



# Universal Standards for Social Performance Management: an inspiring framework for impact investing.

November 2017

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## **Key words:**

Microfinance, Impact assessment, Impact investing, Social Performance Management

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## Introduction

This article proposes an analysis on why and how the impact investment industry can draw from and build on the social performance framework used in the microfinance sector. It highlights the controversies around impact assessments that led the microfinance sector to move from proving to improving its positive social impacts, with a focus on how the sector has defined a unified set of standards, the Universal Standards for Social Performance Management, against which it has recalibrated. It explains how it has helped recenter microfinance activities around clients and create the data management systems that will foster accountable yet affordable impact assessments. Finally, it provides a set of elements illustrating how this new framework offers a well-grounded basis for impact investing actors.

## 1. Development and controversies around impact measurement in microfinance

High demand among the poor for services and relative price insensitivity are considered by opponents of social impact measurement as sufficient proof that microfinance services are socially useful. High demand, however, does not automatically imply that people's conditions are improving (Hashemi S.M., 2007). Social impact measurement seeks to attribute the expected impacts on end-beneficiaries to the organization interventions. To understand and prove these links between an intervention and changes to recipients, researchers can use quantitative or qualitative approaches.

### The “quantitative” approaches: experimental and quasi-experimental methods

Experimental and quasi-experimental methods statistically compare the characteristics of a treatment with a control group.

Quasi-experimental methods build the control group *ex-post*, which means the principle of “all things being equal” is based on numerous hypotheses that can undermine the conclusions of the study. The determinants of the differences among treatment and control groups are potential selection biases, since institutions are likely to select clients with the best economic opportunities. The term “self-selection bias” is used when these specific qualities of the clients encourage them to apply for microcredit.

To counter these biases, experimental approaches build the counter-factual *ex-ante*: the MFI randomly selects a group of individuals to whom it will offer its services, and another group which will not have access to microfinance services until the end of the study. This latter constitutes the control group. This method is commonly called Randomized Control Trial (RCT) and ensures that the treatment group and the control group are, on average, identical in all respects, except for the development program evaluated. Promoted by the World Bank, RCTs support the “evidence-based politics” that has gained momentum in the development field.

However, these impact studies pose difficulties due to high costs for participants, methodological flaws, and moral issues due to random samples (Duvendack M., Palmer-Jones R., Coperstake J., 2011). Yet, it

is very rare that these biases appear explicitly in publications, which focus mostly on presenting the rigor of the protocol rather than the breaches that happened in the field. Moreover, RCTs requires short-term impacts, easily measurable inputs and outputs and linear and non-reciprocal causality, making the external validity questionable and the results even less generalizable (Bédécarrats F., Guérin I., Roubaud F., 2015).

### **Alternative methods to understand the changes on the beneficiaries**

Given these challenges, other research trends have pursued the question of impact by looking at the social and political dimensions of relationships to market and production, favoring techniques of interviewing, observation and triangulation of information. These qualitative approaches are useful for practitioners to understand the client typologies.

Since the early 2000s, data from national statistics bureaus household surveys have, in some cases, been used as an alternative to an *ad hoc* counterfactual (Gubert F., Roubaud F., 2005). Some initiatives have developed methodologies called “proxy means testing”, based on household consumption surveys, which consist of a limited number of observable indicators statistically correlated with relative poverty levels. The Progress Out of Poverty Index (PPI) used in microfinance today, draws from these experiences.

In the 2000’s also, there has been a rise of more operational assessment methods that practitioners can apply themselves. For example, some research was conducted in the Philippines as part of the "Assessing the Impact of Microenterprise Services" project initiated by USAID and coordinated by the SEEP. These methodologies are closer to market research and customer satisfaction analysis, in that they are primarily used to tailor products and services to demand, attract more users, retain loyalty, limit non-repayment and avoid over-indebtedness.

The reality of impact assessments—costly, methodologically debated affairs with tepid results in terms of proving change—is therefore challenging. If it remains complex to prove the “win-win” solution microfinance appears to offer (Morduch J., 1999), the question remains: then what?

## **2. An answer from practitioners in microfinance: Social Performance measurement and client-centered management**

### **The emergence of Social Performance Management and globally accepted Universal Standards**

Microfinance providers generally aim to break even or be profitable, while serving a social purpose. The problem is, having a dual mission is not the same as achieving it.

Given the complexity of impact assessment, rather than look for proof that an intervention, like providing a microcredit, can create change, practitioners have focused on social performance, i.e., making sure their social mission is being achieved. It requires that each of the first links in the impact chain – from inputs to outcomes – are sufficiently robust.

Social performance management (SPM) is a concrete activity carried out under the direct stewardship of the organization, as opposed to external researchers. These processes can subsequently be checked by rating agencies that have developed a range of external assessments. Such external verification is

aimed at enhancing the credibility of the organization's internal efforts and helps it communicate more effectively with partners.

In 2005, even before the various crises of 2008-2010 affected the microfinance sector, the Social Performance Task Force (SPTF), a member-based organization, was created to promote Social Performance Management (SPM). In June 2012, the SPTF released the Universal Standards for Social Performance Management, a first ever attempt to unite the microfinance industry behind common approach, language and practices to Social Performance. The Universal Standards are structured into six dimensions which themselves are broken down into Essential Practices (Social Performance Task Force, 2017). They include the Client Protection Standards, designed to ensure consumer protection rights for users of microfinance services (Smart Campaign, 2011).

### **A visible change in the way microfinance stakeholders operate**

With the emergence of SPM, we are seeing the recalibration of the microfinance sector at the regulator level and field levels, but also in impact assessment general understanding and practices.

The Universal Standards and Client Protection Standards are being integrated into regulatory frameworks. In Nicaragua for example, the Law on Microfinance passed in 2011 explicitly uses these standards. Similar regulatory changes have taken place in Bolivia, Philippines, Ecuador, Uganda, etc.

Moreover, the maturation of the industry, the emergence of SPM and the increase of investment flows have all contributed to creating trend of holding microfinance service providers accountable to the social missions they announce. Increasingly, they are using key performance indicators to carry out regular reporting to their management teams, boards, but also private investors and public funders.

Another effect of the Universal Standards revolves around reporting requirements. Using the Universal Standards contributes to reducing the costs and resources dedicated to reporting. Assessment tools like the CERISE-SPI4, which measures compliance with the Universal Standards, have played key role in helping reduce the reporting burden and ultimately increase traction of client-centered management practices. In July 2017, 15% of MFIs, providing services to 17 million people worldwide, had already used the CERISE-SPI4 tool to report their Social Performance and identify their good practices. Moreover, hundreds of board members and staff were trained in SPM and "SPM champions" positions were created in MFIs or investor teams.

### **Accurate outcomes rather than unattributable impacts**

Once SPM is in place, what are the effect on the clients and beneficiaries? Conscious of the little validity and utility of many so-called impact assessments, but also of the fact that outreach and output indicators cannot be considered proxy for outcome data, different organizations have worked at building the case for outcomes management. The latter differs from impact in that it seeks to track change that is plausibly associated with a particular service, without trying to attribute causality. Under outcomes management, collection and analysis efforts are mostly borne by MFIs, with the outcome indicators directly integrated as part of SPM systems and allowing for corrective measures if unintended negative effects are observed. A first list of harmonized outcome indicators was published by the SPTF at end of 2016, and pilot tests have already begun in Peru and India.

### **3. Lessons for Impact Investing**

#### **Microfinance and impact investing: where's the overlap?**

The microfinance sector focuses on providing access to financial services for the underserved. As a result, some issues addressed by the Universal Standards like preventing over-indebtedness, transparent and responsible pricing, ensuring fair and ethical collection practices in case of late payment are admittedly specific to the financial sector and loan provision. But this does not mean the lessons from microfinance cannot be applied elsewhere. Like all social businesses, microfinance providers grapple with a fundamental concern: putting their mission into practice and hold good on the promise of social impact. This is the common denominator of social businesses, and is what makes microfinance a valuable use case for impact investing. Regardless of a social business's focus (financial inclusion or poverty reduction, food security or health, education or clean energy), there is a need to implement mission-focused, internal management systems that foster "impact-first" organizations where financial performance is a means to an end. The microfinance sector, with its 20 years of experience building the Universal Standards for Social Performance Management shows how this can be done.

#### **A SPM framework for Impact Investing**

The rich history of microfinance can and should be leveraged by the impact investing world, to avoid starting from scratch when it comes to defining processes and practices that help organizations achieve their social mission. The Universal Standards lay out management practices considered essential to fulfilling one's mission, and can be paired with a range of technical manuals, case studies, and examples of how to implement these practices. For example, a social business wanting to collect and manage complaints from its beneficiaries can look to the Universal Standards to understand the management system that underpins an effective complaints mechanism. The business can then turn to examples from microfinance providers on how to implement it: procedures manuals, sample MIS reports, training materials. Under this very practical approach, social performance is about improving internal management systems to enhance external impact.

The microfinance sector's progress on outcomes measurement can also be useful for the impact investing world. Tools such as the Progress out of Poverty Index, now called the Poverty Probability Index, hosted by IPA, offers a practical and simple approach to assess whether the beneficiaries of a program are above or below national or international poverty lines. Developed by the microfinance sector through the Grameen Foundation, it can be valuable for any support to poor households: are food complements for babies reaching the poorest family in Madagascar? Are lower priced drinkable water bought by remote rural peasants or rich urban households in Cambodia?

Outcome indicators<sup>1</sup>, aligned with the Social Development Goals, provide practical guidance to collect data from beneficiaries, and avoid that each social business embarks on a pipe dream to prove impact. Outcome indicators can provide accurate and useful household data to report on the efforts for positive impact while guiding daily and strategic decision making within the organization.

### **Conclusion**

Impact assessment is complex and subject to much debate, but interest in this holy grail of development shows no signs of waning. Given this desire to pursue impact studies, it seems interesting (when

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<sup>1</sup> <https://sptf.info/images/Guidelines-on-Outcomes-Management-for-Investors.pdf>

relevant) **for academics** to build on tools created for microfinance, to mix qualitative and quantitative approaches using national statistics to build ex-ante control groups, or innovate to continue analyzing the impact of social intervention.

Microfinance's experience with impact assessments tends to show that it is reasonable for practitioners not to spend too much effort in proving impact in an academic sense. **Impact investing and social finance investors** should demand microfinance and social businesses to be accountable to their social objectives through effective social performance management. This implies directing more funding for technical assistance to support progressive improvement of managerial practices, identify and track key specific outcome indicators, and to incentivize entrepreneurs in balancing economic and social objectives without sacrificing one to the other.

With the Universal Standards for Social Performance Management, both reporting and managerial practices around social performance are now codified in microfinance. Having these common set of metrics in the impact investing world could allow **practitioners** to speak the same language, better manage their social objectives and purposefully measure social outcomes. This would build transparent, responsible and client-centered organizations.

The process that led to the emergence of these standards, while unique to microfinance, certainly offers lessons for other social sectors adopting market-based approaches.

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