processes and Channels for the Promotion of Microfinance – Graham A.N. Wright)

I. Evaluation and Preparation

a. Analyze the institutional capacity and "readiness" to undertake product development
b. Assemble the multi-disciplinary product development team, including a "product champion"

II. Market Research

a. Define the research objective or issue
b. Extract and analyze secondary market data
c. Analyze institution-based information; financial information/client results from consultative groups, feed back from frontline staff, competition analysis, etc.
d. Plan and undertake primary market research

III. Concept/Prototype Design

a. Define initial product concept
b. Map out operational logistics and processes (including MIS and personnel functions)
c. Undertake cost analysis and revenue projections to complete initial financial analysis of product
d. Verify legal and regulatory compliance
e. Assess risks of new products and define strategies/tactics for responding to them
f. On the basis of the above plus client feedback sessions, refine the product concept into a product prototype in clear, concise, client language
g. Finalize prototype for final quantitative prototype testing or pilot testing, according to the risk/cost nature of the product

IV. Pilot Testing

a. Define objectives to be measured and monitored during pilot test, primarily based on financial projections
b. Establish parameters of pilot test through the pilot test protocol, including sample size, location, duration, periodic evaluation dates, etc.
c. Prepare for pilot test, install and test systems, draft procedures manuals, develop marketing materials, train staff, etc.
d. Monitor and evaluate pilot test results
e. Complete recommendation letter documenting the results of the pilot test, comparison with projections, lessons learned, finalized systems/procedures manuals, etc. and the initial plans for the roll out

V. Product Launch and Rollout

a. Manage transfer of product prototype into mainstream operations
b. Define objectives to be measured and monitored during roll out based on financial projections
c. Establish parameters of rollout through the rollout protocol including schedule, location, tracking, budget, process
d. Prepare for rollout, install and test systems, finalize procedures manuals, develop marketing materials, train staff etc.
e. Monitor and evaluate rollout process and results

D. Four Steps to Creating Principles and Building a High Performance Workplace

There are four steps to creating principles that will help you as a leader shift from a traditional command and control style organization to a high performance principle-based organization. (Source: http://www.leadership-and-motivation-training.com/four-steps-to-creating-principles.html#articulate-values)

1. Articulate the values that will drive the achievement of performance outcomes.
2. Identify the rules, policies and procedures that are irrational and inconsistent with your organizational vision.
3. Develop the principles that will empower people to achieve the organizational vision.
4. Apply the principles.

Step One: Articulate the Values
Articulating the values that you want to drive the organization is an important part of the visioning process for any organization.

Most organizations identify 6-8 core values they want their business to operate under, that will drive the outcomes achieved by the business. A leadership team that uses their values, to guide every decision they make, unerringly moves their organization to high performance. In order to create your guiding principles you must have already identified your top 6-8 core values.

Step Two: Identify the Irrational Rules, Policies, and Procedures
Work with your front-line team members to identify the policies, rules and procedures in your workplace, which either have a negative impact on morale or are unnecessary obstacles in the way of getting your product or service being delivered to your customer cheaper, quicker and of high quality.

Toss out those that are irrational and don't support the business to achieve its goals. Click here for examples of poor decisions due to irrational policies

Step Three: Develop The Principles

As you develop your principles keep these guidelines in mind:

- Your guiding principles spring from your Values
- Involve team members in developing the principles
- The principles need to be consistent with the Vision
- What experience the organization wants to deliver to its customers
- Ensure the principle doesn't outline the exact "how to do", but does emphasize what is important to the business

For each value create a statement that completes the statement **"People will be ...(insert value)... when they".** Below is an example:
Value = Flexibility
People will be flexible when they work within a structure that encourages and supports multi-skilling.

Step Four: Apply the Principle

Many organizations spend (read waste) a lot of time developing their principles and/or values. Maybe even having them printed up and placed in cards and handbooks. And that is often as far as it goes. This process (develop values ... stick them in a handbook) is followed by many thousands of organizations and all it does is breed cynicism and discontent. You know this to be true - you probably work in one of those organizations!

Leaders communicate their commitment to the organizational values and principles more by their actions than their words.

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