

GOOD PRACTICE NOTE

No. 05

# BUILDING SOCIALLY RESPONSIBLE MICROFINANCE INSTITUTIONS IN PAKISTAN

October 2015



Pakistan Poverty Alleviation Fund





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*for*



This Good Practice Note is part of a series of thematic briefs by the Pakistan Poverty Alleviation Fund that focus on important issues and initiatives in the microfinance sector in the country. This Note focuses on social performance, and it provides a guide on how to implement social performance management at a microfinance institution. The Note is based on an extensive review of various tools and literature available from the Social Performance Task Force (SPTF) and provides the synthesis of global best practices and available techniques for MFIs. The Note concludes with a mapping of roles for various industry stakeholders and recommendations.

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GOOD PRACTICE NOTE **No.5**

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# *Acronyms*

IPO	Initial Public Offering
MFC	MicroFinance Centre Poland
MFI	Microfinance Institution
MFP	Microfinance provider
MFT	MicroFinance Transparency
MIX	Microfinance Information eXchange
PIIF	Principles for Investors in Inclusive Finance
PO	Partner Organization
PRI	Principles for Responsible Investment
QAT	Quality Audit Tool
SP	Social performance
SPA	Social performance audit
SPM	Social performance management
SPTF	Social Performance Task Force
USSPM	Universal Standards for Social Performance Management
PMN	Pakistan Microfinance Network
PPAF	Pakistan Poverty Alleviation Fund
PPI	Progress out of Poverty Index







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## Introduction

The changing microfinance landscape shows an increasing focus on the sustainability and financial performance of microfinance providers (MFPs) globally, which is indeed crucial for its survival. Nevertheless, microfinance is a double-bottom line industry, where sustainability is not an end in itself; but rather a means to achieving social goals. These goals can differ; while some MFPs may have a vision of poverty alleviation or women and community empowerment, others focus on increasing access to formal finance.

While it has generally been accepted that social goals lie at the heart of microfinance, recent years have seen an organized attempt to define social performance (SP) and answer questions about its measurement and management through the global Social Performance Task Force (SPTF). An increasing number of microfinance stakeholders now believe that unless an MFP's systems, activities and outputs are deliberately geared towards its social vision, it is difficult to achieve any impact. In other words, like financial performance, social performance needs to be actively managed and monitored by institutions if they are to achieve their social objectives. For an MFP, performance management thus means focusing simultaneously on its financial and social bottom lines.

In this Note, we aim to (i) introduce the global movement of social performance management for microfinance practitioners, (ii) lay out the initiatives taken by PPAF in implementing universally accepted social performance standards among partner organizations, and (iii) map out roles for various stakeholders to play in advancing the institutionalization of social performance management at microfinance institutions in Pakistan.

This section aims to define social performance, explain its importance, map out various complementary initiatives that advance social performance and rationale for MFPs to adopt social performance management (SPM).



## What is Social Performance?

Social performance is defined as "the effective translation of an institution's mission into practice in line with accepted social values" <sup>1</sup> (see **Figure 1**).



**Figure 1: Managing for results**  
Source: SPTF

<sup>1</sup> This definition has been formulated by the Social Performance Task Force (SPTF) and is available on their website <http://sptf.info/how-do-i-start/faqs#3>.

Therefore SPM is about making an organization's social mission a reality, whatever this social mission may be. Social missions in microfinance include providing financial or nonfinancial services to the traditionally excluded, reducing poverty, creating economic and/or social benefits for clients, among many others.

SPM is an institutionalized process of translating social mission into practice. It includes setting clear goals, monitoring progress towards them and using this information to improve performance and practice. Social performance management is about achieving institutional goals and being socially responsible. **Figure 2** provides an exhibit of the social performance process.

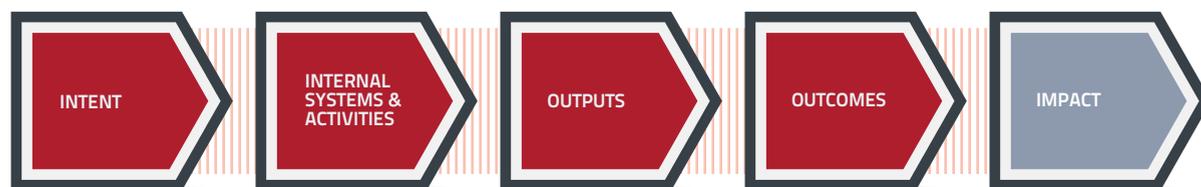


Figure 2: Social Performance Framework  
Source: SPTF

## I.2

# How Social Performance became Globally Relevant

In 2007, with the first Initial Public Offering (IPO) in the microfinance world for Banco Compartamos of Mexico making record profits for its investors<sup>2</sup> there was increasing concern over mission drift due to commercialization in microfinance. This led the global microfinance industry to reassess why it had set out to conduct microfinance business, including social investors in microfinance. There came about an industry-wide call to hold microfinance accountable to its intended mission. As a result the Social Performance Task Force (SPTF) was coordinated, comprising a range of microfinance stakeholders across borders, such as donors, policymakers, investors, networks and microfinance providers themselves.

Since 2010, upon industry demand, the SPTF began work on a set of Universal Standards for Social Performance Management (USSPM), which were completed via extensive industry consultations and brought together the works of various initiatives that were working in the realm of responsible inclusive finance. This included the Smart Campaign, MicroFinance Transparency, Microfinance Information eXchange (MIX), Imp-Act Consortium, the work of social auditors and raters such as CERISE and MicroSave and the International Labor Organization.

### Box 1: Overview of Key Responsible Finance Initiatives

**Smart Campaign:** Developed and promotes seven client protection principles (CPP) through client protection assessments and a certification program which was launched in early 2013. Coordinates with the work of MFtransparency in the area of pricing transparency. Website: [www.smartcampaign.org](http://www.smartcampaign.org)

**MicroFinance Transparency (MFT):** Promotes transparent pricing standards and prices of microfinance products. Publishes interest rates and materials to increase understanding of pricing. Website: [www.mftransparency.org](http://www.mftransparency.org)

**Microfinance information eXchange (MIX):** Collects and validates financial, operational, product, client, and social performance data from MFPs around the globe. These data provide the basis for many of the benchmarks and standards that the industry is currently using. Website: [www.MIXmarket.org](http://www.MIXmarket.org)

**Principles for Investors in Inclusive Finance (PIIF), or more recently Principles for Responsible Investment (PRI):** These principles, designed by and for investors, prescribe how to expand poor and underserved people's access to financial products in a way that protects client interest. The principles fully incorporate the CPPs, but also set principles for behavior in other areas (e.g., range of services, environmental impact). Website: [www.unpri.org](http://www.unpri.org)

**Truelift:** has drafted a set of indicators to evaluate organizations, and has conducted alpha and beta tests on those indicators. Based on the results of the beta tests, the technical committee has refined and will publish a methodology for conducting assessments of institutions on deepening outreach and creating positive, lasting change for poor clients of institutions. Following assessments, MFPs receive accreditation against their performance. Website: [www.sealofexcellence.wordpress.com](http://www.sealofexcellence.wordpress.com).

## 1.3

## *Rationale for MFPs to Adopt Social Performance Management (SPM)*

MFPs that have a social agenda cannot ascertain whether they are meeting the social goals set out in their missions without deliberately assessing their social performance. Historically, common performance measures for MFPs have focused mainly on their financial bottom line. As a result, MFPs have appropriate financial data to guide strategy, but no clear indication of how they are performing against their stated social agenda or how to improve such performance. The premise for social performance management hinges on this: management of the financial bottom line would not be possible without financial data being generated and financial controls being put in place. The same logic applies to management of the social bottom line as well.

Social performance management is beneficial for the financial bottom line. Tracking and using social performance information to tailor services to client needs not only better supports clients' businesses and well-being, but also increases client retention rates while reducing the likelihood of default due to client over-indebtedness. Furthermore, data from even relatively simple social performance indicators can be used as powerful marketing tools, providing tangible indicators of achievement that attract funding from socially conscious investors and donors<sup>3</sup>.

Even MFPs that do not have a social mission will find some of the tools and resources that fall under the umbrella of social performance useful. In particular, client protection or "do no harm to clients" is a non-negotiable aspect of social performance that any MFP should observe, regardless of presence of a social mission. Observing the minimum standards for client protection, as formalized by the CPPs ensures that an MFP's business does no harm to its clients. The CPPs offer minimum standards on prevention of over-indebtedness, appropriateness product design and delivery channels in view of the client, transparency in all communications including pricing information, responsible pricing of products keeping in view the vulnerability of target clients, ensuring fair and respectful treatment of clients, ensuring privacy of client data and offering mechanisms for complaints resolution. **Figure 3** exhibits a brief description of each of the CPPs.

## 1.4

## *A Guide to SPM – The Universal Standards*

Developing a social performance system is possible for every institution, even those with limited time or financial resources. The most important change will be for the MFP to incorporate a focus on social performance in all of its activities.

The Universal Standards for Social Performance Management (USSPM) have been launched to offer a roadmap to improving SPM within MFPs<sup>4</sup>. It serves two functions: (i) to educate MFPs on policies and best practices they should adopt in order to be more socially responsible, and (ii) to serve as a tool to build accountability and transparency for institutions purportedly working towards a social mission. The Standards focus on management rather than explicit client outcomes (e.g., increase in client's ability to cope with financial emergencies) for two reasons<sup>5</sup>:

- Experience shows that if an institution devotes attention to balancing financial and social management practices by bringing client needs, outcomes, and preferences to the forefront, then better social outcomes will likely follow.
- Sufficient data and experience exist to define strong SPM practices, but similar data does not yet exist to define standards for client-level outcomes.

Currently, the Standards require institutions to have clear goals for client outcomes, to respond to clients' needs, and to measure and track progress toward client-outcome goals. The Universal Standards are organized into six dimensions (see **Figure 4**), and each dimension contains multiple Standards. A standard is a simple statement of what the MFP should do to manage social performance. For each of these standards, there are several "essential practices" which detail how to achieve the standard.

3 <http://sptf.info/how-do-i-start/faqs#2>

4 The full USSPM document is available here: <http://sptf.info/spmstandards/universal-standards>

5 Social Performance Task Force



Figure 3: The Smart Campaign's Client Protection Principles (CPPs)



Figure 4: The Six Dimensions of the USSPM

The SPTF has developed a step-by-step implementation guide for MFPs to implement social performance at their institutions and enable them to adopt good practices that lead to fulfilling the Standards.<sup>6</sup> Figure 5 outlines the five steps on how to use the Universal Standards to improve practice. To start off, the microfinance provider must determine a set of specific social goals based on its mission and vision, including who it is targeting, what its goals are, and how its products and services help to achieve those goals. A thorough understanding of the USSPM at this stage allows the management team at the MFP to understand how it will balance its pursuit of social performance alongside financial returns. Next, it is important for the MFP to build buy-in to implement SPM at all levels of the organization, including Board members, upper and middle management, as well as field staff. The third step is creating an action plan for improving specific SPM practices as well as a timeline, staff assignments and a budget. Implementation also requires the assemblage of a SP team, committee or champion at the MFP that is able to evaluate current practices, identify priorities and create an action plan for improving SPM practices. Finally, the MFP should have in place an appropriate information system to regularly review progress towards good SPM practices. This is an on-going process that requires commitment to understand and monitor the state of existing SPM practices with respect to the MFPs stated social goals. See annex 1 for a detailed outline of each of the five steps and the relevant tools developed by SPTF and other stakeholders to actively monitor progress towards social performance.



Figure 5: Step-by-Step Guide to Implementing SPM

Though there is no formula for using the Universal Standards to improve practice, the steps outlined in the implementation guide provide a practical approach for MFP managers to set priorities according to their context and stated objectives. **Table A** exhibits guidance on possible priorities for SPM for an MFP based on common reasons or interests for implementing SPM.

<i>Interest in SPM?</i>	<i>Entry point</i>	<i>Key related issues</i>	<i>Focus on</i>	<i>USSPM Sections<sup>8</sup></i>
Desire to improve overall social performance or social responsibility; Concern over mission drift, especially during a phase of acquisition or transformation	Strategic planning/re-view, internal social audit reviews	Review mission aligned with operations. Gather data from MIS to provide evidence. Get Board and staff buy-in before making operational changes	<ul style="list-style-type: none"> <li>Mission</li> <li>Information Systems</li> <li>Governance</li> <li>Communications</li> </ul>	#1 #1 #2 #2
Evidence of client attrition and dissatisfaction	Client satisfaction monitoring, e.g. exit interviews, surveys	Put policies in place to protect clients. Communicate policies to staff. Monitor compliance	<ul style="list-style-type: none"> <li>Client issues</li> <li>Internal control</li> <li>Communications</li> <li>Information systems</li> </ul>	#3 #2 #2 #1
Need to understand and better serve clients' needs	Market research, client segmentation, interviews and focus group discussions	Assess current understanding of client needs, create or adapt reports.	<ul style="list-style-type: none"> <li>Information systems</li> <li>Mission</li> <li>Governance</li> <li>Client issues</li> <li>Communications</li> <li>HR</li> </ul>	#1 #1 #2 #3 #2 #5
Desire to expand outreach to newer segments that have previously been untapped by the institution but help to reinforce original mission focus; establish a market niche	Market research, impact assessment, poverty assessment	Identify who you are serving right now and how well. Reconfirm your mission and objectives. Conduct additional research and analyze results. Change products and delivery systems; communicate and train staff	<ul style="list-style-type: none"> <li>Communications</li> <li>Information systems</li> <li>Internal control</li> <li>Product development, product research</li> <li>HR</li> </ul>	#2 #1 #2, #6 #4 #5
Need to provide social performance to donors and investors	External social audit, social rating, impact assessment	Determine external expectations. Weigh costs and benefits of collecting information. Collect information, analyze and create reports.	<ul style="list-style-type: none"> <li>Communications</li> <li>Information systems</li> <li>Internal controls</li> </ul>	#2 #1 #2, #6

Table A. How to set priorities for implementing SPM<sup>7</sup>

7 This table has been adapted from a similar one in the publication mentioned in the previous footnote. p. 34

8 Use Figure 5 as a Guide.

## Global Initiatives in SP

A number of complementary responsible finance initiatives are underway at present. These include not only the SPTF, but also the Smart Campaign, Truelift (formerly known as the Seal of Excellence for Poverty Outreach and Transformation), MicroFinance Transparency (MFT), social performance initiatives of the Microfinance Information eXchange (MIX), and the Principles for Investors in Inclusive Finance (PIIF)<sup>9</sup>. In addition to this, there are various rating services and other firms around the world for MFPs with social assessment, social rating and technical assistance products on offer. **Figure 6** shows how microfinance initiatives are interlinked and offer various, complementary services to assist MFPs in advancing their social performance.

Each of these initiatives has a different area of focus but similar strategies. For instance, the Smart Campaign focuses on client protection; the SPTF focuses on double bottom line performance management and Truelift on poverty outreach and movement out of poverty by microfinance clients. All three initiatives employ similar strategies in how they seek to encourage excellence in their respective areas of focus. Each is working with microfinance practitioners and other stakeholders to set standards of performance, based on existing good practices, along with development of tools, case studies and training programs to build capacity of MFPs to meet these standards. Each of these initiatives is also developing indicators and assessment methodologies to measure MFP performance against these standards.<sup>10</sup>

It is important to understand the distinction in the service offering of each of these initiatives, since an external observer may find them overlapping and/or confusing. Initiatives such as the Client Protection Principles (CPPs) of the Smart Campaign provide a starting point for all microfinance practitioners providing products and services to their target clientele. These are a set of seven key principles, that provide a foundation of 'do no harm' that any practitioner, regardless of social mission, should fulfill minimum standards of, as these address the mandate of all MFPs to treat clients fairly, with transparent and ethical standards that avoid harm. Following this, the work of MFTransparency works on one specific area within client protection – that of pricing transparency and responsible pricing of products and services. This is one of the seven principles propagated by the Smart Campaign and MFTransparency has done extensive work on this principle with over 30 countries – collecting, verifying and publishing pricing information for MFPs.

Once the minimum standards for client protection are met, the next step is ensuring positive outcomes for clients as a result of an MFP's product and service offering. Not all MFPs claim to have a social mission in addition to a financial one, but majority of institutions do, especially in Pakistan. The work of SPTF can enable MFPs to refocus their work on the client and put clients at the heart of their business. To manage the 'double bottom line' i.e. social as well as financial results, the SPTF offers standards of good practice that serve as a guide on how to strengthen social performance management (SPM). These standards are known as the **Universal Standards for Social Performance Management (USSPM)** and were launched in mid-2012 through an industry-wide inter stakeholder consultative process<sup>11</sup>. The USSPM require MFPs with a social mission to have clear goals for positive client outcomes, to measure and track progress towards these outcomes by setting realistic, time bound goals and objectives, attuning policy, products and services based on analysis of such measurement and responding to client needs found through systematic client research. The USSPM focus on a performance management system rather than dictating what the client outcomes should be – this allows them to be universal in scope. The USSPM encompasses the work of several initiatives and cover aspects of client protection initiatives such as the Smart Campaign and MFTransparency.

9 Retrieved May 2013 from: <http://sptf.info/resources/sp-initiatives>

10 Joint letter from these three initiatives published on the SPTF website. Retrieved May 2013 from: [http://sptf.info/images/joint%20letter\\_with%20signatures.pdf](http://sptf.info/images/joint%20letter_with%20signatures.pdf)

11 The full list of standards within the USSPM is available here: <http://sptf.info/spmstandards/universal-standards>

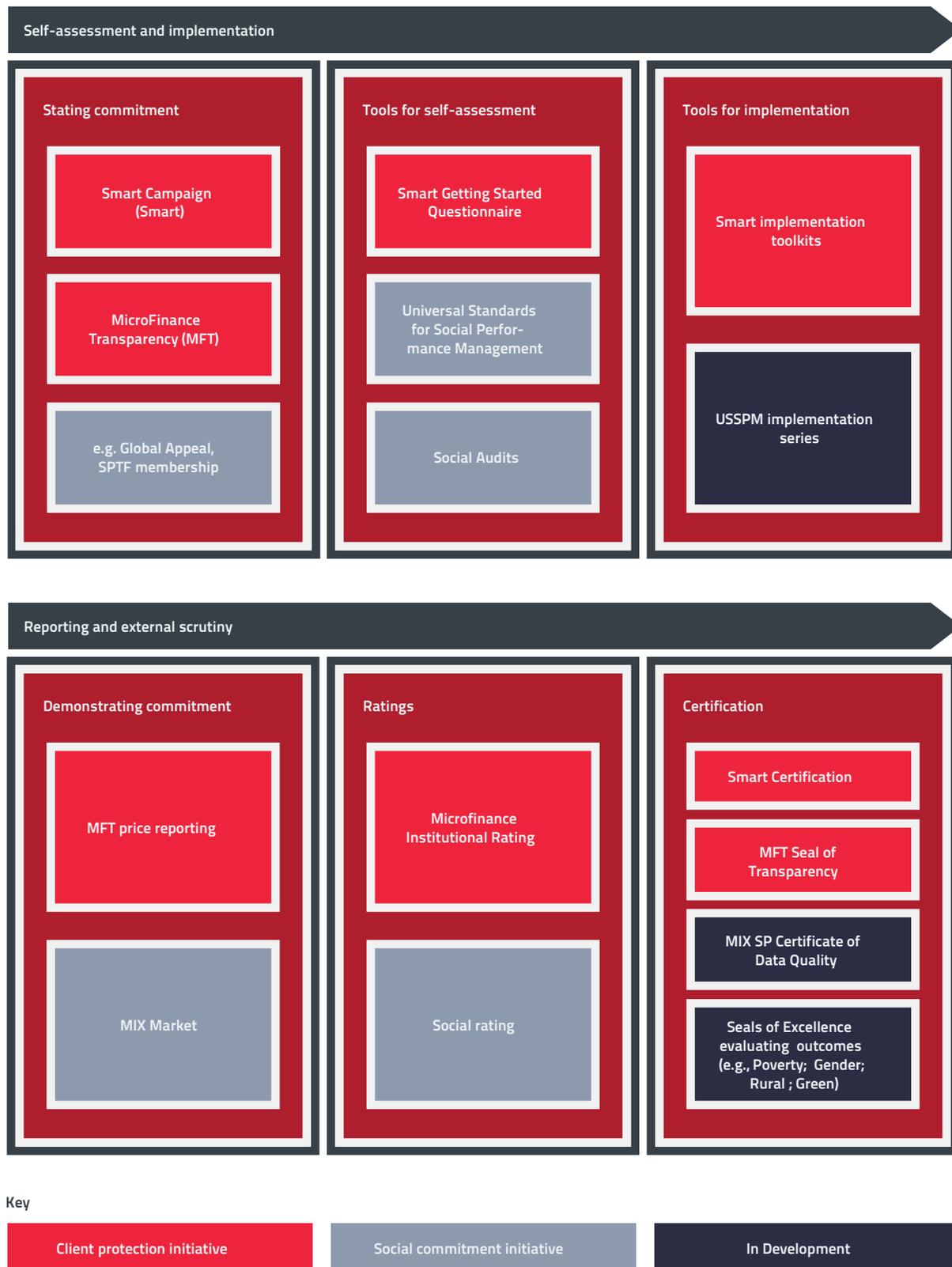


Figure 6: Responsible finance initiatives in microfinance globally

## *Box 2: Social Audit Tools for internal and external use of MFPs*

### 1. CERISE SPI Tool

CERISE developed its Social Performance Indicators (SPI) tool to assess the social performance of MFPs. The tool compares an MFP's intentions and actions by analyzing its internal systems and organizational processes, determining whether or not an institution has the means in place to attain its social objectives. The underlying assumption is that the soundness of internal processes is a reasonably reliable proxy for actual social performance.

The SPI tool focuses on process management, looking at an MFP's stated objectives and how effectively its systems achieve them. It analyzes social performance using a wide range of indicators, giving an MFP an exhaustive overview of how its mission and actions size up against a number of common social objectives. Each SPI indicator is simple, directly attributable to an MFP, and based on data that are easily available to an MFP and that can be quickly checked by an external auditor. The indicators are grouped under four dimensions:

- Outreach to the poor and excluded populations
- Adaptation of products and services for targeted clients
- Economic and social benefits for the clients
- Corporate social responsibility

The SPI report generates an analysis of the MFP's social performance based on these four dimensions. The report is an Excel-based tool, and answers can be presented as radar and diamond graphs that give a visual depiction of an MFP's social performance. Analysis of results can be carried out via discussion with an MFP's management and other interested stakeholders. MFPs using CERISE's SPI social audit tool are now able to provide their social performance core data to MIX without any additional effort. MIX and CERISE have worked together to integrate the SPS into the SPI questionnaire so that an SPS Report is automatically generated from a completed SPI questionnaire. For a sample report or more information contact: [cerise@cerise-microfinance.org](mailto:cerise@cerise-microfinance.org) or visit: <http://www.cerise-microfinance.org>

The SPI can be applied to any MFP, making it possible to compare institutions, promote peer group analysis of social performance, and analyze the relationship between social and financial performance. It has been used by 170 MFPs in Africa, Asia, Europe, and Latin America. A user can transmit an MFP's results to a database to receive an additional analysis that compares its SPI scores to those of different peer groups – by country, region, size (clients, portfolio), age, or geographic intervention coverage area (urban, rural, mixed). On an individual level, an institution's results are analyzed against its own objectives, defined in accordance with its stated mission.

The SPI tool is designed to be simple enough that any MFP wanting to conduct a self-assessment can use the tool on its own. However, an external consultant can also be called upon to help an MFP implement the tool and make recommendations based on the findings.

### 2. MFC Quality Audit Tool (QAT)

The MicroFinance Centre (MFC) developed the Quality Audit Tool (QAT) to be a practical diagnostic tool that supports managers in reviewing the status and effectiveness of an MFP's management processes in achieving social goals. It helps ensure that an MFP is on track toward achieving its social goals. The QAT also helps identify strengths to be built on and gaps needing improvement, while avoiding overload of management and staff.

The tool specifically focuses on:

- Examining process management
- Assessing the status and effectiveness of internal systems in supporting the achievement of social goals
- Acknowledging good social performance practice up to date (strengths) and identifying gaps (weaknesses)
- Identifying and prioritizing necessary actions to improve social performance

There are four steps of the QAT process:

1. Gap analysis conducted with senior management as an initial social audit
2. In-depth follow-up to gather more detailed information in order to verify and better understand the gap analysis
3. Analysis and draft report that examine the material collected in detail and highlight the strengths and weaknesses of the organization in each of the dimensions covered by the gap analysis
4. Audit panel—a forum in which findings are presented to a group of key organizational stakeholders, who agree on the final results and win organizational buy-in for improvement actions. Following detailed discussions on the improvement action plan, a final audit report is produced.

The QAT may be implemented by internal staff or with an external consultant, although the MFC recommends that the tool be implemented for the first time with an external consultant. QAT is aligned with the social performance management (SPM) approach developed by the Imp-Act Consortium.

For more information and to request a copy of the QAT visit: [www.mfc.org.pl/spm](http://www.mfc.org.pl/spm)

### 3. Social Performance Assessment (SPA) by EDA Rural Systems

SPA is a tool that evaluates an MFP's performance in relation to the Social Performance Reporting Framework through an analysis of an institution's intent and values, its operational systems, and progress in putting its mission into practice. This assessment guides the institution through a series of questions that relate to SPM for inclusive and responsible microfinance, and help to identify strengths as well as issues to address to improve Social Performance. SPA enables the MFP to respond to the MIX Social Performance Standards questions, whilst thinking through the organizational implications of the information. SPA covers the same dimensions as a social rating and involves an external team to undertake the assessment, but without a grade. Instead, the assessment offers a detailed gap analysis as well as recommendations and resources to address the gaps and issues identified. For more information on the SPA visit: [www.edarural.com](http://www.edarural.com)

### 4. SPM Toolkit from MicroSave

The toolkit is a set of diagnostic tools designed to assist MFPs in conducting a week-long evaluation of their processes and outcomes against their mission and social goals. Strong emphasis is placed on client feedback leading to the creation of an action plan aimed at enhancing both social and financial performance. The systems reviewed include strategic planning, human resources, incentives, audit, MIS, and operations. The toolkit contains all the necessary materials for the diagnostic including client and staff surveys, focus group discussion questions, checklists, and more. This tool is administered externally and involves a participatory process facilitated by MicroSave staff. For the overview of the toolkit, please refer to: <http://india.microsave.org/toolkit/social-performance-management>

Source: Social Performance Task Force online resources available at <http://inthiseconomy.org/SPTF/>

Beyond following good practices for a social performance management system, if an MFP seeks social objectives, it is also important for such an institution to be accountable for its results. It should be able to exhibit the positive outcome(s) it has achieved in line with its mission, in order to display success to key stakeholders such as donors, investors and policymakers. Truelift seeks to identify those organizations that can demonstrate meeting their objective of reaching poor people and helping them move out of poverty. Therefore, in a way, Truelift aims to accredit institutions that abide by USSPM of the SPTF and certain additional factors. It encompasses the work of not only client protection initiatives but also the SPTF.



## Mapping Social Performance Initiatives in Pakistan

This section takes a look at SP initiatives to date in Pakistan, the current activities of industry bodies in the area and a mapping of possible roles for various stakeholders to play in the Pakistani microfinance market to strengthen SP at the industry level. The philosophy of social performance has long been part of microfinance in Pakistan, where the sector emerged largely on the back of a social impact agenda. However, the new trends, tools and thinking that have now emerged are quite advanced and various industry players are actively pursuing adoption of these values and principles in Pakistan as well. Various social performance management initiatives undertaken by PPAF, PMN and SBP are evident of their focus in this area.



### Institutions' Involvement and Sector Initiatives to Date

This section summarizes the various ways MFPs in Pakistan have been involved in social performance related activities up to 2014, through PPAF and other support services. These activities are clubbed into three broad areas: poverty measurement, client protection and social performance management. **Table B** provides a snapshot of these initiatives.

A Interest in SPM?	B Entry point	C Key related issues
<p>1. <b>Trainings held</b> 2009 &amp; 2011: Training on Grameen's Progress out of Poverty (PPI) Index attended by over 20 MFPs</p>	<p>1. <b>Code of Conduct for Client Protection</b> 2009: All PPAF POs and PMN members are voluntary signatories</p>	<p>1. <b>Social Audits &amp; Ratings</b> 2009: M-Cril Rating of First MicroFinance Bank 2010: Social Audit conducted by Microfinanza Rating for Asasah 2012: Social Audit using CERISE Social Performance Indicators (SPI) tool for two MFPs:</p> <ul style="list-style-type: none"> <li>▪ Wasil Foundation</li> <li>▪ ASA-Pakistan</li> </ul>
<p>2. <b>Institutional Pilots</b> 2010: Pilots conducted with the PPI poverty measurement tool by six MFPs</p> <ul style="list-style-type: none"> <li>▪ Asasah</li> <li>▪ Akhuwat</li> <li>▪ 04 partner organisations of the Orangi Charitable Trust</li> </ul>	<p>2. <b>Trainings attended</b> 2011: Workshop on monitoring of client protection by MFP internal and external audit departments</p> <p>2011: Orientation and training on client protection principles delivered by Plan Pakistan in collaboration with PMN, attended by over 20 MFPs</p>	<p>2. <b>Trainings attended</b> 2009: Orientation on Social Performance Management delivered to over seven MFPs</p>

<p>3. <b>Grameen's Progress out of Poverty Index (PPI) Certification</b> 2012: Institutionalization of PPI poverty measurement tool and certification by Grameen Foundation for Asasah</p>	<p>3. <b>Client Protection (CP) assessments</b> 2011 – 2014: Independent external CP assessments using the Smart Campaign framework for twelve institutions including,</p> <ul style="list-style-type: none"> <li>▪ Tameer Bank</li> <li>▪ ORIX Leasing Pakistan</li> <li>▪ First Microfinance Bank Ltd</li> <li>▪ Khushhali Bank Ltd</li> <li>▪ Finca Microfinance Bank Ltd (formerly known as Kashf Microfinance Bank Ltd)</li> <li>▪ Kashf Foundation</li> <li>▪ Development Action for Mobilization and Emancipation (DAMEN)</li> <li>▪ Rural Community Development Society (RCDS)</li> <li>▪ Sindh Rural Support Organisation (SRSO)</li> <li>▪ SAFCO Support Foundation (SSF)</li> <li>▪ Jinnah Welfare Society (JWS)</li> <li>▪ Farmers Friend Organization (FFO)</li> </ul>	<p>3. <b>Social Performance Reports to MIX Market</b> 2009 onwards: Annual reporting to MIX Market by 20 to 25 MFPs. Reporting has led to Silver Awards from MIX for several MFPs for transparency in SP reporting. 2010 Silver Award winners:</p> <ul style="list-style-type: none"> <li>▪ Asasah</li> <li>▪ Wasil Foundation</li> <li>▪ Development Action for Mobilization and Emancipation (DAMEN)</li> <li>▪ First Microfinance Bank Ltd</li> <li>▪ Punjab Rural Support Program</li> <li>▪ Rural Community Development Society (RCDS)</li> <li>▪ SAFWCO</li> <li>▪ Sungi Development Foundation</li> <li>▪ Thardeep Rural Development Program</li> </ul> <p>2011 Silver Award winners:</p> <ul style="list-style-type: none"> <li>▪ Sungi Development Foundation (SDF)</li> <li>▪ Development Action for Mobilization and Emancipation (DAMEN)</li> <li>▪ Kashf Microfinance Bank Ltd (KMFB)</li> <li>▪ Rural Community Development Society (RCDS)</li> <li>▪ Akhuwat</li> </ul> <p>These awards were discontinued in the year 2012 by the MIX Market. In 2013 and 2014, they have announced similar awards to recognize MFPs with externally validated SP data rather than only self reported.</p>
<p>4. <b>Poverty Scorecard Implementation</b> 2012: Use of the World Bank's poverty scorecard for Pakistan, specifically in MFPs/partner organizations funded by the PPAF.</p>	<p>4. <b>Client Protection Communication</b> 2009 onwards: Use of different mediums, (including print ads, brochures, passbooks, cable TV adverts and financial literacy trainings) to educate microfinance clients on their rights and responsibilities by some MFPs.</p>	<p>4. <b>Annual Social Performance Task Force (SPTF)</b> 2008 onwards: Attendance at the annual SPTF conference by several MFPs/members of the Social Performance Working Group in Pakistan.</p>

**Table B. Social Performance initiatives in Pakistan by MFPs**

Stakeholders are increasingly beginning to acknowledge that achieving the social outcomes inherent to microfinance's mission requires more deliberate strategies. SP has been taken up as an initiative not only at MFP level in Pakistan, but also wider industry stakeholders including the apex (Pakistan Poverty Alleviation Fund) the regulator (State Bank of Pakistan), national association for microfinance (Pakistan Microfinance Network), as well as other donors and investors (The World Bank, UK-AID, Citi Foundation) and others. The commitment of this group of stakeholders to SP represents a growing trend within the microfinance industry to demonstrate the positive impact of microfinance interventions on target clients and enhance social transparency and social performance of MFPs. PPAF and PMN in partnership have undertaken the mammoth task of spreading awareness and advocating for Social Performance, building institutional capability to manage social performance and monitor implementation.

### *Consumer Protection Assessments:*

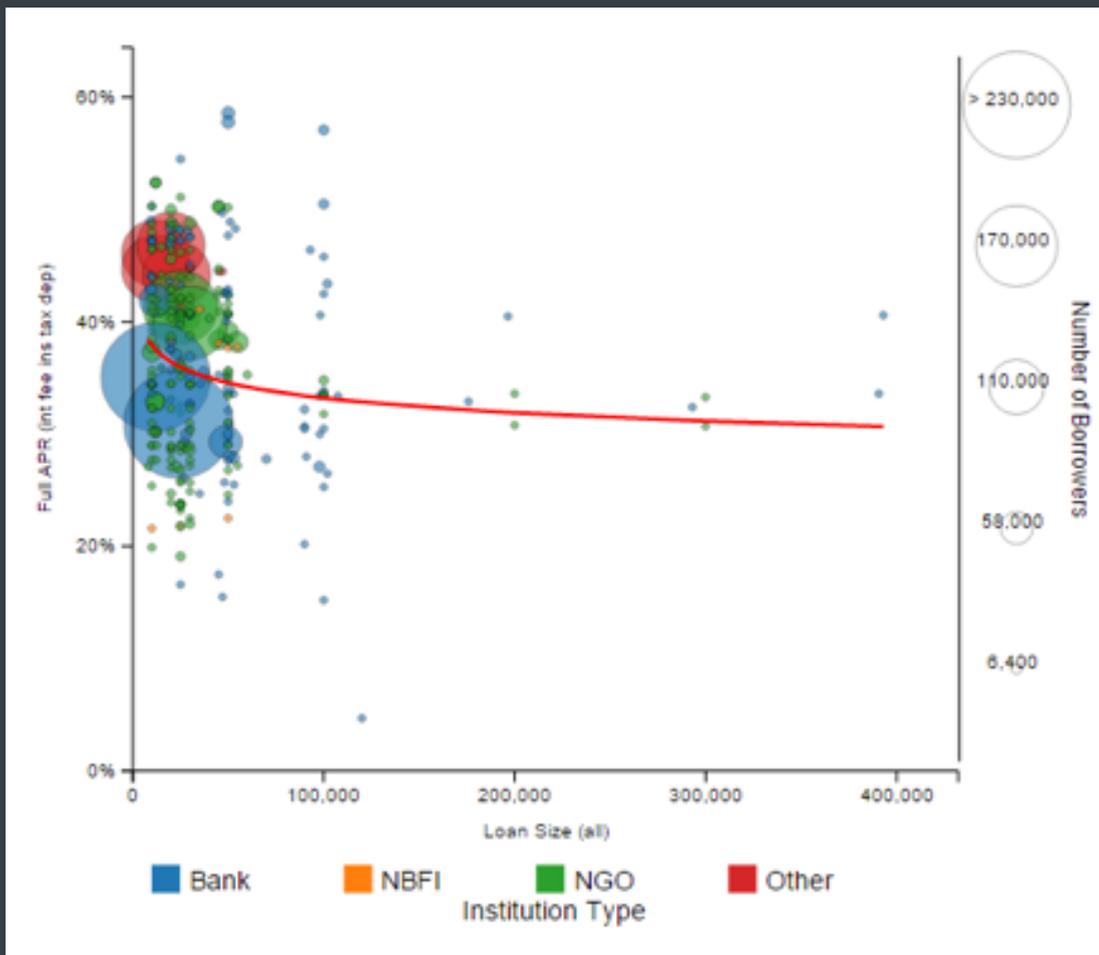
The Pakistan Microfinance Network (PMN) has supported its members in conducting third-party client protection assessments using the Smart Campaign's Smart Assessment tool. To date, 18 assessments have been conducted, covering over 60 percent of the market in terms of overall outreach to active borrowers. These assessments have been made possible with funding support from the State Bank of Pakistan (SBP) through the UK-Aid sponsored Financial Inclusion Program (FIP). The assessments provide a unique opportunity for the sector to observe the state of practice in client protection among member MFPs. For participating MFPs, the assessments provide an opportunity to evaluate their practices in comparison with globally accepted standards of client protection, and seek recommendations for institutional improvements to better comply with the standards. They also indicate whether an institution is ready to pursue Smart Certification, a designation recognized across the global market that an institution successfully integrates the Client Protection Principles into their practices. After undergoing an assessment and acting on its results, one leading MFI in Pakistan became the first microfinance institution in Pakistan to achieve Smart Certification in October 2014.

## Pricing Transparency Initiative:

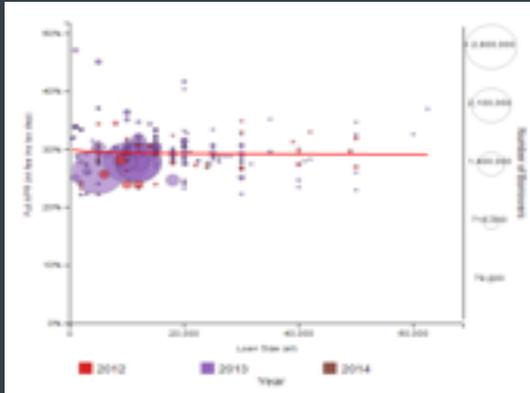
Through collaboration with MFTransparency International by PPAF, PMN, State Bank of Pakistan and UKAID, the first data publication under the Transparent Pricing Initiative was completed. Pricing information was collected and standardized calculation methods employed to calculate Annualized Percentage Rate (APR) interest rates for all products of the 31 participating MFPIs. This was the first sector-led move towards greater transparency and standardization in pricing calculations and disclosures in the local industry. Pakistan is the thirty-first country that MFTransparency is conducting pricing analysis for. This initiative is aimed at providing the sector with more information to determine whether we are providing 'smart loans' that benefit the poor, are affordable to clients and also cover the MFPIs costs. The results of the exercise carried out by MFTransparency in 2013 were published on MFTransparency's website, including pricing data for all credit products offered by the 31 participating MFPIs.<sup>12</sup> See Box 4 for a brief summary of these findings. In addition to this, an updated range of product pricing data was collected early 2015 and is set to be published by the second half of the same year – allowing for more up-to-date information on new products and/or revisions in prices for existing products among the MFPIs.

### Box 4: Transparent Pricing Initiative for Pakistan – 2013-14 Findings

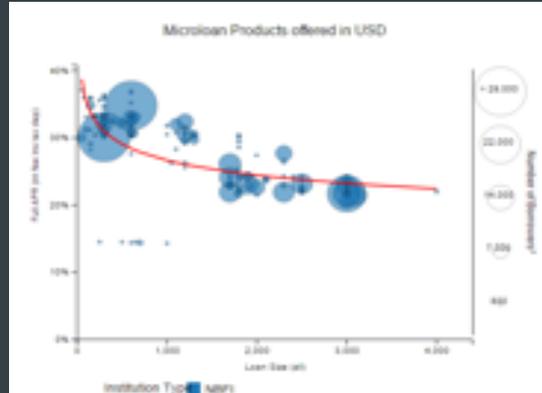
The following graphs show the findings of the data collected from 31 participant MFPIs for the pilot and pricing data from different countries to provide the basis for comparison.



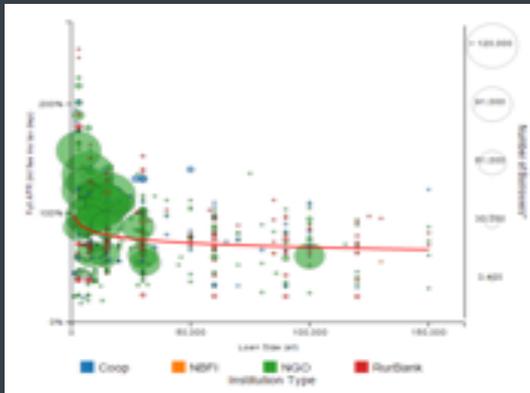
### India



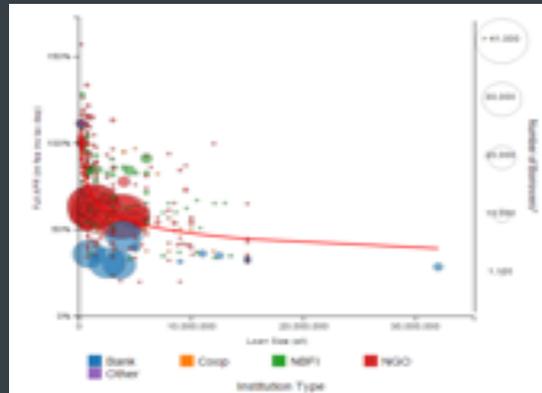
### Cambodia



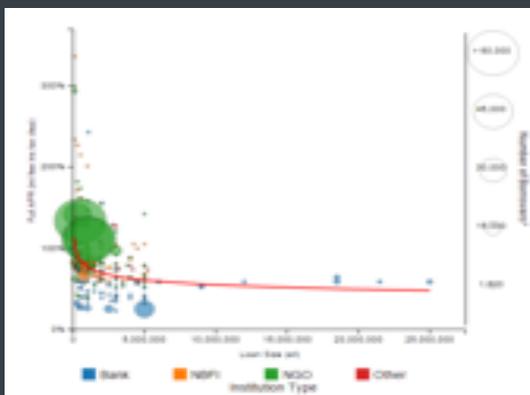
### Philippines



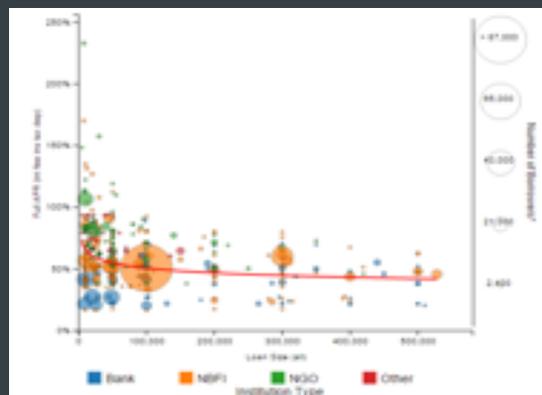
### Uganda



### Tanzania



### Kenya



In reviewing the pricing data, analysis on the Pakistan pricing data and comparison with other countries shows some significant findings:

1. Loan products target very small loan amounts relative to the economic indicators of Pakistan. In other words, microcredit in Pakistan is much smaller in size than microcredit in other comparative countries. This means loans are targeted toward a needier population, and brings with that the financial challenges of providing extremely small loans.
2. Pricing levels in Pakistan look to be 'moderate' to 'low' relative to other countries, and for the scale of loan amount, are much lower than most other countries.
3. Loan product pricing is more transparent in Pakistan than in most countries, however there is room for improvement. Countries with higher transparency in comparison have in place legislation requiring more transparency in their pricing.

\* MFTransparency Country Pricing Report for Pakistan, 2013-14.

## 2.2

### *Pakistan Microfinance Network (PMN)*

The PMN has been involved in several initiatives to mainstream SPM within its membership as part of PMN's ongoing commitment to building responsible finance in the industry. Since 2009, PMN has partnered with MIX Market to facilitate its members/ MFPs to report on social performance indicators to the information exchange network. Since 2011, it has also conducted validation of this data to ensure quality control of data provided. The PMN published the first social performance report for the industry in 2011, as part of a biennial SP State of the Sector Report series which aims to highlight sector level trends in terms of social objectives and social performance management practices.

Since 2009, PMN has a Client Protection Initiative in place with the foundation being laid by drafting a Code of Conduct for consumer protection that all its members are voluntary signatories to. Since then the PMN has also developed a client protection communication campaign through its members' branch networks in the form of branch displays and brochures for clients to encourage better awareness raising for clients on their rights and responsibilities. In addition, since early 2013, the PMN launched two sub-initiatives within its work on client protection with support from the State Bank of Pakistan (SBP) under the Financial Inclusion Program (FIP), PPAF and UK-Aid. The main components of this initiative include pricing transparency and client protection monitoring. The major objectives of the client protection initiative are:

#### *Box 5: Reporting Social Performance data to MIX Market*

MIX started to collect information on social performance in 2008 with a pilot set of 22 social performance indicator categories. Over 400 MFPs reported on these indicators in 2009 and 2010. As of 2015, the MIX Market website provides an all-encompassing view of an MFP's performance by integrating social performance data into its online display. The aim is to underscore the importance of social performance management, increase the visibility of MFPs' social performance practices, and make it easier to analyze an MFP's performance across both financial and social indicators. All social performance information is now featured directly alongside the financial information of individual MFPs on their profile page

As of 2015, there are 6 over-arching social performance indicator categories in MIX's Social Performance (SP) Profile forms:

1. Social goals
2. Governance and HR
3. Range of products and services (financial and non-financial)
4. Client Protection (including responsibility to clients and transparency of costs/services to clients)
5. Social responsibility to the environment
6. Poverty outreach

Source: [www.mixmarket.org](http://www.mixmarket.org)

- Standardization in calculating and communicating product prices to microfinance clients on collaboration with MFTransparency.
- Monitoring of client protection measures in place at MFPs in accordance with globally accepted benchmarks (Smart Campaign's client protection principles); offering roadmaps and recommendations to MFPs to be able to better comply with the CPPs.

As explained in the preceding Section 1.3, client protection and pricing transparency are both key elements within the wider social performance management framework; it has become crucial for stakeholders to look at the different elements within SPM in a systematic fashion.

Since early 2013, the PMN is also engaged in an SPM implementation project with 15 of its members in a bid to implement selection sections of the USSPM. This initiative encompasses both facilitation and support for MFPs to achieve full compliance to the USSPM, as well as awareness rising for key stakeholders to understand the value of the USSPM.



## PPAF Initiatives

Social Performance in the microfinance sector of Pakistan is a high priority intervention for the key stakeholders of the sector, particularly the PPAF, as the apex lender for microfinance in the country. Donors in particular, are interested to see the impact that their investments have had in terms of social and economic benefits for the poor population of Pakistan. As such, MFIs working with PPAF and other social investors in the country have been encouraged to build their internal systems for SPM. In recent years, microfinance sector stakeholders have facilitated MFIs in various ways, through trainings, workshops and exposure visits to build their capacity on carrying out systematic measurement of social objectives. In order to demonstrate strong social performance, MFIs are now going beyond anecdotal evidence such as case studies, to not only attract potential donors and reduce reputational risks, but also to maintain existing partnerships with investors.

By articulating clear social goals and measuring progress towards those goals, PPAF believes that MFIs are better able to claim social relevance. Hence, PPAF has promoted and incorporated SPM into its strategic plan. SPM awareness raising and technical assistance has become an essential activity of the apex.

**PPAF Internal Rating System:** Effective evaluation and supervision of MFIs has always been a top priority for PPAF. In accordance with international best practices the PPAF developed a rating system that measures the performance, operations and soundness of MFIs against predefined criteria which may be applied to the entire industry. The PPAF created the rating system in consultation with the leading microfinance rating company of the region - Micro-Credit Ratings International Limited. The key considerations in rating remain on quality of governance, operational parameters, social & financial performance and management capacity.

This tool consists of broad categories, indicators and scales denoting marks for measuring performance. Governance and Strategy, Operations, Management, Internal Controls & Client Protection, Financial Performance and social performance are the broad categories taken into account for the assessment of MFIs. Social Performance indicators are an integral part of the rating tool with particular focus on the MFI's performance in applying the Universal Standards of Social Performance Management and focusing on the double bottom line agenda of most MFIs.

### Code of Client Protection:

In terms of client protection, PPAF and PMN's Code of Conduct for client protection has been made an essential component of all financing agreements between PPAF and its partner organizations. Over time, PPAF inspection teams carrying out periodic partner assessments and inspections will begin to assess these institutions against minimum standards of client protection.

### *Box 3: PPAF Participation in Global Truelift Launch*

In 2012, the PPAF took part in a global initiative to launch Truelift. Pakistan participated in the beta test of the Seal along with three other countries, Jordan, Bolivia and India through a strategic partnership between PPAF and the Microcredit Summit Campaign. Truelift is a global initiative to recognize those microfinance practitioners doing the most of help poor households lift themselves out of poverty. In this context, PPAF conducted the beta test with two partner organizations, with the aim of ultimately ensuring compliance of all POs against the indicators established, vis-à-vis targeting and impact of PPAF's work. The PPAF is committed to measure impact of PO operations in terms of "client protection, alignment of financial and social goals, poverty alleviation and transparency in terms of products and systems".\*

\*Mr. Yasir Ashfaq, Group Head, Financial Services Group, PPAF. Launch ceremony of Seal of Excellence in Pakistan, December 12, 2012, PPAF Head Office, Islamabad.

## Poverty Scorecard:

The Poverty Scorecard for Pakistan has been developed by the World Bank as a tool to measure change in poverty in an effective way and to support the management of development programmes that focus on alleviating poverty. It is also a useful tool for social investors that need to measure results according to the triple bottom line objectives i.e. financial, social and environmental results. By ranking targeted households relative poverty, it helps managers target the poor, track changes in poverty, and manage depth of outreach.

One of the ways that the apex lender for microfinance practitioners in the country, the PPAF has ensured incorporation of SPM into partner organizations is through the use of a standard poverty scorecard. All PPAF partner organizations are required to complete the World Bank's appointed poverty scorecard system for new/repeat clients, and submit report on these scorecards to the PPAF. While analysis based on poverty research needs to be strengthened, these scorecards provide an important foundation for the industry to work toward standardized measurement of what is perhaps the most predominant social goal of microfinance practitioners, i.e. targeting the poor.

## Conduct of Social Performance Management Trainings through renowned global SPM experts:

PPAF seeks to encourage focus and attention on the double-bottom line and aims to promote adoption of Social Performance Management (SPM) at the institutional level. PPAF engaged internationally renowned pioneer of 'Social Performance Management', Ms. Frances Sinha as Lead Trainer to conduct SPM training workshops for members of Board of Directors (BODs) and Chief Executive Officers from all PPAF Microfinance Partner Organizations and Microfinance Banks. The trainings aimed at creating awareness and understanding for the Board of Directors and senior management on various SPM tools and techniques to ensure effective compliance with double bottom line objectives. In the backdrop of investments made by PPAF in the area of Social Performance Management, the internal rating system enables PPAF to directly assess the performance of MFIs in this area and to guide the POs accordingly.

## Pricing Transparency Initiative:

A joint venture was undertaken in collaboration with MFTransparency International by PPAF, PMN, State Bank of Pakistan and UKAID. Pakistan is the thirty-first country that MFTransparency is conducting pricing analysis for. The product pricing exercise for Pakistan is to be combined with a second component on calculating the delivery cost of each product. The initiative is aimed at providing the sector with more information to determine whether we are providing 'smart loans' that benefit the poor, are affordable to clients and also cover the MFIs costs the year. The purpose of MFTransparency is to strengthen the industry in Pakistan from within by supporting institutions in making necessary steps towards pricing transparency.

## Capacity Building of Partner Organizations MIS/FIS:

ICT can be a strategic tool in making MFIs more efficient and effective. MFIs can reach more people in a more economical way by implementing the right management information system (MIS). While a few MFIs are making good use of technology, the majority are facing difficulties in getting the right solution. Developing an MIS is a complex undertaking involving a broad range of issues. PPAF has made considerable investments in developing MIS's of its partner organizations, including the following:

1. Trainings of MIS champions as leads for on-going MIS operational maintenance responsibilities and capacity enhancement of POs staff along-with MIS team
2. Designated team members led refresher trainings of POs with technical support of MIS team
3. Progress data updated for partner organizations as of Mach 2015 (100%)
4. Standard reporting formats finalized

Besides development of MIS/FIS, eighteen POs have been supported under PPAF-III to conduct MIS/FIS audits.

## *ESM Framework Development*

PPAF has made an effort to ensure that POs are at all times be in compliance with the prevailing laws and regulations relating to health, safety and environmental protection, including PPAF's Environmental and Social Management Framework (ESMF). All PPAF partners must ensure compliance with the ESM Framework in true letter and spirit, in all PPAF funded interventions. The POs provide quarterly progress update on ESMF compliance, and assist PPAF to compile an annual report. Partners are encouraged to incorporate ESMF objectives into the Terms of Partnership that it signs with its community based institutions as well. The PO must

comply with any environmental and/ or social performance audit PPAF commissions to monitor and physically verify PO compliance of the ESMF. The ESMF mainstreaming process for MF interventions is presented in **Figure 7**.

Adequate disclosures to microcredit clients have been made part of the 'code of client protection' in the financing agreements between PPAF and their POs. During PPAF monitoring visits the partners are briefed about compliance on the ESM framework and necessary actions are agreed upon as part of the monitoring process. Necessary input is provided to all the partner organizations. Subsequently, the partner organizations have started to:

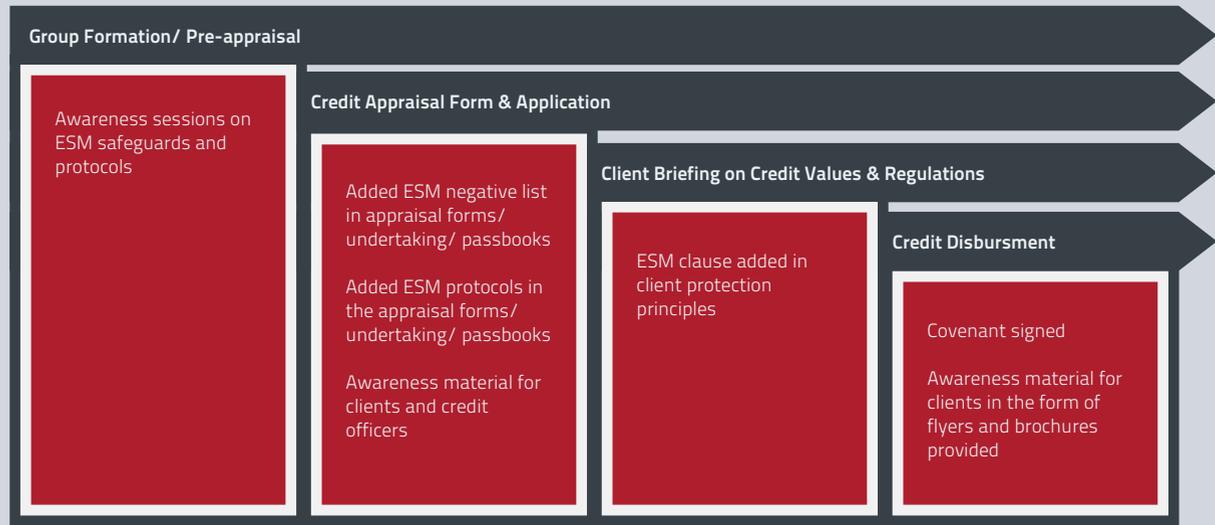


Figure 7: ESMF Mainstreaming Process

1. Disclose ESM terms to borrowers at the time of disbursements
2. Obtain disclaimers about ESM disclosures from borrowers
3. Display ESM disclosures at every branch where PPAF funding is deployed

### *Grievance Redressal Mechanism*

A strong grievance redressal mechanism is part and parcel of the machinery of any administration. An efficient and effective grievance redress mechanism shows that the organization is accountable, responsive and user-friendly. The grievance redressal mechanism of an organization is the gauge to measure its efficiency and effectiveness as it provides important feedback on the working of the administration. PPAF puts special emphasis on formal grievance redressal mechanism for staff and clients of all its partners.

PPAF has played a vital role in establishment of committee to deal with staff grievance at the partner level. The POs have developed mechanism to receive written complaints from staff. Proper record and follow up of complaints is being maintained at the Head Office. At the community level verbal and written complaints are received. POs are encouraged to have complaint boxes, registers and display contact details at branches for complaints. Details are also mentioned at the back of passbook for complaints.

### *Good Governance Principles and BoD Trainings on Corporate Governance*

To promote best practices in corporate governance, PPAF organized a workshop on Corporate Governance' in September 2013 for all partner organizations as a result of which the apex compiled a "Good Governance Practices" note for its partner organizations, which came into effect in 2014.

PPAF also funded the Board Members of its POs to attend a course on Corporate Governance. First round of MFCG Training was conducted in 2014 and attended by 47 participants from 24 organizations. The training module was designed by Hikmah Consulting with support from PMN. The course was designed to provide an insight into the concept of corporate governance, the regulatory framework in Pakistan, the corporate structure for organizations, controls, audit, compliance and risk governance. PPAF funded the first round of Corporate Governance Trainings for Board Members of its partners which were conducted by Hikmah Consulting. Taking note of the positive results emanating from the trainings, organizations reported that the Board members have started displaying

increased interaction, involvement and are taking greater responsibility subsequent to these trainings. Resultantly, second round of Corporate Governance trainings were conducted in May 2015 under PPAF III in order to strengthen governance at microfinance institutions in Pakistan. This second round was attended by 49 participants from 26 organizations.

### *POs Staff trainings on risk management*

All MFIs are vulnerable to risks. While they cannot eliminate their exposure to risks, through an effective risk management process, they can significantly reduce their vulnerability and ensure their long-term viability and sustainability. Disasters and conflict cannot be controlled, but can be prepared for, and their impact minimized. In order to help its partners counter various risks, PPAF arranged Staff trainings on risk management for its partners.

The integrated risk management framework for analyzing institutional development and financial health issues, was organized into four categories of risk: institutional, operational, financial, and external. The frameworks aimed at providing PO staff with a step-by-step means of assessing the organization's current and potential vulnerabilities and manage them in an effective manner. The overriding objective of the training was to foster good management and accountability in order to encourage cost effectiveness, high portfolio quality, and minimal risk of loss or misuse of funds.

Nineteen POs were supported to conduct training for their staff. The training helped partner organizations to better identify, assess and prioritize different risks (institutional, operational, financial or external). The training helped the PO staff by equipping them with tools to assess the institution's level of exposure, prioritize areas of greatest vulnerability, and ensure that proper controls are in place to minimize the organization's exposure.

### *POs staff trainings on financial literacy and literacy on branchless banking*

Pakistan is characterized as having very low rates of savings & investments, low penetration of financial products & services and relatively lax enforcement standards to protect the consumers. For the people living at the bottom of the pyramid, the ability to make good financial decisions is of fundamental importance. The poor lack resources to cushion them from lost savings or investments or enable them to rebound from adversity. SBP in collaboration with PPAF and PMN implemented the nationwide Financial Literacy Program funded by DFID, offering platforms for pilots and actively involved in up scaling through Partner Organizations.

Under financial literacy training on branchless banking a total of seventeen POs were supported to conduct workshops/ TOTs on financial literacy on branchless banking. Ten POs have conducted the workshops/TOTs. Through these workshops, POs have been able to impart knowledge and understanding of basic financial concepts, products and services to low-income clients. This has helped the POs to increase their outreach and improve operational sustainability.



## *Conclusion and Way Forward*

The following section provides recommendations for various stakeholders to strengthen SPM implementation and institutionalization at MFPs in Pakistan going forward. These roles address the current needs and challenges as well as capitalize on opportunities that already exist.



### *MFPs*

MFPs must create buy-in at all levels of the organization to successfully implement SPM, which encompasses commitment from top management and Board of Directors on the following:

#### *Top Management:*

- Carry out a self-assessment of the MFP against the USSPM and set priorities according to institutional needs.
- Provide leadership to develop institution-wide commitment to institutionalizing SPM.
- Set aside resources for development of an integrated management information system (MIS) that incorporates social performance data, specifically poverty measurement indicators into client profiles.
- The indicators and tools used to define, measure and monitor achievement of SPM should be set internally, allowing for the MFP to incorporate whichever globally accepted tool/indicator that best suits its own social goals/mission.
- Institutionalize policy at the MFP such that the indicators and data from the MIS is monitored periodically to carry out geographical/gender/target group level analysis of clients' status.
- Refine targeting and product development practices to become more aligned with social goals based on findings from institutional data as available from the MIS and / or client research.
- Report publicly on social performance indicators to enable establishment of industry benchmarks over time

#### *Board of Directors:*

- Set up an SP review committee at the Board level that holds top management accountable for (i) progress in institutional implementation of the USSPM and (ii) actual social objectives and progress against these.
- SPM indicators should be part of the routine reporting requirements for the Board and investors, along with financial and operational performance requirements.

## 4.2

*PPAF*

PPAF seeks to encourage increased focus and attention on the double-bottom line goals among its Partner Organizations and aims to raise awareness on social performance management through structured knowledge sharing and capacity building approaches. SPM strategy needs to be shifted over time to adjust to the local context.

- Fund MFPs to set up appropriate information systems. This is the most costly element of implementing SPM at MFPs and assistance in this aspect can really help to jumpstart the SPM implementation process at institutions.
- External TA provision for a systematic approach to bringing out appropriate changes in policies, products and associated elements should be considered for MFPs that show resolve and potential in taking up the SP challenge.
- Review its monitoring algorithm for partners to capture social performance data that is objective

PPAF believes that SPM is the best way to validate the importance of microfinance interventions. There is no way microfinance institutions can claim their social relevance without social mission-driven strategies, sound practices, and measurable evidence, which is why SPM has to become one of the core activities of the organizations. PPAF seeks to encourage focus and attention on the double-bottom line and aims to promote adoption of Social Performance Management (SPM) at the institutional level.

## 4.3

*Donors*

- Stress on the need to exhibit social performance and existence or intent for well-developed social performance managements as a prerequisite for donor assistance allocation.
- External technical assistance provision especially in areas of information systems, communications, internal controls and human resources.
- Provide access to global best practices, and fund documentation of case studies and success stories from the local market

## 4.4

*Regulators*

- Work towards providing a level playing field by harmonizing regulatory and supervisory regimes around governance and disclosures.
- Strengthen requirements of governance. This will ensure competence, accountability and impartiality of the Board of Directors and top management.
- Guidelines for financial disclosure requirements. This overall expectation of transparency for financials can also help in quality of social performance disclosures.

## 4.5

*Industry Bodies*

- Build awareness and carry out advocacy about SP at not just the MFP level but also with other industry stakeholders such as all the aforementioned stakeholders.
- Engage with MFPs to create SP champions from the senior management team.
- Assist MFPs with technical support and creating industry liaisons necessary for the SPM implementation process:
  - » Offer various capacity building opportunities such as trainings, workshops, exposure visits to other MFPs etc. to enable MFPs in carrying out the SPM implementation process.
  - » Assist MFPs with external reviews against the USSPM as may be required.
- Carry out knowledge management for the industry on issues related to social outcomes such as impact assessments at the client level, data collection and analysis of social indicators at the industry level etc. This will help provide opportunities for dialogue based on research and analysis and create momentum at the industry level as MFPs learn about what their peers are doing.
- Manage relationships with other industry stakeholders and offer support as needed to implement the potential roles as described.
- These stakeholders can also facilitate the MFPs' access to different capacity building opportunities, including workshops, trainings and exposure visits on SPM.

## 4.6

*Network*

- The Pakistan Microfinance Network will continue to work with its members in building industry-level compliance to the Universal Standards for SPM. The Client Protection and Pricing Transparency Initiative launched in 2013 with support from the State Bank of Pakistan, PPAF and UK-Aid, is expected to have a significant impact, particularly on compliance to Section 3 of the USSPM. At the same time, opportunities for further projects will need to be explored by the Network to ensure that the majority of MFPs in Pakistan comply with the Standards. On-going advocacy with several stakeholders, most of all member MFPs themselves, to strengthen the industry in this crucial area.
- Build capacity of member MFPs and provide technical support to measure and improve overall compliance to SPM Standards.
- Collect and disseminate sector-level information and research on social performance practices/trends, and map out areas for improvement
- Provide match making services for member MFPs and TA providers: trainings, assessments, Smart Certifications and others.

Through taking the steps outlined here, various stakeholders can support MFPs to ensure that their policies and operations meet the minimum 'do no harm' standards defined by industry consensus to protect clients. In addition to this, the paper has outlined tools and resources available for MFPs use and adaption. Beyond a 'do no harm' policy, adopting the best practices in SPM will have further benefits for the sector, such as a more responsive, demand-driven product development and design system, strengthened internal controls and development of a positive reputation among clients leading to greater retention. Collectively, the importance the sector places on managing social performance will allow MFPs to move towards financial inclusion in a more sustainable and responsible manner.



## Annexure One

Step-by-step guideline for SPM Implementation

To initiate SPM at an MFP, the following steps need to be taken to begin the SPM implementation process.

### *Step 1: Determine the social goals of your MFP based on your Vision/Mission*

To start off, a detailed exercise needs to be conducted to determine the specific social goals (derived from the mission) of the MFP. The institution must know who it is targeting, what its goals are, and how its products and services help to achieve those goals. The institution must also understand how it will balance its pursuit of financial returns and social performance. Agreeing on this and committing to it up front keeps the institution true to its purpose as it operates and evolves.

Once social objectives are set, these can then serve as a foundation for establishment of clear and realistic social performance priorities, objectives and performance targets. It is important to establish these so that subsequent operations and achievements can be measured against these initially set targets.

Section 1 of the USSPM 'Define and monitor social goals' consists of the following Standard that seeks to achieve this step: Standard 1a: The institution has a strategy to achieve its social goals. Annex A gives the essential practices that are necessary for an MFP to fulfill this standard. This is an important prerequisite standard to fulfill before an MFP can delve into other kinds of SPM improvement or institutionalization since these practices are at the heart of understanding why the MFP exists or was set up for. An MFP's mission should answer the following three key questions<sup>1</sup>:

1. Who do you want to reach? (outreach)
2. How will you meet clients' needs? (methodology)
3. What are the desired outcomes? (impact)

Some MFPs may also need to incorporate aspects specific to their context, such as treatment of staff or responsibility to the wider community or environment.

### *Step 2: Obtain buy in and set priorities for SPM areas to implement*

To begin a successful program for social performance management at an MFP, the first step will be to get buy-in from management and staff. Without this, even the most sophisticated social performance management system will not work.

At this point, it is important for an MFP to know why it wants to implement better social performance management. Some common reasons MFPs have in the past opted to work on implementing social performance management at their institutions include the following<sup>2</sup>:

1. Desire to improve overall social performance or social responsibility
2. Concern over mission drift, especially during a phase of acquisition or transformation
3. Evidence of client attrition and dissatisfaction

<sup>1</sup> Campion et al. 2008

<sup>2</sup> Campion et al. 2008

4. Need to understand and better serve clients' needs
5. Desire to expand outreach to newer segments that have previously been untapped by the institution but help to reinforce original mission focus
6. Desire to establish a market niche. SPM implementation helps in differentiating an institution especially in markets with high levels of competition for customer loyalty.
7. Need to provide social performance to donors and investors

Another approach can be to conduct a self-assessment or an external assessment of the MFP against the USSPM as a review of the MFPs existing practices against globally recognized benchmarks of social performance standards of good practice. This will provide the MFP with clear guidance and also a roadmap of sorts that will help MFPs understand their areas of strength and weakness. This will help in ensuring that their strengths are consciously retained and action steps can be taken for alleviating weakness, as deemed necessary by the institution based on the list of interests to implement SP as aforementioned. Self-assessment and externally administered tools are available for such diagnostics. One example includes the CERISE Social Performance Indicators (SPI) Tool. This tool integrates the USSPM and can offer a good starting point for MFPs wishing to methodically assess themselves on a scoring format. In addition, the Quality Audit Tool developed by MicroFinance Centre (MFC) of Poland, EDA Rural Social Performance Audit (SPA) tool and the MicroSave SPM toolkit are externally administered tools that can be employed for the same purpose Box 2 exhibits details the range of tools available for self-assessments or external reviews of social performance at a MFP.

Once an MFP has decided what areas or standards of the USSPM to implement, the top management will need to plan restructuring that will be required to have better social performance in place. Priorities will need to be set in order to implement SPM at a pace that the institution is comfortable with and to avoid a spreading-too-thin of limited resources.

The sections of the USSPM as mentioned in Table A, against your MFP's interest in SP will be the priority sections for your institution. These will be the priority areas within the USSPM for your institution to begin work on. The aim should be to fulfill all the Standards within these sections by ensuring that all the essential practices are being implemented and are institutionalized at your MFP.

### *Step 3: Action planning*

Once the priority or interest in SPM has been identified through consensus with your Board and through staff consultations, an action plan needs to be drawn for the strategy and operation. This should state clearly the 'who, what, when, why, where and how'. Key success factors will have to be identified. A long-term process of change management requires clear, continuous communication and buy-in from all levels of the organization. For many MFPs, this will mean building on existing systems and activities. Others will need to integrate new practices.

Financial and human resources will be needed to make the action plan a reality. The initiative needs to be properly funded from internal or external funding sources, depending from one MFP to the next. MFPs will usually find that the initial implementation phase will be costly, but future reviews and changes will cost less. Budgeting for the action plan can be done on an activity-based costing model ideally, or as a proportion of operating budget depending on the resource and funding circumstances of the MFP. As a rule of thumb, work on information systems will prove costliest and the most time consuming, followed by external client level research and external impact evaluations, working on building internal controls, human resources and communications. The least costly and time consuming activities will most likely be the ones having to do with strategy, oversight and governance.

### *Step 4: Assigning an SP champion*

The original SP champions often the Executive Director (or Chief Executive Officer) who builds initial buy in with key staff. Once the action plan is underway, duties are handed over and assigned to an individual or team. This individual (or team) becomes the new SP champion. It is important that this champion is someone at the executive management level or otherwise publicly seen as close to the Executive Director. The support of human resources and finance is imperative in order for the SP champion to undertake activities according to the new SP action plan. Oftentimes, it will be extra beneficial to have a Board SP champion as well who believes strongly in the social mission and has the potential to hold the executive management accountable and be able to see the action plan through from start to finish.

The SP champion(s) have the important task of building support at the top. This includes all the top management personnel from all departments, as well as the Board of Directors. Often, data from MIS and research will help in building a convincing case for SP.

The SP champion will next need a team of staff to support integration of SP into the MFP's operations. This can be done through setting up of an interdepartmental team with a time bound mandate of implementing the action plan as formulated earlier. In an ideal setting, team members can represent various stakeholders of the MFP in addition to just staff – including Board members, management, staff, clients, donors and other partners. It is important to note that members must be willing enough to participate in this team voluntarily and be enthusiastic about SPM of their own accord. An 'assigned' team may not work as well. The SP champion

or team lead should assign roles and responsibilities to each team member according to the action plan and commit them to a time line for these activities. Freeing up the champion's other workload to focus on the SP action plan is important so that the action plan can be implemented. Nonetheless, SP is a long-term strategic activity and involves tasks that often take a secondary position to day-to-day responsibilities or short-term emergencies. This must be kept in mind while evaluating the SP champion's team on progress against the action plan. It is advised to set the deliverables in the action with this understanding in mind.

As SP is implemented throughout the MFP, the need for a separate team will diminish over time, given that most of the action plan steps see fruition. At that point, an individual or department can be handed over remaining areas of work in SP. The market research department could be one such department, which can take over the SP functions in addition to their other core work. If small MFPs do not have the resources for this, they can continue with the interdepartmental and inter-stakeholder team that was set up in the beginning.

### *Step 5: Developing appropriate information systems*

Usually, regardless of the SPM areas identified as priorities for an MFP, development of appropriate information systems will have to take place before the agreed upon priority social performance objectives can be tracked. This is an imperative step; as such systems enable generation of a feedback loop so that the MFP actually uses the information it gathers to begin tracking progress against stated social goals and objectives as identified in Step 1. This typically involves sharing and reviewing the data across departments, assessing performance based on the data, soliciting comments, and making operational changes and strategic decisions based on lessons learned. Oftentimes it also helps to share this internally designed system with an external stakeholder who can offer perspective and contribute towards improving it by sharing useful insights. This will increase the effectiveness of SPM at the MFP.

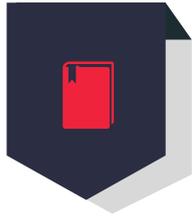
Section 1 of the USSPM 'Define and monitor social goals' consists of the following Standard that seeks to achieve this step: Standard 1b: The institution collects, reports, and ensures the accuracy of client-level data that are specific to the institution's social goals. Annex A gives the essential practices that are necessary for an MFP to fulfill this standard. This is an important prerequisite standard to fulfill before an MFP can delve into other kinds of SPM improvement or institutionalization since this allows an MFP to be able to track and measure the indicators it wishes to focus on. Without reliable information on an MFP's operations, it is impossible to measure achievement of the MFP's social agenda.

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Completion of the above five steps should enable any MFP – no matter the size and context – to begin tackling implementation of the USSPM according to institutional priorities. Some tips to stay on track and persevere through this long drawn and often times challenging process

1. Focus on the process as much as the results. Institutionalization of SPM may not prove easy for many MFPs. However, it is important to persevere in the effort to showcase true commitment to the MFP's social goals and learn what works best and how to approach implementing the intended changes.
2. Based on the initial review of an MFP and its main interests, priority areas need to be identified and a time line arrived at. It is important to set a realistic pace so as not to overwhelm and overburden the MFP's staff and management. Moreover, taking on too much at a time will lead to discouragement as progress will likely not be according to expectations.
3. Share lessons periodically with not only the Board of Directors for guidance for the way forward, especially in challenging areas, but also with peer institutions through common platforms such as the industry association (PMN). This leads to sharing of best practices and highlighting of common problem areas, if any. Assistance can then be sought accordingly.

Many MFPs around the world report on a set of basic social performance standards to the global self-reported data repository for microfinance, the MIX Market. Beginning from the 2012 reporting cycle, the MIX has a set of 11 social performance indicators that it encourages MFPs to report on as a step towards social transparency. Box 3 gives a background on reporting SP data to MIX and the present set of indicators used.



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