The Universal Standards for Social Performance Management
Implementation Guide

Social Performance Task Force
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PREFACE

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ACRONYMNS USED IN THIS DOCUMENT

APR Annual Percentage Rate

APY Annual Percentage Yield

CGAP Consultative Group to Assist the Poor

EIR Effective Interest Rate

FSP Financial Service Provider

HR Human Resources

IRR Internal Rate of Return

IT / ITC Information Technology (and Communications)

KPI Key Performance Indicator

MFI Microfinance Institution

MIS Management Information System(s)

OER Operating Expense Ratio

PAR Portfolio at Risk

PPI Progress out of Poverty Index

PY Portfolio Yield

ROA Return on Assets

ROE Return on Equity

SPI4 CERISE Social Performance Indicators 4

SPM Social Performance Management

SPTF Social Performance Task Force

TA Technical Assistance

THE PURPOSE OF THE IMPLEMENTATION GUIDE

After the introduction of the SPTF Universal Standards for Social Performance Management ("the Universal Standards") in 2012, the industry asked the SPTF for guidance on how to put the Universal Standards into practice. T*he Universal Standards for Social Performance Management Implementation Guide* ("the Guide") responds to this demand, providing practitioners with practical, actionable guidance for improving SPM. Its primary goal is to give users a "one-stop" guide for SPM, making it easier for all stakeholders to understand the Universal Standards and put them into practice.

The first version of this Guide was published in 2014. This 2017 edition is based on version 2 of the Universal Standards (released August 2016), and it features updated guidance and field examples.

THE SOCIAL PERFORMANCE TASK FORCE

The Social Performance Task Force (SPTF) is a non-profit membership organization with several thousand members from all over the world. Our members come from every stakeholder group in inclusive finance. The SPTF engages with these stakeholders to develop and promote standards and good practices for social performance management (SPM), in an effort to make financial services safer and more beneficial for clients. For more information, visit our website.

SPECIAL THANKS TO ADA

The SPTF appreciates ADA's financial contribution to producing and disseminating this Guide in three languages. ADA is dedicated to financial inclusion for excluded people in developing countries. ADA empowers microfinance institutions and networks, and helps them obtain funding for sustainable growth through the Luxembourg Microfinance and Development Fund. ADA supports innovative inclusive financial services and provides capacity building, through ADA 3T services. ADA also works with individual States to support their inclusive finance expansion strategies. ADA is dedicated to the issue of transparency and the promotion of SPM practices and standards. ADA supports initiatives such as Microfact 3.6, a tool that enables the direct implementation of such standards.

www.ada-microfinance.org

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DEFINING SOCIAL PERFORMANCE MANAGEMENT AND ITS BENEFITS

Social performance management (SPM) refers to the systems that organizations use to achieve their stated social goals and put customers at the center of strategy and operations. A provider's social performance refers to its effectiveness in achieving its stated social goals and creating value for clients. If a provider has strong SPM practices, it is more likely to achieve strong social performance.

After decades of growth and experimentation, the inclusive finance industry has learned that in order to achieve financial inclusion and contribute to positive changes in the lives of clients, financial service providers (FSPs) need to be client-centric. For many years, the industry has emphasized financial sustainability, but we have learned that strong financial performance alone does not necessarily translate into benefits for clients.

Double bottom-line institutions need to take deliberate actions to be sustainable *and* serve clients' interests, including reaching excluded people, protecting their clients from harm, and designing and delivering appropriate products that help clients cope with emergencies, invest in economic opportunities and build assets, and manage their daily and life-cycle financial needs. These efforts constitute social performance management.

Though it requires time and attention, a balanced management approach benefits both the institution and the client in the following ways:

- **Client-centric products and services.** Through direct feedback with clients and the collection of social performance data, the provider can understand how it is affecting clients and which products and services that clients value. With this information, the FSP can attract and retain clients with appropriate products and services. Several industry studies confirm that managing social performance has positive implications for financial performance.[1]
- **Protection against mission drift.** Integration of social goals into business plans and strategies helps ensure that as the provider grows and changes, its social purpose is retained.
- **Risk management.** Beyond mission drift, providers face myriad social risks related to clients and employees: client and staff attrition and negative impact on clients are two of the biggest risk categories. Keen attention to the needs of clients and employees reduces many forms of institutional risk.

- **Reporting to investors/donors.** Using client data, the provider can demonstrate client-level outcomes to external stakeholders (such as investors and regulators), thus helping to attract and retain funding.
- **Differentiation in competitive markets.** Efforts to protect clients and provide excellent customer service can set the provider apart from other providers.
- **Staff satisfaction/retention.** Efforts to treat staff responsibly may result in improved staff satisfaction and performance
- **Ability to influence regulation.** Positive social data and a strong reputation for social outcomes can help providers avoid potential regulatory restrictions, such as interest rate caps. Likewise, providers with strong SPM practices can influence regulation of the social aspects of microfinance.

THE SPTF UNIVERSAL STANDARDS FOR SOCIAL PERFORMANCE MANAGEMENT[2]

There is no single formula for successful SPM. However, the industry has recognized a set of core management practices that constitute "strong" SPM. These practices form the SPTF Universal Standards for Social Performance Management ("the Universal Standards").

The Universal Standards bring together strong practices implemented successfully throughout the industry in one comprehensive manual in order to clarify and standardize SPM. Developed through broad consultation, the Universal Standards both reflect current practice and push practitioners toward better performance.

Providers can use the Universal Standards to understand all aspects of SPM, evaluate their own practices against global practices, and improve their management systems over time. Similarly, other stakeholders—investors,

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[1] a) Husain, M., Pistelli, M. (2016). *Where Good Intentions Meet Good Business Practices.* MIX.
b) Hoepner, A., L. Spaggiari, C. Lapenu, B. Brusky, B. Perez-Rocha. (2014). "Does good client protection impact financial performance?" *Making Microfinance Investment Responsible Action Group*, Brief N°3, European Microfinance Platform (eMFP), Luxembourg
c) Financial Results of Microfinance Institutions: Social performance matters, 2012.
d) Microfinance Synergies and Trade-offs: Social vs. Financial Performance Outcomes in 2008.
[2] *The Universal Standards Manual* contains all of the the standards and Essential Practices. This Guide uses the same standards and Essential Practices. The manual is available for download in English, Spanish, French, Russian, and Arabic: http://sptf.info/spmstandards/universal-standards http://sptf.info/spmstandards/universal-standards

donors, networks, technical assistance (TA) providers, consultants, and regulators—can use the Universal Standards to understand SPM, assess the performance of providers, and support them to improve practice.

The Universal Standards are organized into six dimensions (see Figure 1), and each dimension contains multiple standards. A standard is a simple statement of what the provider should do to manage social performance. For each of these standards, there are several "Essential Practices," which detail how to achieve the standard.

The *Universal Standards Manual* is available in English, Spanish, French, and Arabic.

FIGURE 1. THE SIX DIMENSIONS OF THE UNIVERSAL STANDARDS

UNIVERSAL STANDARDS FOR **SOCIAL PERFORMANCE** MANAGEMENT

DEFINE AND MONITOR SOCIAL GOALS

ENSURE BOARD, MANAGEMENT, AND EMPLOYEE COMMITMENT TO SOCIAL GOALS

DESIGN PRODUCTS, SERVICES AND DELIVERY CHANNELS THAT MEET CLIENTS' NEEDS AND PREFERENCES

TREAT CLIENTS RESPONSIBLY

TREAT EMPLOYEES RESPONSIBLY

BALANCE FINANCIAL AND SOCIAL PERFORMANCE

WHO SHOULD USE THE GUIDE

The Guide is designed primarily for providers who seek to achieve social goals. These providers range from credit-only non-government organizations and cooperatives to non-bank financial institutions, microfinance banks, and even commercial banks, to the extent they target low-income and underserved clients.

The Guide is also useful to other stakeholders who need to understand SPM and how to evaluate it—including funders, auditors, raters, and TA providers. It may also be beneficial for providers that do not have social goals but are striving to achieve more responsible practices. Dimensions 4 and 5 will be particularly useful for such providers.

HOW TO USE THE GUIDE

We suggest that users review the entire contents of Chapters 1 and 2, and use Chapter 3 as a reference guide. Since Chapter 3 provides detailed information on each of the standards, users may find it most practical to refer only to those practices that they want to improve, rather than reading the chapter from beginning to end.

Chapter 1 suggests five steps for creating an SPM action plan. Use this chapter when introducing the Universal Standards to your institution, evaluating your practices, and creating an action plan for improving practice.

The information in Chapter 2 will help you to operationalize your social performance action plan by assisting you in identifying the specific social performance data and management positions involved in making important operational and strategic decisions.

Finally, Chapter 3 contains "how-to" guidance for each of the 19 individual standards found in the Universal Standards. It also provides examples of how providers are implementing them in practice. Chapter 3 is organized into six parts, reflecting the six dimensions of the Universal Standards (see Figure 1).

Look for this icon throughout the Guide. It indicates a **resource** where you can find more information on a specific topic.

WHERE TO START WITH SPM

There is no chronological order to the Universal Standards—there are many possible starting points for improving practice. Most FSPs will use one of three starting points—1) reviewing your institution's mission and setting social goals, 2) assessing your institution's practices against the Universal Standards, or 3) developing a focused response to a pressing SPM issue. Each approach is described below.

1. REVIEWING YOUR INSTITUTION'S MISSION AND SETTING SOCIAL GOALS

One common starting point for strengthening SPM is to first examine your social mission and use it to formulate specific social goals. Then, you can decide how to improve your management systems (people, products, and policies) to reach those goals. This approach is helpful to some institutions, because it allows managers to start with a familiar concept—the mission—and then begin to operationalize the mission in a step-by-step way. An institution starting here will find the guidance in Dimension 1: _Define and Monitor Social Goals_ especially useful for reviewing the mission and creating a strategy for achieving social goals. When it is time to implement the strategy, the institution can consult the other Dimensions.

2. ASSESSING YOUR INSTITUTION'S PRACTICES AGAINST THE UNIVERSAL STANDARDS

Chapter 1 describes how an institution can introduce the concept of SPM within the organization, review the Universal Standards, and evaluate the institution's current practices against the practices described in the Universal Standards. This starting point allows an institution to become familiar with all of the aspects of SPM before deciding how to proceed. It is a useful approach for institutions that are either unfamiliar with SPM, or that have implemented some SPM and need to prioritize their next steps.

3. DEVELOPING A FOCUSED RESPONSE TO A PRESSING SPM ISSUE

Some providers will find that SPM is most relevant when it is used to address a specific operational challenge. Common financial problems (e.g., client exit, high PAR, and employee turnover) can be addressed with SPM interventions such as understanding the needs of different client segments (standard 3A), designing products and services that meet specific needs (standard 3B), and creating human resources policies that protect employees (standard 5A). Performance problems are often rooted in poor client service—for example, high PAR is often linked to a combination of poorly-designed loan products, low quality group formation or client selection, and weak loan appraisal. You can use the Universal Standards to learn how your institutional challenges relate to client service issues (e.g., how product design can affect client retention) and to identify specific actions you can take to resolve these challenges (e.g., use client feedback to modify products).

CHAPTER 1:
How to Use the Universal Standards to Improve Practice

▸ Step 1. Introduce the Universal Standards at your institution
▸ Step 2. Assemble an SPF team to use the Universal Standards to improve practice
▸ Step 3. Assess the institution's current practices against the Universal Standards
▸ Step 4. Create an action plan using the results of your assessment
▸ Step 5. Review progress regularly

HOW TO USE THIS CHAPTER

This chapter presents five steps you can take to use the Universal Standards to improve practice. Though there is no formula for SPM, these steps can help to guide the implementation process at your institution.

STEP 1
INTRODUCE THE UNIVERSAL STANDARDS

STEP 2
ASSEMBLE AN SPM TEAM

STEP 3
ASSESS YOUR INSTITUTION'S CURRENT PRACTICES

STEP 4
CREATE AN ACTION PLAN

STEP 5
REVIEW PROGRESS REGULARLY

INTRODUCE THE UNIVERSAL STANDARDS

OBJECTIVE FOR THIS STEP

Upon completion of this step, senior managers and the board[3] should be clear on what the Universal Standards are, how they can be used to identify institutional priorities for SPM, and how they can be used to improve practice. Managers should feel prepared to use the Universal Standards to assess the institution's current practices (Step 2).

HOW TO COMPLETE THIS STEP

When introducing the Universal Standards to management and the board, you may need to begin with a general explanation of SPM. During this introduction, focus on how managing social performance will benefit your clients and your institution (see Box 1).

This introduction should answer:

- What is SPM, and how can it benefit our institution?
- What are the Universal Standards?

- How can we use the Universal Standards to assess our current SPM practices and identify our SPM priorities? (see Step 3)
- How can we use SPM to address specific challenges at our institution?

During the introduction, do not try to review the entire list of standards; rather, choose a few that are most relevant to your institution. You might discuss a particular standard that your institution *already* follows and one that is *not currently* practiced. Doing so will emphasize how your institution has some good practices in place, but needs to improve others.

As discussed in the Introduction to this Guide (see Getting Started with Implementation), another approach is to select one pressing challenge at your institution (e.g., rising client exit rates), discuss a few Essential Practices related to the challenge, and show how the Universal Standards and this Guide can help address your challenge.

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[3] Though some providers do not have boards, this Guide will use "board" to refer to the provider's governing body.

BOX 1. MAKING THE CASE FOR SPM

Managing social performance allows an FSP to understand how it is affecting clients and how to provide products and services that clients value. SPM allows the FSP to take its social goals into account in concrete ways, and in real business situations, rather than making financial decisions without understanding the social consequences. This balanced approach to management benefits both the FSP (e.g., client loyalty/retention) and the client (e.g., appropriate products).

FSPs also use SPM as a risk mitigation measure. Strong client protection practices, in particular, reduce the risk of the FSP developing a poor reputation for harming clients. SPM also reduces the risk of inappropriate products being delivered to clients, thereby increasing the likelihood that clients will use products successfully. Keen attention to the needs of clients helps manage myriad financial risks such as client exit, slow growth, and low uptake from target users. Likewise, attention to the needs of employees can help address the risks of employee mistreatment of clients, poor productivity, and employee attrition.

Finally, management of social goals also allows the FSP to demonstrate client-level results to internal stakeholders (such as clients and employees) and external stakeholders (such as investors) using real data, rather than anecdotes.

- The SPTF's *Convincing the Skeptic* offers practical advice for confronting skepticism about SPM within your organization.
- *Does Good Client Protection Impact Financial Performance?* uses statistical analysis to demonstrate how most client protection measures show a positive relationship with financial performance—in other words, how client protection is good for the financial bottom-line.
- *The Business Case for Customer Centricity* argues that generating greater value for customers is good for business because it increases product use, satisfaction, and loyalty while reducing costs.
- CGAP's *Embedding Social Performance Management in Financial Service Delivery* provides an overview of SPM, the Universal Standards, and the business case for managing social performance. (Also available in Spanish and French).
- The SPTF website provides an answer to the question—What is SPM? The website also provides answers to common questions about SPM. Additionally, the SPTF has prepared many different types of communications materials about the Universal Standards, including a short handout on the Universal Standards, a message manual for financial institutions, and a PowerPoint presentation on the Universal Standards. Some materials are available in Spanish and French.
- The SPTF offers a series of short guidance notes, called *SPM Solutions to Operational Challenges*. Each of the guidance notes discusses an operational problem and suggests how SPM can be used as part of the solution. Topics include: low growth; client delinquency and default; and low productivity.
- *Turning Client Focus into Commercial Success* is a case study on UGAFODE (Uganda) that highlights how SPM can address pressing operational challenges and improve an FSP's financial bottom line.

ASSEMBLE AN SPF TEAM TO USE THE UNIVERSAL STANDARDS TO IMPROVE PRACTICE

OBJECTIVE FOR THIS STEP

Upon completion of this step, you should have a team who is willing and able to review the Universal Standards, assess your institution's practices, identify your priorities, and create an SPM action plan.

HOW TO COMPLETE THIS STEP

Assemble a group of staff who collectively represent every area of your institution's operations and who have the knowledge and authority to assess your current practices and create an action plan for improving practice. Ensure that the people in this group can collectively discuss and assess *all* aspects of your business and are influential enough to convince others to prioritize SPM. Also, ensure that the presence of no one person in the group will inhibit discussion among the others (e.g., some employees may not speak freely in the presence of the CEO).

You may consider including the following people in the group. (Table 3 outlines the role for each person during the institutional evaluation.)

- A board member
- Executive Manager (CEO/MD)
- Operations Manager
- Finance Director
- Product Development Director
- SPM Director/ SPM Champion (see Box 2)
- Human Resources Director and/or Training Manager
- Marketing Director
- Information and Communications Technology (ICT) Director
- Internal Auditor/Compliance/Risk Management Director
- Field staff (e.g., Branch Managers)

BOX 2. **CONSIDER APPOINTING AN "SPM CHAMPION"**

As you decide how to assemble your SPM team, consider appointing a "social performance champion"—an employee with the motivation and experience to lead SPM implementation. The champion can teach other staff about SPM and make it an institutional priority. Many organizations have found that, in the absence of an SPM lead, it is difficult for employees to believe that SPM is a real institutional priority.

Though this is a practical way to keep SPM on the agenda, any meaningful social performance initiative will require buy-in and input from a wider cross-section of employees. If your institution assigns an SPM champion, that person should assemble a larger SPM team, which will be able to promote SPM throughout the institution. In other words, make sure that SPM is not perceived as being an individual person's job, but instead work toward the diffusion of SPM responsibilities into all departments at your institution.

As SPM becomes part of your organization's normal business operations, the need for an SPM lead or special team will slowly diminish. For example, once SPM is integrated into the institution's strategic plan, each department will be clear about their SPM responsibilities, and department heads can manage their own discrete tasks, without the prompting of an SPM champion or SPM team.

Do not expect that all of these people will meet together to perform an organizational assessment at the same time. Such a large and diverse group would not likely be efficient. Rather, the assessment lead will want to consult all of the above people, and they may work together in small groups to complete the assessment over a fixed period of time (e.g., 2 weeks).

Opportunity International (OI) places strong emphasis on SPM, and it supports its members to improve practice. The global network wants to help its members understand the Universal Standards and to set them on the path toward becoming certified through the Smart Campaign's Client Protection Certification. To support member OI Colombia in these pursuits, the network mandated that one of the FSP's existing staff members be appointed as "SPM Champion" for the FSP. The Champion's main role was to educate his colleagues about SPM and persuade them that it was necessary and beneficial for the FSP. During the Champion's three-year tenure in this role, he successfully helped to shift the FSP's priorities toward SPM implementation. The following are a few of the tactics he used to build staff and management buy-in for SPM:

- **Start with management.** Just as the push for SPM came originally from the president and board of OI, OI Colombia's board and executive management has the most influence over SPM uptake. The Champion delivered several SPM "trainings"—information plus discussion—to the board and management. The discussions were focused on how SPM can help OI Colombia to be more financially stable. Out of these discussions, management formed an SPM strategy that the Champion was tasked with "selling" to the rest of the institution.

- **Get HQ staff on board.** The SPM Champion hosted a series of "lunch and learn" events where busy headquarters employees could learn about SPM over a meal at the office. The topics started with the basics ("What is SPM?") and became increasingly technical over time, covering the Universal Standards, OI Colombia's SPM strategy, and staff roles in implementation.

- **Visit field staff in person.** OI Colombia has nine branch offices and 200 field employees. The SPM Champion took a "teaching tour" each year, for three years, during which he visited each office and delivered a three- to four-hour training for employees. The content was different than HQ discussions, as it focused more on the practical aspects of implementation, such as how to administer poverty surveys.

- **Market SPM internally.** In between these events, the SPM Champion worked with the marketing department to create visibility and "brand recognition" for the SPM strategy. SPM topics were included in the internal newsletter—topics such as OI's social dashboard, the reasons for collecting social data, and poverty scorecard results. The IT department also created a screensaver of the Smart Campaign Client Protection Principles so that the staff would internalize them. Finally, the marketing department developed promotional videos on the importance of SPM and OI's customer service principles. These videos played on the closed circuit TVs in each branch location.

ASSESS YOUR INSTITUTION'S CURRENT PRACTICES AGAINST THE UNIVERSAL STANDARDS

OBJECTIVE FOR THIS STEP

Upon completion of this step, your management team should have identified which Essential Practices your institution is currently implementing and which are not yet practiced.

HOW TO COMPLETE THIS STEP

An assessment of your institution's current SPM practices will reveal areas of weaker practice that your institution can address. Regardless of where you start with your Universal Standards implementation efforts, it is best to assess your institution's practices against the entire set of Universal Standards. In addition to uncovering weaknesses that you may not be aware of, this assessment will help you understand how a "pressing issue" may cut across many management areas.

For your assessment, use the CERISE Social Performance Indicators 4 (SPI4). This social audit tool addresses each of the Essential Practices found in the Universal Standards, and it allows your institution to score your compliance with each practice. The tool is available for free, and it offers an Excel format for data entry and analysis that makes it easy to answer the indicators and view the results of the assessment (see Box 3).

The SPI4 is available in English, French, Spanish, Russian, Portuguese, Bahasa Indonesian, and Arabic. CERISE also offers a guide called SPI4 Step-by-Step, which explains how to use the tool. CERISE provides an example of a full SPI4, an example final report, and Standards of Use for auditors. All of these resources are also available in Spanish and French.

BOX 3. **RESULTS GRAPHS GENERATED BY THE SPI4**

After your institution scores each indicator in the SPI4, graphic results make it easy to see where your institution is doing well, and where there is room to improve.

Universal Standards Score by Dimension

Chart axis: 0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%

- **1a.** Social strategy
- **1b.** Reporting of client-level data
- **2a.** Board commitment
- **2b.** Accountability to social mission
- **2c.** Implementation of strategy
- **2d.** Recruitment and evaluation
- **3a.** Client needs and preferences
- **3b.** Benefits to clients
- **4a.** Prevention of over-indebtedness
- **4b.** Transparency
- **4c.** Fair and respectful treatment of clients
- **4d.** Privacy of client data
- **4e.** Mechanisms for complaint resolution
- **5a.** HR policy
- **5b.** Communication of terms of employment
- **5c.** Employee satisfaction
- **6a.** Growth rates
- **6b.** Alignment of objectives
- **6c.** Profits
- **6d.** Compensation

TABLE 1. **TWO DIFFERENT APPROACHES TO USING THE SPI4**

APPROACH	PROS	CONS
STAFF LEADS A SELF-ASSESSMENT	• Builds leadership among staff facilitators and buy-in among all participating staff. • Less costly than hiring an external facilitator. • Less time-consuming (experience suggests 1 to 5 days of work).	• Staff may have questions that they do not know how to answer in the absence of an SPM expert. • A scheduled visit from a consultant can help staff prioritize facilitator assessment
SPI4 AUDITOR SUPPORTS AN ACCOM-PANIED SELF-ASSESSMENT	• Facilitator can answer questions about SPM posed by staff. • Facilitator can ask tough questions (and identify gaps) that would be difficult for the FSP's staff to perceive on their own.	• More costly than only using own staff. • Likely more time-consuming, as the external facilitator will explain the standards/indicators and will ask probing questions about current practice (experience suggests 3 to 5 days of on-site work).

CHOOSING HOW TO CONDUCT THE EVALUATION

There are two basic options for conducting the assessment. Your SPM team can do it alone, or you can hire an external facilitator to guide your team through the assessment. Table 1 presents "pros" and "cons" of both options.

You may ask the entire "SPM team" (see Step 2) to participate in the review, or you may assign certain group members to review the practices found in specific Dimensions of the Universal Standards. Table 2 suggests which team members should be involved in the review of each Dimension.

	Dimensions					
	1	**2**	**3**	**4**	**5**	**6**
Board member		🟦				🟧
Exec. Mgt	🟧	🟦		🟩		🟧
Operations	🟧	🟦	🟪	🟩		🟧
Finance	🟧	🟦				🟧
Prod Dev	🟧		🟪	🟩		
HR/Training		🟦	🟪	🟩	🟦	
ICT	🟧	🟦		🟩		
Audit/Risk	🟧	🟦		🟩		🟧
Field staff			🟪	🟩	🟦	

BOX 4. **COMPARE YOUR RESULTS TO PEERS**

Because the SPI4 is based on the Universal Standards and is a common tool used by hundreds of FSPs, you can compare the results of your assessment with other SPI4 users. Benchmark your results using the benchmark tables available on the CERISE website. The tables allow you to compare your results to peers—including by country, size, legal status, and profit status. In particular, these comparisons can help put low scores in perspective so that they are not demoralizing to your team.

The example benchmarking table below compares a provider's scores to the averages in their region.

By region ASIA	Average of all audits* (N=46)	Your institution's average score
Dim. 1: DEFINE AND MONITOR SOCIAL GOALS	66	61
Dim. 2: ENSURE BOARD, MANAGEMENT ...	56	58
Dim. 3: DESIGN PRODUCTS, SERVICES, ...	65	70
Dim. 4: TREAT CLIENTS RESPONSIBLY	72	75
Dim. 5: TREAT EMPLOYEES RESPONSIBLY	74	57
Dim. 6: BALANCE FINANCIAL AND SOCIAL ...	78	70
Number of audits	46	1

* Highest quality audits: those done by experienced auditors, that are 100% complete, and that include comments to justify scoring.

- To learn more about how SPI4 auditors are trained and vetted, visit CERISE's Get Trained webpage.
- To find a trained auditor, consult the SPTF's Technical Assistance Provider Database.

- ECLOF International, as a part of its ongoing support to its network members, commissioned an SPI4 audit of member ECLOF Myanmar. The audit was intended to reveal how ECLOF International could provide SPM support to ECLOF Myanmar.
- Two weeks prior to the visit, the SPI4 auditor reviewed key institutional documents and scheduled interviews with senior management, clients, and branch staff. During the onsite visit, which took place over five days, the auditor began by interviewing several board members, the CEO, and the department heads at headquarters. At a branch office, the auditor ran two focus group discussions with clients from two villages and one focus group discussion with field officers; conducted interviews with the branch manager and her two assistant managers; and reviewed Participatory Poverty Assessment files (which contain the clients' socio-demographic data), alongside loan documentation and information from the branch MIS.
- On the last day of the onsite visit, the auditor debriefed with senior management and the board. The team accepted the findings from the visit with a few observations and clarifications to be addressed in the final report. The audit found that ECLOF Myanmar has strong practices in the areas of delivering affordable, needs-based products to clients in rural areas, and in balancing financial and social performance. The audit also revealed several areas in need of improvement, including better protection of client data, the need for a complaint resolution mechanism, and the development of concrete social indicators and targets.
- The audit report, delivered several weeks after the onsite visit, provided an outline for creating an SPM action plan. The report recommended that the ECLOF team prioritize the action items as high (implement within 1-2 years), medium (within 2-3 years) or low (2-3+ years). ECLOF Myanmar used the template to create a draft SPM action plan, and submitted it to the network for review.
- In response to the SPI4 report and resulting action plan, an ECLOF International team visited Myanmar and assisted the FSP to further refine the action plan and assign necessary technical and financial support to each action item. During this visit, they agreed on a priority list for the coming year and a timeline for implementation—shown in the table below.

Dimension of the Universal Standards	Action Item	Completion timeframe, Year 1
1—Define and Monitor Social Goals	• Define concrete social goals and indicators, adapt the MIS to store and analyze social data, and produce reports on social indicators	Q2
	• Roll out Progress out of Poverty[4] data collection and analysis	Q4
2—Employee and Management Commitment	• Develop a social dashboard for board meetings	Q4
3—Products and Services	• Introduce a client satisfaction survey	Q2
4—Treat Clients Responsibly	• Amend the loan contract so that it informs clients about their rights	Q2
	• Introduce a client data protection policy and procedures	Q2
	• Introduce a client complaints mechanism	Q3
5—Treat Employees Responsibly	• Introduce a staff grievance procedure	Q2
	• Conduct a staff satisfaction survey	Q4

According to management, the SPI4 audit came at the right time for ECLOF Myanmar. The country's microfinance regulator had recently issued regulation requiring microfinance providers to comply with client protection standards. The regulation is based on the same principles advocated by the Smart Campaign, which are fully represented in the Universal Standards and the SPI4 audit tool. Having undergone an SPI4 shortly before the new regulation took effect, ECLOF Myanmar was already aware of their overall social performance and degree of compliance with the Client Protection Principles. Perhaps most importantly, they already had a concrete improvement plan in place.

[4] The Progress out of Poverty Index is a poverty measurement tool. Find out more here.

CREATE AN ACTION PLAN USING THE RESULTS OF YOUR ASSESSMENT

OBJECTIVE FOR THIS STEP

Upon completion of this step, your institution should have an action plan for improving specific SPM practices, including a timeline, staff assignments, and a budget.

HOW TO COMPLETE THIS STEP

The assessment in Step 3 will likely reveal multiple gaps in your current practice. Your institution should prioritize the gaps that the institution will address, consult the guidance provided in Chapter 3 of this Guide, and then create an action plan for how your institution will improve practice, starting with its highest priority areas.

CERISE offers an Excel-based sample action plan. Also available in Spanish and French.

PRIORITIZE ACTION ITEMS

There is no single best way to determine which actions to prioritize. Using the results generated by the SPI4, examine which Essential Practices need work. Then, use these four questions to aid your prioritization process:

1. **How will the action benefit your clients?** Will the action create direct or indirect benefits for your clients? In many cases, what is good for your client is also good for your institution, as satisfied clients are loyal and have greater success using your products. For example, if the assessment revealed that your institution does not have a policy that defines appropriate and inappropriate debt collection practices, the creation of this policy could be an action item that directly benefits clients who are in arrears. Such a policy reduces the likelihood that credit/collections staff will violate clients' rights during the collections process.

2. **How will the action benefit your institution's strategic priorities?** Make sure that any action you prioritize is in line with your strategic priorities, so that it is easier to fit into your overall strategic plan and is in sync with where you are headed as an organization. For example, if your three-year plan includes a focus on improving your data management system, you might prioritize some of the practices found in Standard 1B—such as introducing a poverty measurement tool to understand whether you are reaching your target clients, or creating data management protocols for how social data is collected and reported.

3. **How will the action reduce risk for the institution?** If you have already identified high-risk areas for your institution, prioritize actions that will impact those areas. For example, if client attrition is a high-risk area, ask— *What does the assessment tell us about why our clients are leaving?* Does it reveal that your institution does not provide clients with easy-to-understand documentation of product terms and conditions? Perhaps it shows that you have not yet established healthy staff caseload limits, creating the risk for poor customer service, among other

problems. If you have identified staff exit as a key risk area, look closely at how you score on the indicators in Dimension 5. Are you providing staff with the training and support necessary to perform well? Do you know whether staff satisfaction is low, and if so, why? Use your SPM action plan to directly support your current risk management priorities.

4. **What resources are required (human and financial)?** To accurately determine the level of effort required for a particular activity, first consider all of the things you are currently doing to implement SPM. In all likelihood, you already have many good practices in place. Building on these for a few "quick wins" will energize your staff to take on the higher-effort activities. If you select an activity that requires greater resources, ensure that the benefit to your clients and your institution is also high. For example, you may decide to create a client complaints phone line to replace your branch suggestion boxes. Though the start-up effort and costs may be high, this activity will likely increase client satisfaction, create greater field officer accountability, and provide management with information for making operational or product improvements.

After completing the SPI4, KOMIDA (Indonesia) carefully considered how to prioritize a list of over 30 potential SPM-strengthening activities. Given that potential activities were spread across various departments (e.g., SPM, Secretariat, Operations, Training, HR, Finance, CEO), KOMIDA management asked each department to suggest priorities for its own action items, set timelines, and estimate the extent of TA support required.

Next, KOMIDA analyzed this feedback and asked the following questions:

- Which dimensions/recommendations had dependencies, meaning subsequent activities would build from them?
- Which activities would require significant operational changes?
- Which activities would have the biggest impact on the budget?
- Which are "quick wins" and which will take longer?
- How do each of the activities fit with our other planned activities?

KOMIDA prioritized activities that have "dependencies," meaning that future activities depend on their successful completion. For instance, in order to set realistic social targets, KOMIDA needed to first analyze its existing social data to get a sense for current performance. Also, in order to be able to report to the board on SPM, KOMIDA needed to first update its MIS to analyze social data.

KOMIDA also wanted to be realistic about how many "major" activities, as they called them, they pursued at one time. Major activities were those requiring the greatest amount of time and attention. One such activity was making changes to the FSP's repayment capacity analysis. An overhaul of the current process would require a significant investment and involve employees at every level of the institution. KOMIDA knew they should not try to take on too many major changes at the same time.

Once KOMIDA decided on a set of prioritized activities, management went back to each department to develop a realistic timeline for implementation. Again, the FSP tried to be as realistic as possible, allowing for normal delays and competing priorities. For instance, in Indonesia, Ramadan is a major festival, and typically businesses are closed for two weeks. There are no field level activities, given that clients are busy with celebrations. Therefore, immediately following the holiday, the Operations team is particularly busy with disbursements and collections and cannot be expected to do much else. Similarly, in November and December when the organization is busy with strategic planning for the next year, KOMIDA planned fewer activities. Major policies were developed before July, and activities requiring pilots were rolled out by November so that they could be discussed during strategic planning meetings. These considerations allowed KOMIDA's SPM activities to be in harmony with the schedule of routine operations.

Read the full case study here.

Opportunity International assisted partner Alalay sa Kaunlaran, Inc. (ASKI) (Philippines) to complete an in-depth evaluation of ASKI's practices against the Universal Standards and to develop an action plan for improving practice. To help ensure that the action plan remains a priority for the institution, ASKI put in place several measures, including:

- Appointing a project-lead with overall responsibility for ensuring progress toward the action plan, while also designating specific lead and support staff for *each* Standard, making it clear who is responsible for particular outcomes. The plan also identifies where TA is required.
- Forming an SPM committee composed of key members of the FSP's management team. The committee will review ASKI's progress against the action plan every month and present it to the larger management team, as needed.
- Budgeting for SPM implementation. The plan sets out estimated costs—both funds and staff time—for implementing each standard.
- A timeline for implementation. As concrete tasks are completed, ASKI updates the status of each task in the action plan.

FINCA International developed social performance action plans with three of their subsidiary microfinance institutions (MFIs). The areas for action were determined by a cross-section of staff across all areas of field operations, including financial service officers and other client-facing personnel. The action items ranged from practical (pay for staff airtime spent talking on the phone to clients) to strategic (develop and deliver a multi-course financial literacy program for clients and their communities).

While the planning process took several months, it proved to be effective for the following reasons:

- FINCA gave equal weight to staff input, regardless of their level of seniority.
- Managers championed the planning and implementation processes to other staff.
- The institutions did not commit to doing too much at once, rather to a prioritized list of activities with a realistic time frame.
- Larger-scale activities were divided into manageable steps, to prevent burnout.
- The FSPs were able to secure TA and guidance from staff across the FINCA network, leveraging expertise, materials, and trouble-shooting.

ASSIGN A TIMELINE AND STAFF TO THE ACTION PLAN

Create a timeline for each step of the implementation process, and detail which staff are in charge of specific deliverables. To the extent possible, use existing staff to implement the plan, as this is more affordable and makes it easier to integrate SPM into ongoing activities. If you do not currently have the internal capacity, you can contract external specialists to assist. However, ensure that one or two mid-level or senior-level employees work with the SPM consultant, so that they gain expertise to carry the action plan forward.

The SPTF maintains a database of TA providers who specialize in one or more areas of SPM.

ASSIGN A BUDGET TO THE ACTION PLAN

Some implementation steps will require staff time but little or no monetary resources (e.g., updating policy documents). Others may require dedicated funds (e.g., training staff). Include a budget for SPM activities within your institution's operational budget to ensure that other priorities will not delay execution of the plan. The initial implementation phase will cost the most in terms of time and money, while ongoing reviews and maintenance should cost less. You may choose to begin with simple, inexpensive activities—this is a low-risk way to begin, and early success will build buy-in for future SPM implementation.

INTEGRATE THE ACTION PLAN IN THE STRATEGIC PLANNING OF YOUR INSTITUTION

To make sure that the action plan will be adopted and implemented, it is ideal to include it in your institution's business/strategic planning. Over time, it will become more natural for your institution to systematically integrate social performance goals and actions into any business planning exercise. See Dimension 2 for more guidance.

REVIEW PROGRESS REGULARLY

OBJECTIVE FOR THIS STEP

Step 5 is an ongoing process, the objective of which is to monitor your institution's progress toward its action plan and make adjustments as needed. Implementing your SPM action plan is a long-term change management process that will affect all aspects of your organization. Implementation requires ongoing commitment, management, and action.

HOW TO COMPLETE THE STEP

Establish regular intervals to evaluate whether you are meeting your implementation goals, and adjust your approach accordingly.

TIMING

Ideally, your SPM work plan will be integrated into your strategic/business plan and will therefore be reviewed at the same time as your strategic plan. If you have not yet incorporated your SPM plan into your overall institutional plans, decide on a timeline for a regular review (e.g., every six months). You may also decide to engage an external consultant to evaluate progress and make additional recommendations.

ADJUSTING YOUR ACTION PLAN

If your review reveals lack of progress on implementation, consider whether your institution is experiencing "SPM fatigue"—the result of taking on too much at once or failing to integrate your work on SPM into staff priorities. Rather than abandoning the SPM action plan altogether, adjust the plan to reflect a more reasonable pace.

Your ultimate goal should be full integration of SPM activities into your operations, so that they become a normal part of your operations and are viewed as essential elements of your business and customer service model.

FIELD EXAMPLE 6. **KHUSHHALI BANK TAKES ACTION BASED ON SPI4 RESULTS**

In 2013, Khushhali Microfinance Bank Limited (KMBL) (Pakistan) was looking for a simple way to improve their SPM practices. According to the bank's Chief Risk Officer, Lubna Tiwana, the bank needed a self-assessment tool to identify which practices they could improve in order to, "put their SPM house in order." Pakistan Microfinance Network (PMN) introduced Khushhali to the SPI4 social audit tool, which they used to conduct a comprehensive self-assessment of their SPM practices.

That initial assessment set in motion an impressive effort to fully integrate SPM into every area of the bank's operations. In just three years' time, KMBL has revamped dozens of policies and processes, all overseen by the bank's newly founded Environmental and Social Management Systems (ESMS) Unit. This fully staffed unit is ultimately responsible for all environmental, social, and governance (ESG) activities.

The chart below highlights some of Khushhali's most notable SPM activities, which were set in motion by the organization's SPI4 assessment.

Dimension 1: **Define and Monitor Social Goals**	• Reviewed the bank's mission, taking into account the long-term interest of all stakeholders. • Integrated the following into the bank's business plan: a description of the bank's target clients; the bank's social goals; and specific targets related to those goals. • Developed internal monitoring tools to track progress toward the social targets, including a poverty scorecard to measure client changes over time. • Streamlined the bank's social data collection, analysis, and reporting processes. • Used a social dashboard for reporting to the board and management (see example).
Dimension 2: **Ensure Board, Management, and Employee Commitment to Social Goals**	• Created the ESMS Unit and inter-departmental working group in charge of SPM. • Provided SPM orientation to existing and new board members and managers. • Updated board members' terms of reference to include these responsibilities: review of mission compliance, discussion of social performance results and social performance related risks, review of client protection practices, and appropriate growth/profit allocation. • Used board's input to integrate social goals into the operational and business plan. • Embedded SPM criteria into staff recruitment process, performance appraisals, and incentives schemes.
Dimension 3: **Design Products, Services, Delivery Channels that Meet Client Needs and Preferences**	• Worked on improving the product development process, with an emphasis on gathering input from clients. Established a Market Research Unit. • Strengthened service quality functions, including: creation of a service quality desk, adoption of a customer satisfaction survey, strengthening client complaints handling. • Introduced a debt consolidation product for repeat clients with genuine need. • Produced a report on customer satisfaction on a quarterly basis, including: customer service, in-branch services, and branch experience. • Measured, reported, and analyzed client retention statistics on a quarterly basis. • Offered an increasingly diverse set of products and services, especially for enterprise. • Investigated reasons for client exit and used the information to improve products and delivery.

Dimension 4: **Treat Clients Responsibly**	• Improved indicators of client over-indebtedness and created an institution-specific definition for "high risk markets." • Developed policy for avoiding over indebtedness: clients may only have one loan from KBML and may only have two other loans outstanding (for a maximum of three loans total); outstanding loans of a single borrower may not exceed 150,000 PKR (US $1,420) while this limit for enterprises is 500,000 PKR (US $4,730). • Tailored repayment schedule (grace period, repayment frequency, and term) to client's business activity and household cash flow. • Developed Key Facts Sheet for communicating to clients their rights and product information. Required loan officers to read sheet aloud to clients. • Trained staff on Code of Conduct and collection ethics to ensure that sales targets do not result in staff compromising on these standards. Added service quality indicators to staff performance appraisal documents. • Updated the bank's complaint handling policies and procedures. • Required third-party providers (e.g., insurance providers) to adhere to bank's Code of Conduct.
Dimension 5: **Treat Staff Responsibly**	• Delivered training to employees in order to mitigate health and safety risks. • Developed new framework for reporting employee complaints and other HR issues. • Performed regular review of employee satisfaction and turnover data. • Presented an action plan to the management and board to reduce employee attrition. • Monitored staff behavior for compliance with the Code of Conduct through client visits and a customer feedback form.
Dimension 6: **Balance Financial and Social Performance**	• Established the Market Research Unit, which will help the bank to make better decisions about appropriate growth rate targets, based on saturation analysis, market potential analysis, and other market information. • Assessed the capacity of Internal Audit to keep pace with current and projected growth, and aligned growth targets with internal capabilities. • Appropriated 10% of its annual profits to a country-wide Microfinance Social Development Fund aimed at strengthening the financial inclusion goals of Pakistan, and an additional 5% each to a Risk Mitigation and Depositors' Protection Fund.

CHAPTER 2:
How to use social performance information for improved decision making

▸ Management Decisions Require Social Performance Data
▸ Using Social Performance Data to Address Key Management Issues

HOW TO USE THIS CHAPTER

The information in this chapter will help you to operationalize the social performance action plan that you identified in Chapter 1, by assisting you in identifying the specific social performance data and management positions involved in making important operational and strategic decisions.

Likewise, managers will need to use social performance data to implement many of the practices found in Chapter 3. Use this chapter to understand the data needs raised in the remainder of this Guide.

This chapter identifies four issues that are of concern to all providers, and it discusses how data can help managers address these issues. It includes guidance on: 1) which data are required, 2) which managers need the data, and 3) where you can find more information on the issue in this Guide

MANAGEMENT DECISIONS REQUIRE SOCIAL PERFORMANCE DATA

Social performance data is not only *useful* for strategic and operational decision making, it is absolutely *necessary* for making decisions that balance your financial and social goals. Identify the issues below that are most pertinent to your institution, and then refer to the detailed information on each.

Issue 1: Achieving sustainability/profitability responsibly

Issue 2: Reaching, retaining, and providing value to your target clients

Issue 3: Maintaining adequate standards of client protection

Issue 4: Achieving employee satisfaction and retention

ISSUE 1	Achieving sustainability/ profitability responsibly	Your institution wants to set growth and profitability targets that allow your institution to achieve sustainability in a way that also promotes client interests. Data can help managers decide which sources of capital to pursue, how to work with investors to align expectations, how to adjust financial targets to market conditions, how to set financial targets that balance financial and social goals, and how to allocate profits.

QUESTION 1A

ARE WE MEETING OUR SOCIAL GOALS?

You should understand whether your institution is meeting its social goals. Each provider chooses its own social goals, but these often include supporting clients to invest in economic opportunities, manage anticipated day-to-day and lifecycle needs, and cope with emergencies. Some providers focus on health, education, empowerment, or job creation, among many other possibilities.

[5] These indicators particularly apply to providers that have the social goal of reaching poor people and contributing to poverty reduction over time.
[6] Such indicators are available through the International Center for Research on Women.
[7] These indicators apply to providers that have the social goal of women's empowerment.

SOCIAL PERFORMANCE DATA NEEDED	EXAMPLE MANAGEMENT ACTIONS	REFERENCE
• Change in business assets, cash-flow, and other indicators of client investment in economic activities • Savings balance, changes over time, and use of savings • Client assets • Client poverty levels/scores (upon entry and over time)[5] • Percentage of clients "graduated" from one loan type to another that requires more assets • Client ability to pay for key household and life-cycle expenditures (e.g., school fees) • Empowerment indicators[6] for female clients (upon entry and over time)[7]	This information will allow management to determine whether the institution is achieving its social goals. By linking this client data with product portfolio data (e.g., loan size, frequency, and size of deposit transactions), management can understand which clients are making progress and which are not. Management can identify areas of poor performance and make adjustments to improve these areas (e.g., savings withdrawal fees are lowered to encourage clients to save). The information can also inform more in-depth market research on a particular client issue. Additionally, management can also use this information to report poverty outcomes to internal and external stakeholders.	Standard 1a Standard 1b Standard 2a Standard 2b

Managers who need this data
- Executive management/board
- Product Research and Development
- Product Management
- Internal Audit/Risk Management

QUESTION 1B

WHAT ARE RESPONSIBLE GROWTH TARGETS, AND ARE WE MEETING THEM?

You should understand the local market conditions that affect growth, whether your institution's growth is consistent with targets, and whether your institutional capacity is keeping pace with growth.

SOCIAL PERFORMANCE DATA NEEDED	EXAMPLE MANAGEMENT ACTIONS	REFERENCE
• Demand by client type (average disbursement, type of product, loan term). • Penetration rates, market infrastructure, market saturation and competition analysis • Monitoring and analysis of internal control capabilities, including: management and employee workload and skills; employee/client ratio; delinquency management controls; adequacy of policy documents; MIS capacity; adequacy of financing sources. • Data to determine service quality: client satisfaction data (see question "Are clients satisfied?"); client complaint data (see question "Are we responding to client complaints?"); interviews with employees; average time from loan application to disbursement; average waiting time to be served in a branch office	This information will inform decisions about how and where to expand operations (e.g., geographical areas, target clients), when to expand, and the conditions necessary to expand (e.g., risk management capacity, branch infrastructure). Management can also use this information to determine appropriate growth targets and to make operational improvements as necessary to keep pace with growth.	Standard 6a

Managers who need this data
- Executive management/board
- Internal Audit/Risk Management
- Finance
- ITC
- Customer Service

QUESTION 1C

WHAT LEVEL OF PROFITABILITY SHOULD WE TARGET, AND HOW DO WE ALLOCATE PROFITS?

You should understand the level of profitability that will allow your institution to achieve its financial goals while also serving the interests of clients. Additionally, you must decide how to best allocate profits to balance your financial goals (e.g., rewarding investors, investing in physical and human resources) with your social goals (e.g., offering affordable interest rates).

[8] Find out whether MFTransparency has published pricing data for your country, here.

SOCIAL PERFORMANCE DATA NEEDED	EXAMPLE MANAGEMENT ACTIONS	REFERENCE
• Profitability ratios • Where your price falls on MFTransparency pricing curve for your country[8] • The non-financial needs of clients (e.g., business training) • Whether you are reaching your target clients (if not, you may need to use profits to develop a new product, build a branch in a new area, offer non-financial services to clients before graduating them to a loan, etc.) • Financial estimates of investment needed to achieve the growth you target	This information will inform decisions on what level of profitability is appropriate for your institution, which investors and other stakeholders you should work with (those aligned with your institution's profitability priorities), and how your institution will allocate profits among many competing priorities.	Standard 6c

Managers who need this data
- Executive management/board
- Finance
- Internal Audit/Risk Management
- Legal

WHAT ARE RESPONSIBLE COMPENSATION LEVELS FOR EXECUTIVES?

You should understand the difference between how your institution compensates top executives and how it compensates field employees, and you should determine whether this spread is in keeping with your institution's social goals, including responsible treatment of employees.

SOCIAL PERFORMANCE DATA NEEDED	EXAMPLE MANAGEMENT ACTIONS	REFERENCE
• The average compensation of top executives • The average compensation of field employees (e.g., loan officer)	This information will inform decisions about how to compensate employees at all levels, and particularly executive compensation. Management can use this information to decide how to compensate employees fairly and in ways that create positive incentives to achieve your institution's social goals.	Standard 6d

Managers who need this data
- Executive management/board
- Human Resources
- Legal
- Finance

ISSUE 2	Reaching, retaining, and providing value to your target clients	Your institution wants to reach target clients and provide value. Doing so requires your institution to have a tailored outreach strategy and to design and offer products that are based on client input. Data can help managers decide which outreach strategies will be most effective, what types of products to design, and how to improve client satisfaction, retention, and portfolio quality.

QUESTION 2A

HOW CAN WE REACH TARGET CLIENTS?

You should understand whether or not your institution is reaching target clients, and which clients are attracted to your institution's current product/service offerings, including clients outside your institution's target group.

SOCIAL PERFORMANCE DATA NEEDED	EXAMPLE MANAGEMENT ACTIONS	REFERENCE
• Characteristics of your target clients (e.g., business type, male/female, poverty or income levels and seasonality, language) • Percentage of clients by target segment (e.g., % women, % rural, % start-up businesses, % below a specified poverty line) • Percentage of target clients in each of the segments listed above by product (e.g., % rural women using voluntary savings product)	This information will inform decisions about whether current targeting methods and/or products should be modified to better reach target clients, and whether to pursue different target clients. For example, management may realize that staff need better training on how to identify poor clients, or that insurance products should be adjusted to cover a certain health problem. This information is fundamental to any of the other management decisions listed in this chapter, as all decisions require managers to understand who is currently served by your institution and who is excluded.	Standard 1a Standard 3a Standard 3b

Managers who need this data
- Executive management/board
- Product Management
- Product Research and Development
- Human Resources (staff should be trained on targeting)

QUESTION 2B

HOW CAN WE REDUCE BARRIERS TO ACCESS?

You should understand whether certain target clients are excluded from accessing your services, and why. Even if many of your institution's clients come from its target population, barriers such as social ostracism, lack of personal empowerment, lack of access to transportation or communication difficulties may make it difficult or even impossible for some people within your target population to use your products and services.

SOCIAL PERFORMANCE DATA NEEDED	EXAMPLE MANAGEMENT ACTIONS	REFERENCE
Market research data on: • Barriers to accessing your products faced by target clients (i.e., who among your target population is not using your products, and why not?) • How your products/services/delivery channels/delivery models promote greater access for clients, or make access for clients more difficult • Client feedback on how to promote access	This information helps identify whether certain segments within your target population do not have access to your products and services, and what adjustments to outreach techniques and/or product and service design would be needed to eliminate barriers to access.	Standard 1a Standard 3b

Managers who need this data
- Executive management/board
- Product Management
- Product Research and Development

QUESTION 2C

WHAT ARE CLIENT NEEDS AND PREFERENCES FOR PRODUCTS, SERVICES, AND DELIVERY?

You should understand the needs and preferences of your target clients for products, services, delivery channels, how products can be improved, and the demand for new products.

SOCIAL PERFORMANCE DATA NEEDED	EXAMPLE MANAGEMENT ACTIONS	REFERENCE

Market research data on:
• Characteristics of your target clients (e.g., business type, male/female, poverty/income levels and seasonality, language)
• Use of your products/services by client characteristics (i.e., which clients are using which products/services, and which potential clients are not)
 	
Needs/preferences of your target clients for:
  • Financial and non-financial products
  • Specific product terms and conditions
 	
Delivery channels:
• Risks and common emergencies faced by target clients; current strategies that clients use to meet their emergency needs; whether clients are using your products to meet these needs; and if not, why not
• Economic opportunities and anticipated household needs of target clients; current strategies that clients use to meet their investment needs; whether clients are using your products to meet these needs; and if not, why not
	This information will inform decisions about how best to design or modify products for maximum inclusion, including decisions on: product features; loan sizes; product flexibility, size and timing of savings requirements; size of guarantee/collateral requirements; use requirements for credit, savings, and insurance products; accessibility and convenience of delivery channels. It will also inform decisions on product offerings, such as emergency loans, savings, insurance, payments/remittances, start-up business loans, working capital, leasing, and loans and savings for specific life events and lifecycle needs (e.g., funeral savings).	Standard 3a
		Standard 3b

Managers who need this data
- Executive management/board
- Product Research and Development
- Product Management

QUESTION 2D

ARE WE RETAINING OUR CLIENTS?

You should understand who exits/ becomes dormant[9], when they exit/become dormant (e.g., loan cycle, savings amount), and why. Additionally, you should determine whether or not client retention is in line with your institution's targets.

[9] Dormant clients are those who are not currently using a product or service, but who have not ended their relationship with your institution (e.g., a client who has not made a savings deposit in many months but has not closed his/her savings account).

SOCIAL PERFORMANCE DATA NEEDED	EXAMPLE MANAGEMENT ACTIONS	REFERENCE
• Retention rates, segmented by client characteristics: male/female, poverty level, business type, product type, loan cycle/tenure/ amount • PAR and PAR trends over time, segmented by client type and product type • Results of interviews with exiting clients	This information will inform decisions about how to reduce client exit, and it may inform decisions about how to design or modify products, services, and delivery channels so they are more responsive to client needs.	Standard 3a

Managers who need this data

- Executive management/board
- Product Research and Development
- Product Management
- Internal Audit/Risk Management

QUESTION 2E

ARE OUR CLIENTS SATISFIED?

You should understand client satisfaction on overall experience, suitability, and value of products, and value, convenience, and reliability of services. Additionally, you should determine which factors facilitate or inhibit the effective use of your products and services, and how these could be improved.

SOCIAL PERFORMANCE DATA NEEDED	EXAMPLE MANAGEMENT ACTIONS	REFERENCE
• Data listed above (see question "Are we retaining our clients?") combined with: • Results of client satisfaction surveys/interviews/focus groups, including: • Client satisfaction with: product value; convenience, safety, and reliability of delivery channels to access the services; timeliness, ease of procedures, conditions and guarantees necessary to obtain the services; relationship with the field officer or agent; sufficiency of savings/loan/insurance services (amounts, costs, schedule flexibility), segmented by target client characteristics • Analysis of client complaints • Client suggestions for product improvement • Self-reported level of trust in your institution	This information will inform decisions about how to prioritize operational and product improvements such as employee training, product terms, and customer service. Combined with client exit/dormancy data, management can use this information to improve client satisfaction.	Standard 3a

Managers who need this data
- Executive management/board
- Product Research and Development
- Product Management
- Customer Service
- Internal Audit/Risk Management

| | ISSUE 3 | Maintaining adequate standards of client protection | Your institution wants to protect client rights, create a good reputation, and contribute to a more transparent and stable market. Data can help you decide how to set policies, create and enforce procedures, and train employees on prudent and transparent financial service delivery and respectful treatment of clients. |

QUESTION 3A

ARE WE PREVENTING CLIENT OVER-INDEBTEDNESS?

You should understand the risk of client over-indebtedness, how repayment problems may be linked to client over-indebtedness, how institutional policies and procedures increase or decrease the risk of client over-indebtedness, and how products and services do the same. It is also important to recognize the link between over-indebtedness, repayment problems, and your institution's portfolio quality.

SOCIAL PERFORMANCE DATA NEEDED	EXAMPLE MANAGEMENT ACTIONS	REFERENCE
• PAR reports, ideally segmented by client type and product type and PAR trends over time • Reports on write-offs and rescheduled loans • Reports on early repayments • Loan officer productivity reports • Reports on multiple borrowings and penetration rates • Incentives paid to field staff (for new client acquisition, portfolio size growth) • Audit reports from client visits	This information will inform decisions on how to take corrective action on over-indebtedness problems and prevent future problems. It will also inform decisions on setting growth targets, setting productivity targets, and designing expansion strategies. Audit reports that detail findings from client visits are particularly crucial for identifying the risk of over-indebtedness even before it becomes apparent.	Standard 4a

Managers who need this data
- Executive management/board
- Product Management
- Internal Audit/Risk Management
- ITC
- Legal

QUESTION 3B

ARE WE COMMUNICATING TRANSPARENTLY WITH OUR CLIENTS?

You should understand whether clients understand the terms, conditions, and prices of products/services and how employee communication with clients facilitates or hinders client understanding. This is particularly important when dealing with clients who are illiterate and generally unfamiliar with financial products. Tailored communication strategies are necessary to overcome these obstacles, and your strategies can include the use of pictures, roleplay, multiple meetings, and informal quizzes to see whether clients have understood.

SOCIAL PERFORMANCE DATA NEEDED	EXAMPLE MANAGEMENT ACTIONS	REFERENCE
• Audit reports from client visits • Results of client satisfaction surveys/interviews/focus groups • Complaints/questions from clients about product terms and conditions	This information will inform on clients' level of understanding of the terms, conditions, and prices of products and services. It will allow you to take corrective action and to enhance product materials and product explanations, as needed.	Standard 4b

Managers who need this data
- Executive management/board
- Product Management
- Internal Audit/Risk Management
- Customer Service
- Legal

QUESTION 3C

ARE OUR PRODUCTS AND SERVICES PRICED RESPONSIBLY?

You should understand whether or not prices are competitive in the local market, sustainable for your institution, and affordable to clients.

SOCIAL PERFORMANCE DATA NEEDED	EXAMPLE MANAGEMENT ACTIONS	REFERENCE
- Effective annualized interest rates for all products - Effective annualized interest rates for key products of peers (closest competitors) - Efficiency ratios and targets, with trends - Efficiency ratios for peers - Operational self-sufficiency ratios - Profitability ratios and targets (ROE, ROA) - Loan loss expense ratio - Percentage of financial income from fees, pre-payment penalties, and trends on these percentages - Insurance claims (to compare insurance cost to clients with actual claims)	This information will inform decisions on how to set interest rates and fee structure for different products.	Standard 6c

Managers who need this data
- Executive management/board
- Internal Audit/Risk Management
- Finance
- Legal

ARE WE TREATING CLIENTS FAIRLY AND WITH RESPECT?

You should understand whether your institution's policies and training promote respectful treatment of clients. Respectful client treatment not only protects the rights of clients, it also improves a provider's reputation and creates a culture of ethical behavior among employees.

SOCIAL PERFORMANCE DATA NEEDED	EXAMPLE MANAGEMENT ACTIONS	REFERENCE
- Results of client satisfaction surveys/interviews/focus groups - Audit reports from client visits - Reports on collateral seizures, including after how many days overdue collateral is seized - Analysis of client complaints related to staff behavior - Field staff salaries broken down into % of fixed and variable - Employee attrition analysis - Employee satisfaction surveys - Reports on disciplinary actions taken against employees	This information will show whether employees are following institutional policies on ethics and professional conduct, and it may inform decisions to scale up employee training, revise collections procedures, or adjust incentive structures.	Standard 4c

Managers who need this data
- Executive management/board
- Internal Audit/Risk Management
- Customer Service
- Product Management
- Legal
- Human Resources

ARE WE MAINTAINING THE PRIVACY OF OUR CLIENT DATA?

You should understand whether client data (personal and financial information, client photos) are kept secure and private within your institution. Additionally, you should determine whether clients understand how your institution will use their personal and financial information.

SOCIAL PERFORMANCE DATA NEEDED	EXAMPLE MANAGEMENT ACTIONS	REFERENCE
• If appropriate, reports on changes to users' access rights • Reports on system security, as requested from management • IT audit reports • Results of client satisfaction surveys/interviews/focus groups • Audit reports from client visits	This information will inform decisions on whether systems need tighter security, whether employees need more training on your institution's privacy policy, and whether clients understand and are satisfied with the way your institution uses their personal and financial information.	Standard 4d

Managers who need this data

- Executive management/board
- Product Management
- Legal
- Internal Audit/Risk Management
- Customer Service
- Human Resources (employee training)

QUESTION 3F

ARE WE RESPONDING TO CLIENT COMPLAINTS?

You should determine whether your institution's complaints-handling mechanism is effective in resolving issues for clients and in providing your institution with actionable information for improving products/services/operations.

SOCIAL PERFORMANCE DATA NEEDED	EXAMPLE MANAGEMENT ACTIONS	REFERENCE
• Record of client complaints • Reports analyzing trends from the complaints record • Results of client satisfaction surveys/interviews/focus groups • Audit reports from client visits, with results of what complaints clients have, and whether client complaints were resolved satisfactorily (if clients used the complaints mechanism)	This information will inform decisions on how to improve operations, products, and communication. It will also inform on the effectiveness of the complaints mechanism and how to modify that system to encourage its use by clients.	Standard 4e

Managers who need this data
- Executive management/board
- Product Management
- Customer Service
- Legal
- Internal Audit/Risk Management
- Human Resource
- Product Research and Development

ISSUE 4

Achieving employee satisfaction and retention

Your institution wants to protect employee rights and to create a positive, safe, motivating workplace for employees. It also wants to maximize the investment it makes in training employees, which means minimizing employee turnover. Data can help you decide how to set Human Resources policies, address workplace problems, and create employee incentives that promote employee retention.

QUESTION 4A

DO OUR HUMAN RESOURCES POLICIES AND PROCEDURES PROTECT THE RIGHTS OF OUR EMPLOYEES?

You should understand how Human Resources policies affect employees, including whether the recruiting strategy is identifying and selecting the right types of candidates and whether training is effective in providing employees with the skills necessary to perform their job duties.

SOCIAL PERFORMANCE DATA NEEDED	EXAMPLE MANAGEMENT ACTIONS	REFERENCE
• Training rates by employee position/level • Training rates by male/female • Results of interviews/surveys with employees to gauge their understanding of their rights, job responsibilities, and how the institution will assess performance • Reports from the assessment of health and safety risks • Report on occupational accidents, injuries, or diseases	This information will inform decisions about how to prioritize training and growth opportunities for employees (i.e., which employees, which topics, and when), how to update HR policies to better clarify your expectations of employees and protect their rights, and how to make the workplace safer for employees.	Standard 5a Standard 5b

Managers who need this data
- Executive management/board
- Human Resources
- Internal Audit/Risk Management
- Legal

QUESTION 4B

HOW DO WE RETAIN EMPLOYEES?

You should understand employee satisfaction with working conditions, salaries, management, and other workplace issues. Additionally, you should know how different employees experience the workplace (e.g., how junior staff experience each of the above factors vs. senior staff).

SOCIAL PERFORMANCE DATA NEEDED	EXAMPLE MANAGEMENT ACTIONS	REFERENCE
• Turnover rates by employee position/level • Turnover rates by male/female • Results of employee satisfaction surveys/interview/focus groups, segmented by different groups (level, male/female, ethnicity, disability, etc.) • Data from the employee grievance system, including complaints and rate/type of resolution	This information will inform decisions about how to improve the workplace to better retain existing employees and attract new ones.	Standard 5c

Managers who need this data
- Executive management/board
- Human Resources
- Internal Audit/Risk Management
- Legal

QUESTION 4C

DO EMPLOYEE INCENTIVES BALANCE OUR SOCIAL AND FINANCIAL GOALS?

You should understand how existing incentives are contributing to or detracting from their intended purpose, and you should understand how to redesign incentives that motivate employees to achieve strong social and financial performance.

SOCIAL PERFORMANCE DATA NEEDED	EXAMPLE MANAGEMENT ACTIONS	REFERENCE
• Data listed for the question "How do we retain employees?" • Reports on staff conduct from Internal Audit, Internal Controls, or compliance departments • Sanctions applied to staff for violations of the Code of Conduct and other staff rules • Weights assigned to the different elements of staff evaluations/incentives (e.g., PAR, customer service, new clients) • Average proportion of incentives in total loan officer remuneration	This information will inform decisions about how to improve your institution's current incentive system so that it does not create unintended negative consequences, such as overselling products to clients or aggressive collections practices, and instead creates positive results such as high-quality data collection, ethical behavior, and excellent customer service.	Standard 5b Standard 2c

Managers who need this data
- Executive management/board
- Human Resources
- Internal Audit/Risk Management

CHAPTER 3:
How to Implement the
Universal Standards

▸ Dimension 1: Define and Monitor Social Goals
▸ Dimension 2: Ensure Board, Management, and Employee Commitment to Social Goals
▸ Dimension 3: Design Products, Services, and Delivery Channels That Meet Clients' Needs and Preferences
▸ Dimension 4: Treat Clients Responsibly
▸ Dimension 5: Treat Employees Responsibly
▸ Dimension 6: Balance Financial and Social Performance

[HOW TO USE THIS CHAPTER]

This chapter presents practical, how-to guidance for each of the 19 standards found in the Universal Standards.

"Field examples" appear throughout this chapter. These highlight how an actual provider is currently implementing one of the standards.

Look for this icon ⌨ which indicates helpful online resources.

After evaluating your institution's current SPM practices, use the information found in this chapter to:

Create an action plan for improving practice >> Implement your plan

Dimension 1	Dimension 2	Dimension 3	Dimension 4	Dimension 5	Dimension 6
Define and Monitor Social Goals	**Ensure Board, Management, and Employee Commitment to Social Goals**	**Design Products, Services, and Delivery Channels That Meet Clients' Needs and Preferences**	**Treat Clients Responsibly**	**Treat Employees Responsibly**	**Balance Financial and Social Performance**

Dimension 1:

Define and Monitor Social Goals

Dimension 1 includes two standards:

> Standard 1A. The provider has a strategy to achieve its social goals.

> Standard 1B. The provider collects and discloses accurate client data specific its social goals.

Standard 1A

The provider has a strategy to achieve its social goals.

> Essential Practice 1A.1 The provider's strategy includes a formal mission statement, which specifies increasing access to financial services for vulnerable or excluded target groups and creating benefits for these clients.

> Essential Practice 1A.2 The provider's strategy defines the specific characteristics of its target clients.

> Essential Practice 1A.3 The provider's strategy defines social goals, targets, and indicators to measure progress.

> Essential Practice 1A.4 The provider's strategy articulates how its products, services, and delivery channels will achieve its social goals.

Achieving a social mission requires purposeful management guided by a formal strategic plan. Your strategy should include an explanation of your mission, a definition of your target clients, your social goals, targets and indicators to measure the achievement of those goals, and a description of how your institution will use products and services to achieve its social goals. Each element of the strategy is discussed below.

1A.1 ARTICULATE A SOCIAL MISSION

Your institution's mission is your cornerstone, and it defines your identity as a social institution. Your board and senior management should be involved in creating your mission. You should also consider involving field staff and clients in the creation of the mission in order to get full buy-in.

A good mission statement will be short, specific, and clear. It will summarize your social goals and answer three key questions:

- Whom do you want to reach? (target population)
- How do you intend to serve them? (products and services)
- What changes do you hope to influence? (social outcomes)

It should describe concrete, measurable, and plausible impacts, rather than vague aspirations that are hard to assess and achieve.

Your mission is your brand. It should be easy to remember and repeat, allowing employees and other stakeholders to become effective advocates for your organization. Communicate your mission broadly both internally and externally: put it at the forefront of each policy and procedure, in leaflets and promotional materials, in each of your offices, et cetera. Your mission should also be explained at all levels of the institution and integrated into new employee orientation.

As your organization grows and changes over time, you should check that the mission accurately reflects your social goals. Your board and senior management should review it during times of institutional change, such as changes in ownership, legal form, strategic planning, important changes in composition of the board, etc. For example, if you significantly change the social purpose of your institution, you should revise your mission statement to reflect your new focus.

[BOX 5.

EXAMPLE MISSION STATEMENT]

The following mission statement is succinct, and it clearly answers the three questions above.

To provide competitive credit and savings products [products and services] *that empower smallholder farmers and rural enterprises* [target clients] *to create sustainable agri-businesses and improve their livelihoods* [social outcomes].

1A.2 DEFINE YOUR TARGET CLIENTS

Your strategy should define the characteristics of the people you want to reach. Defining your target market will make it easier for your institution to tailor products and services to client needs and preferences and to set realistic targets for client-level change.

Define at least these characteristics:

- Demographics (e.g., male/female, urban/rural)
- Socio-economic status (e.g., poverty level, level of education)
- Access to financial services (e.g., banked/unbanked)
- Business activity (e.g., agriculture/trade, new businesses/existing businesses)

• *Imp-Act SPM Practice Guide* (Chapter 3) discusses the importance of the social mission, how it can change over time, how to conduct a mission review, and who should be involved. Also available in Spanish and French.
• *The Eight-Word Mission Statement* suggests that short, concrete mission statements make it easier to develop clear outcomes goals.

Be as specific as possible. If your mission contains terms such as "marginalized," "excluded," or "poor," use your strategy to clarify what you mean by these labels. For example, "exclusion" can be political, social, geographic, or economic. Your definition of "poverty" may refer to lack of assets, healthcare, education, sanitation, or other basic needs, and can be described both in relative and absolute terms.

Also be clear on types of people who should not receive products/services (e.g., salaried employees). It is helpful to acknowledge any assumptions you make so that these can be reviewed in the future. For example, you may originally include semi-urban people as target clients, but later review might show that semi-urban people are no longer "excluded" from financial services, which might lead you to focus more on rural dwellers. Once you have defined your target market, ensure that it is reflected clearly in your internal documents such as credit policies.

• *MFC's Strategic Management Toolkit Handbook* (Chapter 8) discusses the strategic choices to be considered when choosing a target market, including defining your value proposition, competitive advantage, growth, and competitive strategies.

1A.3 DEFINE YOUR SOCIAL GOALS, TARGETS, AND INDICATORS

The guidance for the next two Essential Practices (1A.3 and 1A.4) should be used together. 1A.3 describes the process of defining your social goals and 1A.4 describes how to measure your progress toward those goals. These two steps are fundamental to managing your organization, because they give you the information—the social data—that you need to make important management decisions about your clients and employees.

With your mission and target clients established, the next step is to clearly define your social goals, targets, and indicators. Your **goals** describe the positive changes you expect to happen to your clients, your **targets** quantify your goals, and **indicators** allow you to measure progress toward achieving those targets.

Since its inception in 1994, Fonkoze (Haiti) has worked to reach Haiti's poor. As the FSP expanded from a small operation to the largest microfinance provider in the country, management realized that though all clients were "poor," they were not all the same. For example, Fonkoze recognized clear differences between the rural and urban poor, and those with business knowledge and those without. These differences translated into important operational considerations, including how target clients were defined and placed into programs.

To help both internal and external stakeholders understand their different target clients, Fonkoze developed a *Staircase Out of Poverty* approach. Fonkoze uses the graphic shown here to discuss the characteristics of their four different client segments and the products they offer for each. Fonkoze explains to staff and external stakeholders the needs of each target segment and how targeting those clients serves Fonkoze's broader mission.

For example, women in the Chemen Lavi Miyò Program (see graphic) are too poor to even qualify for credit. Yet through the program, Fonkoze case managers introduce them to savings strategies, and many of them do graduate to taking out loans with Fonkoze's microfinance institution. Women in the Ti Kredi program have an existing business, but it is usually in the early stages or very informal. They require very small loans (US $25) over short periods and need intensive business and life skills training. Solidarity Group clients access larger loans and support one another to move up to Business Development loans, which are Fonkoze's largest, individual loans. By more accurately placing clients into programs that fit their needs, Fonkoze has been able to serve clients better.

BUSINESS DEVELOPMENT

SOLIDARITY GROUP

TI KREDI

CHEMEN LAVI MIYÒ
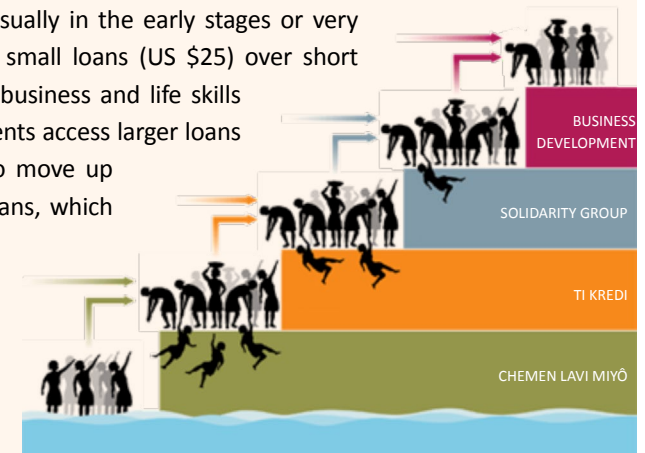
Define social goals

Your social goals describe what positive changes you expect to happen with your chosen target group when you provide your particular products and services. Broadly, there are two types of social goals to consider—outputs and outcomes. Your institution's output goals describe the actions you will take to improve client well being (e.g., trainings provided, loans made). Your institution's outcome goals describe how your clients, community, or environment will benefit from your products and services (e.g., improvement in business skills, increase in household assets). Table 3 provides two examples for each type of goal.

It is important to be clear on whether your goals are **output** goals or **outcome** goals. Output goals are typically much easier to measure, but they provide limited information about your impact on clients. Mostly, they describe access or outreach—the number of clients who are being served with financial and non-financial services. Access is an important measure of social performance, but it does not provide any information about changes in your clients' lives.

Measuring client outcomes is more complex, because it requires the use of harder-to-measure indicators such as empowerment or poverty. However, if your social goals extend beyond "access," your organization should measure client outcomes too.

TABLE 3. **TWO TYPES OF SOCIAL GOALS**

OUTPUT GOAL	RELATED OUTCOME GOAL
Provide crop insurance to smallholder rural farmers.	Farmers with crop failure do not have to sell their productive assets such as land or livestock.
Provide health training to female clients.	Improve health and sanitation practices among training recipients.
Offer savings products for education.	Clients are able to send all school-aged children to school.

When developing your social goals, it is important to have a theory of change[10] about how your services will add value to clients' lives, and to focus on those key areas of value creation. It is also important to speak with your clients about their goals, so that the goals you set for your organization are aligned with your clients' own ambitions. Table 4 lists common categories of outcomes goals.

TABLE 4. **COMMON CATEGORIES OF OUTCOMES GOALS**[11]

Increase economic well-being	Build resilience
Improvements in well-being that can be understood through direct or proxy measures of income, consumption, poverty indices, or significant assets.	Decrease in use of severe or moderately severe coping strategies; successful use of savings, insurance and other strategies to handle stress events and shocks (unforeseen or anticipated).
Business growth	**Employment creation**
Increase in business turnover, profits, sales, or time dedicated to owned enterprises.	Creation of employment for adults (family and non-family members) or self-employment.
Women's economic empowerment	**Other outcomes**
An increase in a woman's ability to contribute financially to her household or household enterprise and/or to make decisions regarding the use of household or enterprise resources.	Financial capability, health, children's access to education, increase in social capital.

[10] A **theory of change** is an explanation of why and how a particular set of activities will lead to an expected change.
[11] Source: Mission Genome (2015). Reviewing over 650 studies, the Mission Genome project identified these as the leading themes.

Define social targets

After you develop your social goals, develop one or more targets for each of them. The key is to quantify your goals and establish a completion timeframe. Without targets, your social goals are unlikely to be taken seriously within your organization. Table 5 builds on the example provided in Table 3, and it demonstrates example targets for the institution's social goals.

Check your targets against the criteria presented in Table 6. Consider these critical questions for each of your targets, to ensure that each one is specific, measurable, achievable, relevant, and time-bound (S.M.A.R.T.). It is particularly important for your client *outcomes* targets to be "achievable" (i.e., realistic). It often takes time to see meaningful change in clients' lives. Resist pressure from external stakeholders (like funders) to achieve results quickly. Instead, understand the potential for any short-term changes (e.g., improvements in financial awareness due to an education campaign), and discuss realistic timeframes for long-term outcomes (e.g., improved poverty scores).

Finally, expect to refine your social targets over time. Some of your targets may be unrealistic if you do not already have data on which to base the target (e.g., you set a target for the poverty level of incoming clients before starting to collect poverty data). However, you do not need to wait to collect data before setting targets. Instead, set targets that you believe to be realistic, and then refine them once you begin to benchmark your progress. This method was used by ASKI (Philippines), who decided to adopt aspirational targets in the absence of baseline data, and then they revisited the targets once they generated baseline data.[12]

TABLE 5. **EXAMPLES OF SOCIAL GOALS AND THEIR RELATED TARGETS**

GOALS (OUTPUT AND OUTCOME GOALS FROM EXAMPLE IN TABLE 3)	RELATED TARGETS
Provide crop insurance to smallholder rural farmers	• 60% of all incoming clients this year will be farmers owning assets less than US $500 and owning less than 2 hectares of land. • 75% of all new clients in this group will purchase the institution's crop insurance product.
Reduce the vulnerability of rural farmers to shocks	• Interviews with farmers filing a crop loss claim will demonstrate that the insurance payout helped smooth income in at least 90% of the loss cases.
Provide health training to female clients	• 4,000 female clients will complete all six sections of the health training this year.
Improved health and sanitation practices among training recipients	• Verbal tests administered four months after completion of the training will show that at least 60% of trainees are able to describe six health and sanitation procedures correctly (e.g., malaria prevention). • Surveys administered 12 months after the program will show a decrease in the number of work days missed due to illness, as compared to baseline survey results.

[12] Read the full case study here.

TABLE 6. **MAKE YOUR TARGETS S.M.A.R.T**

AREA	WHAT EXACTLY DO WE WANT TO ACCOMPLISH?
Specific	• To whom does this target apply? Which employee? Which clients? • Is our target described with action verbs? Are any actions too vague?
Measurable	• How will we know that a change has occurred? • Have we used quantitative variables to the extent possible? • Where we have used qualitative variables, how will we measure them? • Can we realistically collect the data we need to measure these targets?
Achievable	• Can we meet this target with the resources that we have? • Do we need to re-prioritize our activities to meet this target?
Relevant	• How does this target support our mission? • Is it directly related to one or more of our social goals?
Time-bound	• When do we want to meet this target?

Define social indicators

When selecting indicators, consider how well they meet each of the following criteria: relevance, usability, clarity, feasibility, and comparability. Table 7 defines these criteria and provides an example indicator that meets the criteria.

TABLE 7. **CRITERIA FOR OUTCOMES INDICATORS**

Indicators should be:	Definition	Example indicator
Relevant	The indicator measures one of the provider's goals. It also applies to the lives of the target clients. It responds to a change that the provider is likely to influence.	Percentage of agriculture clients who have invested in major tools, equipment, structures, or farming inputs within two years of becoming clients. *For a provider targeting agricultural clients with the goal that they increase their productive assets, this is a relevant indicator likely to reflect a change brought on by the provider's services.*
Useable	Management can take action based on the information collected (it is linked to the operational strategy), and the data is likely to be dependable.	Percentage of clients with an increase, decrease, or no change in savings balance. *Available in the institution's MIS, this information can tell management whether clients are better able to deal with economic shocks and whether they find the savings product useful.*
Clear	The indicator is unambiguous, clearly defined, and as objective as possible.	Percentage of clients who have made specific changes to their home in the last three years (such as improved roof/walls/floor, expanded the house, addition of sanitation or electricity). *Housing changes are easy for clients and the data collector to understand and observe.*
Feasible	The indicator is relatively easy to collect: straightforward for clients to answer, non-invasive, and not sensitive.	Number of waged, non-family members working in a client's business. (This is a measure of employment generation). *Clients can easily understand and count the number of people they employ in their businesses.*
Comparable	The indicator can be benchmarked and provides a consistent measure over time.	Percentage of clients with access to sanitary toilet. *Results can be compared both with the provider's own data over time (change in access to sanitary toilet) and sometimes with national benchmarks.*[13]

[13] For example, the USAID Demographic and Health Surveys.

FIELD EXAMPLE 8. **KOMIDA SETS SOCIAL TARGETS**

KOMIDA (Indonesia) is one of the largest microfinance providers in the country. During an externally-facilitated workshop, KOMIDA's entire senior management and a board member reviewed its social mission and vision. After dissecting the mission and vision, the group formulated social goals that correspond to the FSP's social purpose.

The social goals and targets were divided into three categories: 1) outreach, 2) quality of products/services, and 3) outcomes. For example:

Outreach goal: Reach women who are from poor and financially excluded households, with a focus on those living under US $1.25/day.

Quality of products/services goal: Provide a range of quality financial and non-financial services. Achieve high client and staff satisfaction and retention.

Outcomes goal: Contribute to increases in client savings, incomes, and ability to pay for schooling and sanitation.

For each of their social goals, KOMIDA developed social indicators and targets. For example: increase by 15% the percentage of new clients who live under the US $1.25/day poverty line.

It was important to KOMIDA that targets not be arbitrary numbers. They wanted to avoid setting unrealistic targets that would frustrate staff or create unnecessary work to revise the indicators. To test that targets were realistic, the KOMIDA's SPM team gathered baseline data for most of the indicators from various existing sources of information. For most of the outreach indicators, the data was available in KOMIDA's MIS (e.g., male/female; Cashpor Housing Index scores, poverty scores). For indicators related to product/service quality, KOMIDA mined data from the HR and Operations departments; for example, client complaints data and client retention numbers. As KOMIDA had not yet focused on collecting client data on client outcomes, baseline information was largely unavailable. Therefore, the institution designed client survey forms to capture data such as percentage of clients with access to sanitary toilets. KOMIDA postponed setting the targets until the baseline data was collected.

After six months of gathering and distilling baseline data, KOMIDA's SPM team presented the data (up to two years wherever available) to management. Then, the management—including all department heads and regional managers—used the data to set the social targets for the following year. These social targets have been integrated into the annual business plan.

Read the full case study here.

Building on the example goals set out in Table 5, Table 8 demonstrates indicators that are directly linked to a social goal and are useful for decision-making.

Social indicators help you know whether you are making progress toward achieving your goals and targets, but they do not in help you understand the reasons for the performance you achieve. To understand and improve your performance, you need to collect market research information that will directly inform product and service design. Dimension 3 of the Universal Standards discusses this type of information in detail (See Dimension 3).

• Imp-Act/MicroSave's *Guidance Note on Governance* (Appendix A) contains a sample exercise to help you develop goals and targets from your social mission. Also available in Spanish and French.
• The SPTF Outcomes Working Group's *Webinar #2: Theory of Change: How it Helps us Think About What to Measure and When* and the accompanying brief (same webpage) discusses how to use theory of change to improve your social outcomes measurement system. Also available in Spanish.
• The SPTF's *Guidelines on Outcomes Management for FSPs* outlines ten steps for practical, cost-effective, outcomes management, and it provides a menu of suggested outcomes indicators from which to choose. The SPTF's *Making the Case for Outcomes Management to Financial Service Providers* describes the basics of outcomes management and how an FSP can benefit from measuring and using client outcome data.
• *Choosing and using indicators: Imp-Act practice note No. 5* provides practical tips for indicator selection and ideas for troubleshooting common issues. Also available in Spanish.
• EMFIL India's social goals and corresponding targets provide examples for how to set quantitative social targets.

[TABLE 8. **SOCIAL GOALS, THEIR SOCIAL INDICATORS, AND THEIR USE IN DECISION-MAKING**]

EXAMPLE SOCIAL GOAL	EXAMPLE SOCIAL INDICATORS	EXAMPLE USE FOR DECISION-MAKING
Provide crop insurance to smallholder rural farmers (output goal)	• Percentage of clients living in rural/semi-urban/urban areas • Percentage of clients with agriculture/non-agriculture business • Value of all household and business assets owned by incoming clients • Number of hectares of land owned by incoming clients	Managers will understand whether target clients are reached, and they can make necessary operational changes (e.g., training loan officers on client targeting) and product/service adjustments (e.g., matching loan terms with needs of agricultural workers; using agent banking for geographically-dispersed target clients).
Improved health and sanitation practices among training recipients (outcome goal)	• Client survey question results: "How many work days per year do you miss due to illness?" • Client test question: "Please describe how you can prevent malaria for your family?" (and other preventative health questions)	Managers will understand how illness affects client businesses and whether or not clients are benefitting from the health training. Managers can make necessary operational changes (e.g., which topics the training should cover).

[FIELD EXAMPLE 9. **KASHF FOUNDATION SELECTS SOCIAL INDICATORS FOR ITS SOCIAL DASHBOARD**]

Kashf Foundation (KF) (Pakistan) developed a dashboard of 20 social indicators for use by management and the board. Led by the Managing Director, the dashboard development process took approximately two months. To ensure that the indicators selected would be useful for monitoring the FSP's progress toward its social goals, KF involved staff at all levels. Line managers and department heads were asked: *What do you think are KF's most important social impacts?* Board members and management then worked together to isolate the indicators that were most closely connected to KF's mission.

KF reports that the dashboard has helped to focus the organization around a common set of goals. Staff can now easily identify KF's social targets, which makes them feel more connected to the mission. Staff also set personal performance targets based on the dashboard indicators, further emphasizing their contribution to the organization's social impact.

KF's different departments also felt more aligned after the dashboard creation process, as it became apparent that achieving the social targets would require inter-departmental cooperation. Before the dashboard, each department was collecting and storing social data in different formats. Now, all departments use the same internal reporting format and database. The social dashboard is not only an important source of information for management, it has been a useful means for uniting staff around a common social purpose.

Read the full case study, published by Pakistan Microfinance Network, here.

KF's Social Performance Dashboard with six objectives and 20 associated indicators

Indicators	Department/ Source for Data on Indicator	Indicator Formula
Outreach		
% clients from less developed regions	Operations and Research	(Clients from less developed regions)/(Total active clients) x 100
% new clients living below defined poverty line/income level		(Clients living below poverty line)/(Total new disbursed clients) x 100
% of women-led businesses		(Women clients involved in business)/(Total active clients) x 100
% of households below 30 on the PPAF's* Poverty Scorecard		(Clients living below 30 on PPAF' s Poverty Scorecard)/(Total active clients) x 100
Appropriate Products and Services		
Client retention rate	Operations and Research	(Clients repeated)/(Total completed clients)x 100
% of clients satisfied with the products		(Clients satisfied with products)/(Total clients interviewed) x 100
Average loan amount disbursed		(Total amount of loans disbursed)/(Total number of loans disbursed)
Turnaround time		Clients re-disbursed loans within two weeks
Business trainings to clients		Cumulative number of Business trainings delivered
Financial literacy trainings to clients		Cumulative number of Financial Literacy trainings delivered

% of loans utilized for business purpose	Compliance	(Loans used for business)/(Total loans physically checked for usage) x 100
% of clients knowing KF policies and procedures		(Clients knows the policies)/(Total clients interviewed) x 100
% of Client Protection Code (CPC) violations		(Number of CPC violations reported)/(Total active clients) x 100
Impact		
Increase in business income for % of clients	Gender Equality and Social Advocacy	(Clients whose income increased)/(Total clients interviewed who attended Business Incubation Lab Program) x 100
Increase in saving for % of clients		(Clients whose savings increased)/(Total clients interviewed who attended Systematized Financial Education Program) x 100
Decrease in domestic violence for % of clients		(Clients who shared that domestic violence decreased)/(Total clients interviewed who attended Gender Program) x 100
Gender Equality		
Gender balance in staff	Gender Equality and Social Advocacy	(Total number of female employees)/(Total number of employees)x 100
% of women staff at different management levels (head office and field levels calculated separately)		(Number of female employees at management level)/(Number of total employees at different management positions)x 100
% of female Board members		(Total number of female Board members)/(Total number of Board members)x 100
Staff Attrition		
Staff attrition rate	Human Resource	(Number of employees that left the organization)/(Average number of employees)x 100

*Pakistan Poverty Alleviation Fund

FIELD EXAMPLE 10. **ASKI SELECTS SOCIAL INDICATORS FOR ITS SOCIAL DASHBOARD**

With mentorship from MicroSave, ASKI's (Philippines) management team reviewed its social goals and created a list of social indicators that it tracks on an ongoing basis. ASKI started with a list of 56 possible indicators, and through a rigorous process, reduced the number to 48, 23 of which are reported to the board. The FSP based their indicator selection on two main criteria: 1) relevance to ASKI's social goals, and 2) feasibility of data collection. Though the process was tedious, the extensive discussion was useful in creating a sense of ownership and accountability for the results among members of the management team. The indicators listed at right are the 23 that ASKI reports to the board twice a year.

Read the full *MicroSave* case study here.

Clients
1. Total number of employees reported (jobs created)* [Q/A]
2. % of clients (tracked) who present increase, status quo or decrease in their poverty score* [A]
3. % of clients who had access to a qualified health practitioner or health facility for treatment for this illness/condition [A]
4. % of clients who have school age (5-15) children who attend school regularly* [A]
5. % of clients who feel greater spiritual support after joining the programme* [A]

Finance
1. Effective interest rate (EIR) for most prolific (largest portfolio) group loan* [A]
2. Average EIR in country for group loan* [A]
3. Return on assets [Q/A]

Operations
1. Client retention rate (borrowers only)* [M/Q/A]
2. % of poor clients (various poverty lines: < $1.25/day, < $2.50/day, < $5/day)* [M/Q/A]
3. % of active borrowers: female and male* [M/Q/A]
4. % of active borrowers: rural and urban* [M/Q/A]
5. % of targeted minority borrowers: indigenous and disabled persons* [M/Q/A]
6. % of clients without access to formal financial services* [A]
7. % of client satisfaction score* [A]
8. Penetration of clients [A]
9. Average loan size [M/Q/A]
10. Number of start-up businesses financed by AKP and by AMP [Q/A]

People
1. Staff retention rate* [M/Q/A]
2. Average number of days of staff training [Q/A]
3. % of staff complaints resolved [M/Q/A]

Process
1. % of client complaints received [M/Q/A]
2. SP audit report [M/Q/A]

TABLE 9. **HOW PRODUCTS/SERVICES SERVE THE PROVIDER'S SOCIAL GOALS**

PRODUCT/ SERVICE/ DELIVERY	HOW IT SERVES THE INSTITUTION'S SOCIAL GOALS
Emergency loans	These loans provide quick access to capital in cases of emergency, such as illness or natural disaster, in order to prevent our clients from selling productive assets to pay for unexpected expenses. This product serves our social goal of decreasing client vulnerability to economic shocks.
Financial literacy training	This training teaches clients new skills they can use to manage their businesses better, thereby increasing their earning potential. This service supports our social goal of increasing our clients' capacity to manage and grow their businesses.
Group lending model	Group members guarantee each other's loans, set mutual savings goals, and support one another during monthly meetings. This model allows us to reach poorer clients and help them to build social capital.
Mobile banking	This delivery channel allows our clients to repay their loans without visiting a bank branch, saving time and money. It allows us to reach more rural clients. We can offer financial services at a lower cost, which contributes to clients being able to save or invest in their businesses.

<div style="float:right; width:45%;">

FIELD EXAMPLE 11. **TUJIJENGE INTEGRATES SPM INTO ITS STRATEGIC PLAN**

Tujijenge (Tanzania) is an MFI serving around 9,000 microentreprenuers. Tujijenge participated in an SPM capacity-building program supported by Oikocredit. Initially, they identified many activities to improve social performance, and they set a costly and ambitious action-plan.

Little progress was made until the organization decided to focus on social performance as part of its core business and *integrate the action plan into the overall institutional strategic plan*. A draft plan was produced and discussed in an externally-facilitated workshop that included all senior management and operations management. Managers began to see that a customer focus is the foundation for a successful microfinance business.

The plan addresses six strategic areas. Each area includes a strong client focus and concern for social performance. For example, the strategic goal "To grow to serve 32,000 customers" will be achieved through the following activities:

- Develop and review products that increase outreach to excluded microentreprenuers, including product terms such as smaller group loans and loan size limits that target poorer people.
- Improve client protection through improved complaints management.
- Build staff capacity to understand and explain products and services offered, in order to increase transparency and clients' understanding of products.
- Introduce client incentives to reward loyal customers.

By embedding social performance into the strategic plan, it has become part of each employee's core work responsibilities. Additionally, each member of the management team has a clear responsibility for delivery, with progress regularly reported to the board.

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1A.4 ARTICULATE HOW PRODUCTS AND SERVICES ACHIEVE SOCIAL GOALS

The ultimate purpose of delivering products and services is to achieve your social goals. Your institutional strategy should make it clear how your products, services, and delivery channels are designed to create benefits for clients. Such benefits include reducing barriers to financial inclusion, reducing client vulnerability, and promoting economic opportunities. Beyond these general categories, your institution should be able to articulate the *specific* benefits that your products and services are designed to produce. Table 9 shows an example of how a provider can articulate the relationship between its products/services and its social goals.

For some providers, the process of articulating this relationship will raise questions about whether products/services/delivery channels should be modified to better support the provider's social goals. For example, your institution might realize that one or more of its social goals will be difficult to achieve given the current product offerings. If this is the case for your institution, you can either modify your social goals so that they are realistic given what you offer to clients, or you can modify your product offerings. The guidance for Dimension 3 discusses product design.

- Imp-Act SPM Practice Guide (Chapter 3) discusses how to create a social strategy. See section: How do you create a strategy to achieve your social objectives? Also available in Spanish and French.
- Opportunity Bank Tanzania's Strategic Plan is an example of how an FSP started with its social mission, then outlined concrete goals, activities, and indicators for achieving the mission.

The provider collects and discloses accurate client-level data specific to its social goals.

> **Essential Practice 1B.1** Essential Practice 1B.1 The provider has a management information system (MIS) and protocols for social performance data.

> **Essential Practice 1B.2** If the provider states poverty reduction as one of its social goals, it monitors the poverty levels of its clients using a poverty assessment tool.

> **Essential Practice 1B.3** If the provider states responsibility to the environment as one its social goals, it defines and implements an environmental strategy.

> **Essential Practice 1B.4** The provider analyzes and reports social performance data internally and externally.

1B.1 COLLECT SOCIAL DATA AND FOLLOW PROTOCOLS

Guidance for standard 1a describes how to choose indicators that are directly linked to your social targets and that are useful for decision-making. Your institution should collect data on each of the social indicators selected. Before beginning data collection, your institution should answer these five questions:

1. **What resources are available for data collection?**

   Data collection requires funds, time, training, and in some cases upgrades to your data software. If resources are limited, start with fewer indicators and make additions gradually.

2. **Which data already exist?**

   First examine sources of data that *already* exist at your institution, including loan applications, loan utilization checks, client passbooks, internal/external audits, financial reports, and the MIS. You may already collect a lot of client information, such as gender, age, occupation/ business type, and geographic location. These will help track social targets. For example, BBVAMF[14] uses loan appraisal form data to monitor year-over-year changes in value of assets, monthly sales, and monthly net income of clients' businesses.

   Table 10 provides additional examples of common social data needs, alongside sources for this data which may already exist in your institution.

3. **When are data needed?**

   Determine when managers need information by considering what decisions managers need to make (see standard 2c[15]). Stakeholders will likely need data at different intervals. For baseline information, consider whether you want to collect data daily as clients enter or on a sample

basis (either annually or more frequently). For follow-up information, think about how often you need it: Annually? After every loan cycle? Every three years?

4. **Should data be based on a representative sample?**

   Collecting data on a census basis (i.e., *all* clients) can be costly. Sampling can reduce costs, but your institution should ensure that samples are random and representative of the population to be analyzed. Alternatively, you may choose to collect certain data on a census basis—such as outreach data (e.g., geographic location)—and other data on a sample basis—such as outcome data (e.g., change in access to education). For example, ESAF (India) requires staff to collect a small number of indicators (mostly demographic and business) on all clients during loan appraisal and a different set of social indicators on a separate survey (e.g., poverty), which is administered to a sample of clients. Box 6 discusses how to choose an appropriate sample size.

5. **Will data collection be a burden for clients?**

   Data collection should not represent a burden for clients, in terms of time and cost to participate—including opportunity cost. Consider how staff can collect additional data during routine points of contact with clients, such as loan intake, loan utilization checks, and branch visits.

   Table 10 presents example indicators, and answers three of the questions above, for these indicators.

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[14] *BBVA MicroFinanzas' Social Performance Reports* (annual) detail the social data used to measure client progress of the BBVA Group's institutions, as well as the results. Available in English and Spanish.
[15] Guidance for standard 2c discusses how managers use social performance information.

BOX 6. **SELECTING A SAMPLE SIZE**[16]

A valid sample for quantitative data is fundamental to data quality. If a sample is not designed well, the data will not represent clients, and the data analysis will therefore be less useful. When selecting a sample size, there is no universal rule (such as "5% of the population"), because it depends on the *degree of variation in the population* (e.g., rural/urban, or different economic levels, or social groups, or business sectors). However, there is a universal rule for a minimum sample size from which you can draw percentages (e.g., "15% of clients are dissatisfied with their insurance product"), and that number is 30 people. It is best to collect data on a minimum of 35 people, to allow for wastage.

If you are interested in analyzing results for different segments (e.g., rural clients, urban clients), then you need a minimum sample size for *each segment*. Additionally, while a larger sample size may *statistically* reduce the margin of error, the quality of field work is critical, and may be better controlled in a smaller sample. Consider consulting an experienced researcher to design your sample, especially when you are new to data collection.

• Resources for choosing the appropriate sampling strategy include Grameen Foundation's *Confirming the Sampling Strategy* (written for the PPI but applicable to any social data), also available in *Spanish and French*; the National Statistical Service for Australia's *online calculator*, and M-CRIL's *Technical Note on Estimating Sample Size*.

[16] From *Guidelines on Outcomes Management for Financial Service Providers*, page 23.

TABLE 10. **DECISIONS ON COLLECTING SOCIAL INDICATORS**

SOCIAL INDICATORS	WHAT RESOURCES ARE REQUIRED?	WHEN ARE DATA NEEDED?	WILL COLLECTION BURDEN CLIENTS?
% of clients living in rural areas **% of clients with dirt floors/ cement floors**	**Time**—Loan officers already visit clients' homes during the loan utilization check, and they can collect these indicators during that visit. **Materials**—Must update the new client forms. **Training**—Employees need training on how to categorize geographic areas and flooring types.	**Collection**—Data will be collected on an ongoing basis and aggregated quarterly. **Use**—Management will review data on client outreach each quarter.	Collection of these indicators will add only five minutes to the regular client visit, and they are not sensitive in nature.

TABLE 11. **USE EXISTING SOURCES OF DATA WHEN POSSIBLE**

DATA NEEDED	EXISTING SOURCE
Basic client characteristics: male/female; geographic location; business type, etc.	MIS, client intake forms
Value of business assets	Loan forms, client repayment capacity analysis (cash flow analysis)
Client retention rates	MIS, branch reports

Define social data protocols

After deciding on your institution's data needs, create a written protocol that identifies the following:

- **Who is responsible for the overall data management system.** While field experience shows that data collection and management should be inter-departmental, there should be a team or point person ultimately in charge of managing the social data management system.

- **Which employees will collect the data.** Data collection agents should have the skills to ask clients questions in a neutral manner and record the information correctly. You may use a cost-effective process such as using loan officers to collect information. Similarly, if you have a Research department, you can fit client data collection into their responsibilities. Alternatively, external interviewers are typically more skilled, but they are more expensive as well. Consider potential conflicts of interest when selecting who will collect the data, such as a loan officer rewarded for a specific client outcome.

- **How data will be captured.** Your decision on how to capture the data (e.g., on paper, using a tablet) will largely depend on when and where data are collected. If your field staff are equipped with tablets and are already collecting data at clients' businesses, you might simply add questions to the existing electronic forms/surveys. Box 7 discusses the role of technology in data capture and analysis

- **Where the data will be stored.** The ideal place to store social performance data is in the provider's management information system (MIS), as this will allow data analysis across financial indicators (e.g., poverty score by loan size), and it will make data analysis richer and more manageable. However, many providers do not have the capability to do this and opt to capture social performance data in a separate database that can be linked to the MIS, usually by exporting MIS data into a spreadsheet using Excel or Access, or by creating "linking fields,"[17] so that variables can be analyzed across the two databases.

- **Which employees will analyze the data.** Data analysis requires more advanced skills than data collection. Consider using employees who are already analyzing financial data (e.g., Risk Management, Internal Audit) to analyze social performance information. Be clear on which types of analysis will be useful for decision-making (e.g., client exit rates by business type) so that managers can use reports to improve operations.

- **Which employees will verify the accuracy of the data.** Ideally, social performance data should be verified as part of existing quality management systems. Consider using employees who already oversee information collection and reporting (e.g., branch managers, Internal Audit), but ensure that the person checking the data is not the same person responsible for entering the data.

- **How the data will be reported and to whom.** Identify stakeholders who need to review social performance data, and determine how often they need to look at it. For example, the board might be best served with a quarterly dashboard of indicators, while executive management might need a narrative progress report in addition to the dashboard. Field staff, such as regional and branch managers, might need information more frequently, to facilitate decision making in the field; while donors typically prefer an annual report. Remember that for the data to be relevant, it must be reported on a timetable that enables them to use it for decision making. To increase efficiency, consider how you might use a report format that will satisfy the needs of multiple stakeholders simultaneously. Consider the information needs of the following stakeholders: board members, executive managers, regional and branch managers, branch/field employees, investors/donors.

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[17] A linking field might be a unique identifier (such as client identification number or loan identification number) that allows you to integrate datasets on clients or loan products. It is also known as a "foreign key" in some MIS.

• Freedom From Hunger's *Client Outcome Performance Indicator Database* is an Excel tool that FSPs can use to input and analyze social performance data.
• MicroSave's *Building MIS Capacity for Social Performance Reporting* documents how ASKI Philippines determined the MIS upgrades necessary to capture and process social data.

Train employees on data protocols

When introducing social performance indicators, it is important to train staff on your data protocols. Training topics must include:

- **The meaning of each question.** One field officer might interpret the same question differently than his/her peers, so it is important to explain the purpose of each question, so that staff use the questions consistently across the organization.

- **How to ask questions in a way that will not bias client responses.** Staff must be careful not to "lead" clients to respond in a certain way, but to remain neutral and allow clients to answer questions honestly.

- **How to ask sensitive questions.** Many questions about poverty and empowerment are sensitive and personal (e.g., "Do you sleep on a mattress or a floor mat?" "Who makes decisions about money in your household?"). Furthermore, many interviews take place in clients' homes or in the presence of other people. Train staff on how to be sensitive during interview and to explain to clients the reason for data collection.

- **How to enter data into the database.** Data entry can be a tedious task, but accuracy is essential or the data will be useless. Try to integrate data entry with another existing task, such as financial data entry or routine bookkeeping, so that it is not viewed as burdensome. Be sure that staff know their data entry will be audited and they will be accountable for its accuracy.

BOX 7. **USING TECHNOLOGY FOR DATA CAPTURE**[18]

Tablets, mobile phones, and data analytics software are beginning to provide options to facilitate the processes of data capture. There is an initial investment in the hardware and the software, but once made, the investment helps to reduce costs over the longer term. Below is a brief list of some of the many ways in which technology can be integrated into operations or obtaining client feedback:

- **Computer Assisted Personal Interview (CAPI):** Staff use tablets to capture data instead of recording interview data on paper. It requires clear and short questions and careful training of staff on how to ask the questions and which codes to use. It also takes time to digitize the questions. However, this methodology tends to improve data quality. Fondo Esperanza (Chile) field staff record data in tablets and upload data from the tablet to the central database when they return from the field. Cashpor (India) uses mobile phones to capture both transaction data and social data, as data from the mobile phones is directly uploaded to the central database.

- **Remote use of mobile phones:** Surveys can be undertaken taking advantage of the increasing spread of mobile phones and the cheap automated methods of text messaging (SMS) or interactive voice response (IVR). Bamboo Finance with EFC Zambia piloted an SMS survey on savings to understand motivations to save, ease of access (ATM, branch), use of savings, and whether savings products have generated positive outcomes.[19] Participation in the survey was toll-free, and mobile phone users were sent an SMS to opt into the survey. In one month, the survey was completed by 400 customers and 600 non-customers. The conclusion from the pilot was that SMS-based surveys are an appropriate, scalable, and cost-effective way to collect customer feedback. The lessons were that with only about ten questions feasible with this method, the scope of the research has to be very focused. And focus groups are necessary to test, refine, and narrow down the relevant questions.

Similarly, a project called The Voice of the Client used SMS and interactive voice recognition (IVR) to collect client satisfaction feedback (not yet applied to capture outcomes) among clients of four FSPs in India.[20]

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[18] For more information on using technology for data capture, see the SPTF's Guidelines on Outcomes Management for FSPs, page 19-20.
[19] For more details, see the Bamboo Finance presentation at the 2015 SPTF Annual Meeting.
[20] F ind out more about the project here.

Beyond training on data collection skills, it is important for employees to understand your institution's *motivation* for collecting this information. Provide your employees with clear explanations of the overall purpose of the data collection, explaining why quality data collection is important. Show how data are used and how they inform decision-making. These measures will facilitate employee buy-in, and by extension, more accurate data collection.

Finally, in addition to providing training for quality data collection, Human Resources should ensure that the necessary skills are included in job descriptions, so that appropriate employees are recruited.[21]

• MicroLoan Foundation Malawi's *Social Assessment Training Handbook* is used to train staff on how to accurately and sensitively collect poverty data. A case study documents how the FSP developed a data collection methodology, protocols, and the staff training.
• Grameen Foundation's *Preparing for and Conducting Interviews* is a short checklist for getting staff ready to conduct interviews with clients. Though it is written for poverty assessments, it is also applicable for gathering other types of sensitive client data. Also available in Spanish and French.

Validate social data through internal controls

Regularly and consistently validate social data, just as you would validate financial information. Additionally, evaluate employees on how well they adhere to the institution's process for collecting quality social data. Validation techniques may include:

- Visiting a random sample of clients to confirm that interviews happened;
- Observing the data collector in action and providing feedback on his/her performance;
- Verifying a random sample of data entered by the data entry personnel to confirm accuracy;

- Using data entry screens that will not allow the user to proceed unless certain information is entered; and
- Using data field validation built into the technology to provide error messages when obvious inaccuracies are entered (e.g., year is 1805, or the user enters that the client has zero children in one field, but then tries to enter that the client as three children in school).

• The *Progress out of Poverty Index (PPI) Checklist*: Ensuring Data Integrity focuses on the PPI tool but is a useful checklist for FSP managers validating the integrity of any type of social data. Also available in Spanish and French.

Disaggregate client data

Disaggregating client data[22] by gender and other key characteristics (e.g., rural/urban, poverty level, business type) is important for understanding whether you are reaching your target clients, how clients experience your products and services, and whether these need to be modified in the future. In particular, it is important to understand how the financial needs of men and women differ,[23] based on factors such as cultural context and household dynamics.

Most providers perform some level of client data segmentation, but many do not fully utilize the information they have available. Consider further segmenting client information with additional variables. For example, instead of simply segmenting the portfolio by business type, further segment it by repayment

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[21] Guidance for standard 2c discusses employee recruitment.
[22] Guidance for standard 3a discusses the use of client segmentation for understanding and meeting client needs.
[23] The SPTF Gender Working Group provides the following guidance: FSPs should consider the gender-based social, cultural, and legal barriers that women face in accessing and controlling financial products and services, such as the relative physical mobility of women clients, economic security, ownership of productive assets, involvement in major household decisions, relative freedom, and political participation. FSPs should understand how the needs of men and women differ, to ensure that products and services are accessible to women and protect women's financial rights. For example, policies that require male co-signatories or guarantors may limit women's access to credit.

(on-time/late), loan type, and loan amount in order to understand which businesses are failing and which are succeeding with the product. Table 20 lists many different segmentation variables to consider.

Often, the results of disaggregated data will prompt follow-up research. For example, if you see exceptional results (positive or negative) in one client segment, you can interview a sample of clients in this segment to learn more about why they are experiencing notable progress or failure. This insight can give management a more nuanced roadmap for further interventions.

If your institution's MIS requires modifications in order to include social performance data and to disaggregate information by client characteristic, first ensure that the appropriate department (usually Information Technology and Communications) understands why your institution's data needs are driven by its social goals, which data are needed, and which analysis is necessary to track progress toward social goals.

• The SPTF's *Guidelines on Outcomes Management for FSPs* discusses indicator selection, data collection, and data disaggregation.
• The SPTF's series of over a dozen Outcome Working Group briefs presents lessons learned on outcomes management (indicator selection, outcomes reporting, etc.) from FSPs across the globe. Some are available in English and others in Spanish.
• *Tracking client performance: Imp-Act Practice Note No. 7* provides guidance designing an client tracking system that suits your institution's information needs. Also available in Spanish.
• Women's World Banking's *Gender Performance Indicators Manual* describes a full suite of financial and social performance indicators you can use to analyze outreach to women, suitability of product design to meet women's needs, product diversity, service quality, client protection, and staff gender diversity, as well as to understand how serving women clients contributes to your financial sustainability and generates positive social outcomes.

FIELD EXAMPLE 12. **MICROLOAN FOUNDATION USES A DATA PROTOCOL**

In line with its social goals, MicroLoan Foundation (Malawi) collects social performance data on clients, including information on client poverty levels, food security, reasons for exit, and client complaints. To ensure the accuracy of the data collected, the institution has protocols for how data is collected, recorded, and analyzed.

MicroLoan is particularly concerned with the integrity of client poverty data. In line with its goal of targeting poor clients and enabling them to move out of poverty, the FSP tracks client poverty at entry and over time. After selecting the Progress out of Poverty (PPI) tool for data collection, Microloan Foundation created data management protocols to protect the integrity of the data.

First, MicroLoan worked to ensure staff buy-in, believing that if staff understood why they were collecting additional client data, they would do a better job of it. Well in advance of rolling out the PPI, MicroLoan began training staff on the FSP's social goals and how poverty data would allow the FSP to understand whether these goals were being met. Then, the FSP began training staff on the technical aspects of using the PPI tool, using a full-day training course and a manual that each employee keeps for reference. Part of the training is spent in the field with actual groups of clients collecting "live" data. At the end of the course, each person is tested on what s/he learned.

Beyond training data collectors, MicroLoan checks the accuracy of data collection and entry by spot-checking data entered by loan officers. Loan officers follow clearly defined procedures for data collection and submission. Then, branch managers, regional managers, SPM officers, or Internal Audit perform external double checks on the data. During these checks, managers use the PPI to survey the same client, and they check that the answers match with the original data recorded by the loan officer. The FSP has integrated PPI data accuracy and compliance with spot checks into its staff incentives scheme.

1B.2 MONITOR CLIENT POVERTY LEVELS

If your institution states poverty reduction[24] as a social goal, you should collect data on the poverty level of clients when they join your program (baseline) so that you know whether you are reaching your target clients—and again after a period of several years, so that you can measure how you are affecting their poverty status. Use a poverty assessment tool to: profile clients at entry; target clients and place them into tailored programs; segment your outreach, client exit, market feedback, and other performance data by poverty level; and track changes in client poverty level over time.

Two types of poverty measurement tools

Your institution can choose one or both types of tools, based on your local context and the availability of poverty tools for your country.

- **Relative poverty measurement tools** measure client poverty against the poverty of clients in a similar situation (e.g., clients in the same village) using indicators appropriate to the local context. Your institution may choose this type of tool if it defines poverty in a particular way (e.g., lack of sanitation) and/or if an absolute poverty measurement tool is not available.
- **Absolute poverty measurement tools** measure client poverty against established poverty lines (e.g., the international US $1.25/day PPP poverty line, or the national poverty line). A provider would use this tool to benchmark the poverty of clients to an internationally comparable standard.

Common poverty measurement tools

There are several tools available. These include the following:

- The Grameen Foundation Progress out of Poverty Index® (PPI®). A country-specific scorecard with ten verifiable, quality-of-life indicators (such as family size and access to drinking water) that estimates the likelihood that a household is living above or below national and international poverty lines. The PPI website contains case studies, Standards of Use, a Trainer Toolkit, and other resources.
- The USAID Poverty Assessment Tools (PATs). Country-specific household surveys and data entry templates that allow USAID partners to gain an accurate estimate of the share of its beneficiaries who are very poor, using 10-25 questions.
- The Fundación Paraguaya Poverty Spotlight tool. A visual survey that uses a series of photographs to help clients self-assess their poverty. Field agents complete the 50-question survey with incoming clients and again at periodic intervals. Each indicator is scored as red (extremely poor), yellow (poor), and green (non-poor). The accompanying manual describes how to use the tool and what to do with the results.
- The FINCA Client Assessment Tool (FCAT). A country-specific assessment tool available to FINCA subsidiaries and partners, which measures internationally comparable variables of clients' economic and social well-being.
- Food security index. Freedom from Hunger adapts to the local context a food security survey instrument originally designed by the US Department of Agriculture.
- Housing Index. An index created internally by the provider, which uses the structure of an individual house to differentiate between the economic levels of households and identify those who are poor. The CASHPOR Housing Index provides a good example.

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[24] _Truelift_, Pro-Poor Principle on Purposeful Outreach to People Living in Conditions of Poverty recommends that pro-poor organizations in middle income countries target the bottom 40%.

- Participatory Wealth Ranking. An index that ranks household wealth in a community context based on criteria that the community members define themselves.

Numbers 1 through 3 on the list of poverty measurement tools are publicly available for download, while numbers 4 to 7 are tools that your institution would either create or obtain from another institution that has developed the tool locally. Your decision on which tool to use will largely depend on how you define poverty for your clients. For example, you may target clients living below a specified poverty line, in which case you need to use a tool that benchmarks data against national and/or international poverty lines (e.g., the PPI®). Alternatively (or additionally), you may target clients who are poor relative to others in their community, in which case you might use Participatory Wealth Ranking.

Choosing a tool

Your decision on which tool to use will largely depend on how you define poverty for your clients. For example, you may target clients living below a specified poverty line, in which case you need to use a tool that benchmarks data against national and/or international poverty lines (e.g., the PPI). Alternatively (or additionally), you may target clients who are poor relative to others in their community, in which case you might use Participatory Wealth Ranking.

All poverty assessments tools will introduce new costs, both in terms of time and financial resources. Much of the cost will be due to integrating the tool into your operations and systems and training your employees on how to use it. The incremental, on-going cost is often much less than the initial integration. To limit costs, consider combining poverty data collection with existing operations. For example, you might use the PPI questionnaire during your annual customer satisfaction survey, or include the PPI indicators on your membership or loan application forms. This integration can be done with other tools as well, such as food security or education, minimizing employee and client time needed to gather the data.

Though your tool selection should facilitate internal reporting and decision making, you should also consider which external audiences might require the survey results. Many social investors and global audiences prefer seeing results based on absolute poverty measures so that they can compare results across geographies and/or portfolios. However, if you have mostly domestic funding sources, your investors may be more interested in local poverty data benchmarking.

Be realistic[25]

Though "poverty reduction" is among the most common goals for social providers, many providers do not know what kind of client transformation they should realistically expect. A good rule of thumb is that significant change takes more than one year; and more likely, a poor client will need two to three years to become more economically stable and show some poverty reduction.

Friendship Bridge (Guatemala) (29,000 credit clients, all women, mostly rural and indigenous) analyzed 569 observations of the PPI for the same clients between 2012 and 2015, which showed an improvement of poverty likelihood of 1% per year—an improvement of 3% over the 3-year period. Meanwhile, the poverty data published by the Guatemalan statistics bureau showed that the portion of people living under the national poverty line had *increased* 8% from 2006 to 2014. Before it compared its client data to the national average, Friendship Bridge felt disappointed, because it was hoping to see "major

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[25] Read more on this case study: Making the Case for Outcomes Management, page 11.

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FIELD EXAMPLE 13. **PRIDE MICROFINANCE LTD USES THE PPI TO MEASURE THE SUCCESS OF DIGITAL FINANCIAL SERVICES**[27]
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improvements" in its clients' progress out of poverty, instead of the relatively modest 3% improvement. However, after understanding that nationally Guatemalans were becoming poorer over the same period when Friendship Bridge clients were becoming (slightly) less poor, Friendship Bridge realized that its results were actually quite promising.[26]

Similarly, AMK (Cambodia) (450,000 loan clients, 82% women, 93% rural) tracks the wellbeing score (using an in-house index) for a random, representative sample of clients. Data between 2007 and 2012 showed small gains on a the well-being scale – with 5% moving out of the two lowest categories during the five-year period. Overall, 25% of clients showed an improved score, 60% stayed the same, and 14% worsened. Interestingly, as in Guatemala, comparative data suggested that though the improvements for client households seemed nominal, they were significantly better than for non-clients; 2008-2009 were difficult years for many in Cambodia, with high food and fuel inflation and national flooding in 2008 and 2011.

Pride MDI (Uganda) has a strategic objective "to have 20% of target clients registering a positive social change in their livelihoods." When the organization began using the Progress out of Poverty Index (PPI) to assess "social change" in a quantifiable, evidence-based manner, the results were surprising: they discovered that they were not reaching as many poor clients as they originally thought.

The baseline PPI results are being used by Pride MDI's management team for social performance planning, in the following ways:

- They found that only 2% of their clients were below the National Poverty Line. This finding came as a big surprise to the FSP, and they have now adjusted their poverty outreach goal down to 5% (from 20%) for the year, based on a more realistic assessment of what is feasible.
- They intend to focus specifically on initiatives that benefit women, especially in the Eastern and Northern regions of the country, which showed a significantly higher percentage of poor clients.
- They intend to use the National Poverty Line as a benchmark for use in strategic decision making as this poverty line is consistent with the welfare benchmarks used in Uganda's national "Vision 2040" campaign. They will use the US $1.25/day (2005 PPP) Poverty Line for international reporting as the line is used for the Millennium Development Goals.
- They also collect additional data from their clients, including: age, gender, land ownership, type of business and number of loan cycles. They hope to understand how poverty is correlated with these different indicators, using that understanding to segment clients and provide products appropriate to each segment and its needs.
- They intend to analyze PPI data for their clients on an annual basis to track their progress. This information will be disseminated to all stakeholders via their annual report. They hope that accurate poverty reporting for socially conscious investors, donors, and specialized rating agencies will eventually lead to increased funding. As an example, reviewing the processes that they now have in place to analyze and act upon PPI results, one funder has committed funds to enhance the financial literacy of Pride MDI's poor clients.

Read more on this case study here.

[26] Read more on this case study: Making the Case for Outcomes Management, page 7.

[27] Adapted from Grameen Foundation case study "Pride Microfinance Ltd: Measuring Social Performance of Digital Financial Services in Rural Uganda" (2015).

It is better to understand that clients usually make modest gains in a few years' time, so that you do not overpromise when it comes to social targets. With experience, you can also determine social indicators that are more sensitive to short-term changes, such as improvements in financial awareness following an awareness-building campaign, or an uptick in the number of clients with sanitary toilet facilities following the introduction of a sanitation loan.

> • Incofin's [five-year study of AMK Cambodia clients](#) discusses how the provider developed in-house client data tools.
> • [MicroSave India Focus Note 96: Poverty Measurement: Challenges and Benefits](#) highlights the key benefits of poverty measurements, as well as practical considerations when choosing and using a poverty measurement tool.

1B.3 DEFINE AND IMPLEMENT AN ENVIRONMENTAL STRATEGY

Increasingly, providers accept responsibility for their impact on the environment. Many understand that their own organization, as well as clients' businesses, can either contribute to environmental degradation or help reverse this trend. Providers with "green"[28] agendas want to support economic growth in a clean, resilient, and sustainable manner. For some providers, this commitment means offering a suite of "green" products, while for others, it is as simple as declining to work with clients whose businesses harm the environment.

If your institution states responsibility to the environment as one of your social goals, support this goal by defining and implementing an environmental strategy. As a first step, formalize your commitment to environmental protection in your vision, mission, or values statement. Though this may be a general statement of commitment, it is an important signal to internal and external stakeholders. For example, XAC Bank's (Mongolia) mission statement is "To be a lifelong partner for our customers in providing value-added financial

solutions embracing the highest standards of triple bottom line mission: People, Planet, and Prosperity."[29]

As a next step, develop a formal environmental policy that specifies your environmental goals and corresponding targets and indicators. Often, the policy is a collaborative effort between the SPM manager, sales or credit department, product development and communication managers, and senior leadership of the institution. Like the rest of your social performance strategy, your environmental policy should set out clear goals, targets, and indicators to measure your results. Consider the most significant environmental issues in the areas where you operate. [Table 12](#) provides a list of example goals, targets, and indicators for responsibility to the environment. A complete set of internationally accepted measures related to environmental performance is found in the "Green Index," a resource from the e-MFP's Microfinance and Environment Action Group.[30]

Your environmental strategy will only take root if you have a specific person or committee tasked with managing it. While senior management should be ultimately responsible for achieving environmental objectives, they may lack the expertise or the tools to do so. Many providers have found it useful to assign a dedicated function to supporting the management in making decisions—for example, an environmental manager dedicated to defining and monitoring environmental goals. This effort can be a full-time position, but it is usually a part-time function of an existing staff member. This person may require additional training, dedicated time for self-study on the topic, and mentorship by external experts in the field of "green microfinance."

[28] See the working definition of "Green Inclusive Finance" developed by the e-MFP Action Group on Microfinance and Environment, which defines "Green Inclusive Finance" as financial services that support economic growth in a clean, resilient, and sustainable manner, and focus on the base of the pyramid (BOP) including micro, small, and medium-sized enterprises in low-income countries or such subsets of population within other developing countries. See page 8, [Green Inclusive Finance Status, trends and opportunities!](#)
[29] Available [here](#).
[30] Available [here](#).

TABLE 12. **EXAMPLE GREEN GOALS, TARGETS, AND INDICATORS**

GOAL	TARGET	INDICATOR
The institution increases uptake of clean energy (renewable energy and energy efficiency) loans.	The institution increases disbursement of clean energy loans by 10% in year 1 and 25% in year 2.	• Number of clean energy loans disbursed over the fiscal year (12 months) • Volume of clean energy loans disbursed over the fiscal year
The institution evaluates client businesses according to their impact on the environment as part of the loan approval process.	The institution categorizes 100% of new loan applications according to their level of environmental risk. 100% of applicants in the highest risk category are rejected.	• Number of new loan applications evaluated according to their environmental risk • Percentage of new loans in each environmental risk category
The institution reduces its own ecological footprint.	The institution implements at least two of the following actions in year 1, and another two in year 2: • Increase use of renewable energy by 15% • Reduce electricity usage by 20% • Reduce water usage by 20% • Reduce paper usage by 20% • Reduce fuel consumption by 20% • Reduce greenhouse gas emissions by 25%	• Amount of energy generated and consumed by the institution from renewable sources on a yearly basis (in KWh/FTE) • Electricity consumption on a yearly basis (in kWh/FTE) – • Water consumption on a yearly basis (in m3/FTE) • Paper consumption on a yearly basis (in kg/FTE) • Gasoline or diesel consumption on a yearly basis (in L/FTE) • CO_2-equivalent emissions on a yearly basis (in tons/FTE)

If environmental performance is new to your organization, consider carefully the resources you can dedicate to it, aiming to increase your resource commitment over time. Global experience shows that a mid-sized provider might need to dedicate around four hours per week of staff time toward environmental performance. Environmental performance activities might include:

• Working with management to create an environmental strategy for the organization, including green goals, targets, and indicators. Monitoring progress toward these goals.

• Developing an environmental exclusion list—a list of businesses that the institution will not finance, based on their harmful impact on the environment.

• Supporting field officers to apply the institution's exclusion list (e.g., training on how to evaluate client businesses for their impact on the environment).

• Monitoring and evaluation of the institution's own environmental impact.

• Bringing green products to the institution's portfolio (e.g., clean energy loan products).

• Reporting to external stakeholders on the institution's progress toward its green goals.

As part of your strategy, you should aim to reduce the environmental impact of your clients' businesses. In practice, this means employing risk mitigation measures with clients whose businesses pose some environmental risk. For example, clients who use harmful chemicals should maintain high standards for safe use and storage; those who generate waste water should have proper permits and should not contaminate water sources. You should consider working with clients to reduce their impact on the environment, for example by demonstrating safer, less impactful ways of running their businesses. You might exclude some businesses entirely. For example, ASKI Philippines does not provide loans to clients who are in the business of making charcoal.

Make sure that field officers understand how to evaluate the environmental risks posed by clients' activities and why your green strategy is important. Field employees are in the best position to check whether client activities violate

your environmental policies. Train field employees on the basic tenants of your green strategy, and provide detailed explanation on how they should evaluate client businesses. You can include environmental awareness elements in induction packages and periodic field officer training sessions and integrate environmental checkpoints into your standard application and contracting forms and procedures.

After you have established your environmental strategy, complete with performance targets, track your progress toward meeting your targets, and report your results internally and externally. Such reporting keeps your institution accountable, and it gives your green agenda more visibility among employees, investors, and the public. Internal stakeholders, including the board and your investors, can use the reports to track performance as part of incentive schemes for achieving results or management performance, as well as elements for their own aggregated reports to their investors or owners. Similarly, external reporting—typically in your public annual report—is important to demonstrate your institution's commitment to "triple bottom line" (financial, social, environmental) sustainability.

• Sonata Finance Pvt. Ltd (India) applies an Environmental Exclusion List to client businesses and has an Environmental Policy that applies to their own operations.
• The UMM *Green Microfinance e-Learning Module* provides an introduction to Green Microfinance for microfinance providers.

FIELD EXAMPLE 14. **ACLEDA BANK PLC. REPORTS ON ENVIRONMENTAL PERFORMANCE INDICATORS**

Acleda (Cambodia) publishes their environmental policy and performance report on their website. The bank states that their approach toward the environment is "to continue to introduce energy efficient systems into our buildings and to manage sensibly our energy requirements wherever we operate." As part of this effort, Acleda reports on their paper usage, energy and water consumption, and business travel (an indicator of fuel emissions). The charts below, published by the bank, demonstrate Acleda's performance on these indicators.

Acleda supplements the performance indicators with commentary that explains the numbers and further illuminates their environmental priorities, such as:

- Between 2014 and 2015, paper usage decreased by 13% due to the continuing increased use of electronic data. The Bank now uses AutoOffice System, developed by the Bank's IT Division and launched in late 2014, to send/receive internal information.
- The increase of waste paper by 18% from 2014 to 2015 was due to the one-time destruction of an accumulation of obsolete files and documents at Headquarters.
- Between 2014 and 2015, electricity consumption increased by 13% because of the construction of their new Headquarters building. However, their standard branches were equipped with modern lighting and air conditioning and more energy efficient appliances.
- Water consumption decreased by 17%, because staff have been trained to conserve water, and they are aware that water usage is monitored. Additionally, rain water is stored and recycled during the monsoon.

	2011	2012	2013	2014	2015
Energy					
Electricity (kWh/FTE*)	1149	1269	1230	1231	1391
Gasoline (l/FTTE)	51	48	47	41	41
Diesel (l/FTE)	58	60	60	54	49
Lubricant (l/FTE)	2.2	1.9	1.8	1.6	1.3
Gas (kg/FTE)	0.08	0.04	0.04	0.02	0.01
Emission of CO_2 equivalents--in thousands of kg)					
Electricity	4461	5160	5870	7050	8929
Gasoline	852	848	978	1025	1137
Diesel	1125	1214	1422	1541	1574
Water (m3/FTE)	42	22	20	19	16
Business travel by car (km/FTE)	272	329	316	343	224
Business travel by motorcycle (km/FTE)	2364	2272	2427	2217	1792

*FTE (full-time equivalent) = average number of workers during the year.

1B.4 ANALYZE AND REPORT SOCIAL PERFORMANCE DATA

When analyzing and reporting social data, the aim is to provide a set of data that are easy to understand and not too long, yet still guide management, staff members, and board members through the issues and aid in decision-making. Additionally, you should consider different ways to communicate the findings, and make it a point to share the information with all interested parties, which may include staff at many levels of the organization, as well as external stakeholders. If operations has been involved in collecting the data, it is particularly useful for them to see the reports and to reflect on the findings, since this confirms the importance of these data, and it justifies the time they have spent on collection and checking.

You may also find value in reporting on outcomes data to the clients themselves. Doing so allows clients to reflect on goal achievement and ongoing gaps, and it involves them in celebrating their successes. The process may involve a discussion during a loan application interview or group meeting. Fondo Esperanza (Chile) sends a letter[31] to its fourth-cycle loan clients, showing data collected over the four loan cycles, including business and household income, accumulated savings, leadership experience, and others. In the letter, Fondo Esperanza congratulates the client on positive findings and emphasizes that s/he should not be discouraged by any less positive results. The letter commits Fondo Esperanza to continuing support to the client, and it invites the client to make a commitment in writing about his/her goals for the next 18 months on these topics.

Be concise in your reporting. Managers and board members always prefer to deal with brief reports, bullet points, and clearly presented data. For internal stakeholders, especially for the board and management, preparing reports that are visual, benchmarked with previous institutional data (e.g., previous month's, quarter's, etc.) and country-level benchmarking will make it more relevant and enabling for them to use the data for decision making. The guidance for Essential Practice 2A.1 provides guidance on board social performance reports.

While social performance data is most important to internal stakeholders who will use it to understand clients and improve products and operations, external stakeholders should also have access to your institution's social data. Your institution may choose to publish social performance data on its website or annual report, or to report it to your national, regional, or global network, and/or to your national regulator to show your commitment to transparency.

Be aware that external stakeholders (e.g., funders, researchers, and industry observers) often prefer high level progress reports that show changes in client outcomes and progress against global benchmarks.

• The *Green Index 2.0: An Innovative Tool to Assess Environmental Performance in the Microfinance Sector* can be used to evaluate how well an FSP is managing its environmental performance. It is a good starting point for developing a green strategy.
• *Green Inclusive Finance* discusses the state of practice of Green Inclusive Finance, and provides basic definitions, an overview of the sector, and examples of good practice.

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[31] A sample letter to clients can be found in Annex 4 of the SPTF's *Guidelines on Outcomes Management for Financial Services Providers*. (2016)

FIELD EXAMPLE 15. **AMK REPORTS TO DIFFERENT STAKEHOLDERS**

AMK (Cambodia) has three different social performance reports:

1. **Full report by the research team, presented to the Social Performance Committee.** This report covers details of the social data collection methodology, sampling, quality checks, any limitations, disaggregation of the data, along with the observations of the management. The Social Performance Committee includes the CEO, senior managers, select board members, and staff of the research department.

2. **Findings summary for management.** Management reviews the findings and develops a half- or one-page response on the implications, with recommendations for action.

3. **Summary report by the SP Committee, presented to the board.** This report gives the key findings and a green, yellow, or red light (to reflect "OK", "some concerns", and "major issues to be addressed"), commenting on the adequacy of the methodology, the completeness of the information, and whether the findings are in line with AMK's mission. For example, AMK's "Results on vulnerability and health from the 2012 end line compared to 2006/7 baseline survey," shown in the table at right, is an example of summary findings shown to management. The end line survey in 2012 showed increased levels of vulnerability of clients to external shocks (e.g., flooding and drought) and household health events. The data prompted the management and board to reflect that these were issues that microcredit is unable to address directly, but they were ones that could be addressed by micro-insurance. As a result, AMK started negotiations with an insurance company for health insurance, and they introduced an insurance product shortly thereafter.

Health care indicators collected	Baseline % of clients (2006/2007)	End line % of clients (2012)	Change (end line minus baseline)
Household faced crisis/major event last year	33	67	+34
Never borrowed money or sold assets to pay for health care/ medicine	48	39	-9
Often/always borrow money or sell assets to pay for health care/ medicine	13	19	+6

• The SPTF's *Guidelines on Outcomes Management for FSPs* discusses the contents of a social performance report and how management can use the findings.

• Friendship Bridge Guatemala's *2014 Impact Report* provides an example of an external social performance report, with good use of graphics and data. Also available in Spanish. Fonkoze Haiti's Annual Reports include a lot of social data in graphics that make it easy to digest.

• Kashf Foundation's *Annual Report 2014* is a great example of how to integrate social and financial data in one report.

FIELD EXAMPLE 16. **FONKOZE REPORTS TO EXTERNAL AUDIENCES**

Photo by Kiefel Photography

This excerpt from Fonkoze's (Haiti) 2016 Annual Report demonstrates how an FSP can report to external audiences.

OUR CLIENTS' PROGRESS

Fonkoze's Social Impact Team collects data on client wellbeing. Tracking the same individuals annually, some for more than five years, enables Fonkoze to measure impact on indicators that extend beyond financial progress.

SOLIDARITY LENDING is Fonkoze Financial Services' core program, with over 60,000 active clients. Individuals form "Solidarity Groups" of five women that meet at one of the more than 2,000 Credit Centers located throughout the country. The group members support and encourage one another while also holding their fellow members accountable for managing their finances effectively. (sample size: 251)

	Percent living below $1/day	Percent living below $2/day	Average savings
INCOMING CLIENTS	53%	70%	$13
AFTER 2 YRS	51%	68%	$30

	Food insecure	Cement floor	Latrine	Send all children to school	Own small assets
INCOMING CLIENTS	72%	63%	73%	97%	53%
AFTER 2 YRS	63%	65%	77%	98%	68%
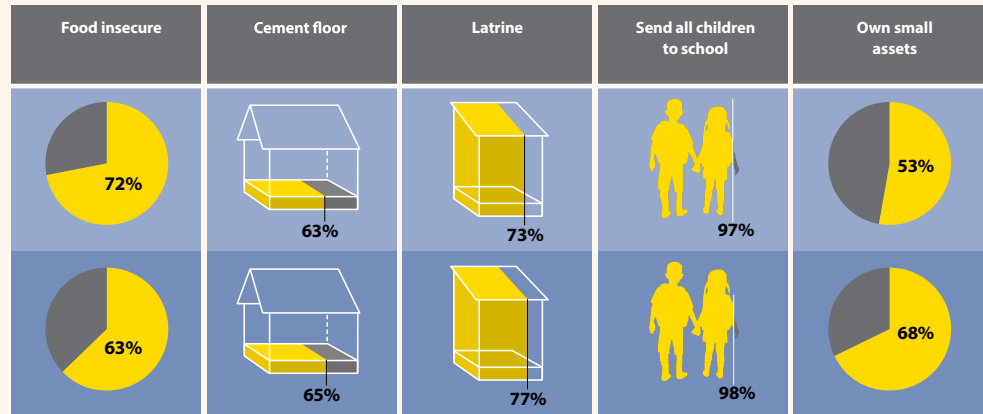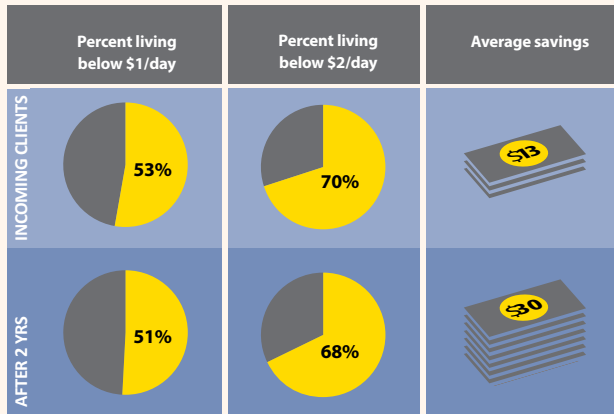
Dimension 2:

Ensure Board, Management, and Employee Commitment to Social Goals

Dimension 2 includes three standards:

> Standard 2A. Members of the Board of Directors hold the provider accountable to its mission and social goals.

> Standard 2B. Senior management oversees implementation of the provider's strategy for achieving its social goals.

> Standard 2C. Employee recruitment and evaluation is based on both social and financial performance criteria.

Standard 2A

Members of the Board of Directors hold the provider accountable to its mission and social goals.

> Essential Practice 2A.1 The provider orients board members on the social mission and goals, and the board's social performance management responsibilities.

> Essential Practice 2A.2 The board uses social performance data to provide strategic direction, taking into account both social and financial goals.

> Essential Practice 2A.3 The board holds the CEO/Managing Director accountable for making progress toward the provider's social goals.

> Essential Practice 2A.4 The board is responsible for preserving the provider's social mission during times of institutional change.

2A.1 ORIENT THE BOARD TO YOUR SOCIAL MISSION

In order for your board to manage your institution's social performance, each board member must understand your institution's social goals, and how s/he can contribute to meeting them. A board orientation to SPM should include a comprehensive look at your institution's social strategy,[32] as well as updates on local initiatives (e.g., regulation; national Codes of Conduct) and international initiatives (e.g., the Smart Campaign[33], SPTF).

As a part of this orientation, discuss with your board members their specific responsibilities related to the social performance management of your institution. Such responsibilities include:

- Ensuring that client focus is integrated into your institution's strategic and business plans;
- Reviewing and discussing social performance reports provided by your institution to ensure:
  - Your institution reaches target clients[34]; and
  - Your institution's products and services are appropriate to client's needs.[35]
- Suggesting modifications to the institution's products, operations, or social goals/targets, based on review of social performance information;
- Reviewing Human Resources policies to evaluate social responsibility to employees;
- Ensuring your institution is in compliance with national/regional/international regulation, including codes of conduct;
- Reviewing and updating your institution's social mission, as necessary

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[32] Guidance on standard 1a discusses the social strategy.
[33] For more information, visit the Smart Campaign website.
[34] Guidance on standard 1a discusses the importance of defining target clients.
[35] Guidance on standard 3a and 3b discusses how to understand client needs and preferences and design appropriate products and services.

Confirm that each board member agrees to uphold the responsibilities that your institution specifies. Standard 6b provides further guidance on ensuring that investor board members are aligned with your institution's social goals.

In addition to providing board orientation, consider pairing newer board members with existing ones ("mentors"). Ask the pair to meet one or more times to discuss your institution's history, mission, social goals, and related topics. Board members should visit client businesses and branch offices; understanding the institution's field operations helps the institution's social goals "come alive" to the board.

If you find that your board resists or deprioritizes its social performance responsibilities, consider using the terms "client focus," "responsible finance" and "balanced performance management" instead of "social performance." Choose terms that appeal to the financial orientation of board members, and describe the financial benefits of pursuing social goals. Often, the lack of interest in social performance is based in a misperception that SPM is a costly distraction from prudent oversight of the provider's financial performance.

- The SPTF's *Guiding your Board to Manage Social Performance* is a short guide for financial managers on how to work with their boards to manage the FSP's social performance. The publication will also be useful for board chairs and members as well as for others who work with FSP boards, such as FSP executives and staff, technical assistance providers, or funders.
- The *Handbook on Social Performance for Board of Directors* describes the role of the board in managing social performance, including managing risk.
- *Imp-Act SPM Practice Guide* (Chapter 4) discusses to how to get a board "on board" with SPM, looks at board composition, and the role of leadership. Also available in Spanish and French.
- *Convincing the Skeptic* addresses how to influence board members who are skeptical of the value of SPM.
- MicroSave's *Reinforcing the Role of the Board in Social Performance Management* documents ASKI Philippines' extensive efforts to formalize their board's role in managing social performance.

[FIELD EXAMPLE 17. **NWFT ORIENTS THE BOARD ON SPM**]

Negros Women for Tomorrow Foundation (NWTF) (Philippines) hired an external consultant to orient the board on SPM. The consultant used two overhead projectors for the orientation meeting. One projector showed NWFT's social performance goals and indicators, and the other projector showed NWTF's plans and activities to achieve each goal.

Viewing the goals and the plans for achieving them side-by-side allowed the board to easily understand what NWFT wanted to accomplish and what activities it would undertake to address social performance goals. The board was very responsive to this presentation, and it was motivated to participate in setting SPM goals and activities. Specifically, the board helped to formulate NWFT's "80-50-30" social performance target: the institution targets 80% of new clients living below poverty line upon entry, 50% of those clients show a positive change in their economic poverty level after three years in the program, and 30% of those clients move above the poverty line after five years in the program.

2A.2 REVIEW SOCIAL PERFORMANCE DATA AT THE BOARD LEVEL

Many boards view their role as primarily financial, and as such, they focus on corporate oversight and fiduciary responsibilities. However, this attitude creates a gap between the provider's purpose (benefiting clients) and the board's management priorities. Your board should adopt a balanced approach to performance management, drawing on both social and financial information. To achieve this balance, the board must:

- Have on-going access to social performance information;
- Use this information to make decisions; and
- Understand how social and financial performance can reinforce one another.

Provide your board with regular social performance reports which contain data on the institution's social goals. Ensure that these reports present information that is needed by the board to fulfil their SPM responsibilities.[36]

Report contents

Report social data that is important to your board.[37] Decide on the content of the report together with your board. This will promote buy-in and facilitate improved decision-making. The report contents should include:

- Outreach to target clients[38]
- Social indicators that measure progress toward social targets[39]
- Client retention[40]/feedback data or satisfaction surveys/exit survey data
- Client protection risks and practices[41]
- Employee retention and satisfaction/effectiveness of HR policies[42]
- Growth targets vs. actual growth and data/discussion on "responsible growth"[43], and
- Profit allocation and data/discussion on "responsible prices and profits"[44]

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[36] Guidance for standard 2a discusses board SPM responsibilities.
[37] Chapter 2 of this guide, How to use social performance data for decision-making, describes how your institution's decision makers (the board and senior management) can use social performance data to inform operational and product decisions.
[38] Guidance for standard 1a discusses defining your target clients. Guidance for standard 1b discusses disaggregating client data based on target client characteristics.
[39] Guidance for standard 1b discusses social indicators that measure progress toward social targets and measuring progress toward poverty reduction goals.
[40] Guidance for standard 3a discusses measuring client satisfaction and client retention.
[41] Guidance for standard 4a to 4d discuss client protection risks and practices.
[42] Guidance for standard 5c discusses employee satisfaction and employee retention. Guidance for standard 5a discusses Human Resources policies.
[43] Guidance for standard 6a discusses responsible growth.
[44] Guidance for standard 6b and standard 6c discuss responsible prices and profits.

The report can integrate (or have as an annex) any independent information on the above (e.g., from Internal Audit or independent external assessments, such as audit/rating).

Consider a dashboard report that includes thresholds that trigger decision points around key indicators. In the report, provide a mix of short-term indicators (e.g., client retention by month; progress toward client outreach goals by quarter) and long-term indicators (e.g., change in client poverty levels over two years; results of annual employee satisfaction survey). Together with the board, decide which short-term indicators are relevant to their decision-making timeline and are sensitive enough to provide early warnings.

Think beyond quantitative information. Qualitative information adds richness to data by giving an insight into the reason behind trends (e.g., provide client exit rate numbers, bolstered by data such as narrative answers from focus groups with exiting clients). Segmented information is also a powerful tool for comparative analysis, allowing your board to understand performance variations between different groups/products/branches in relation to key issues (e.g., client exit or level of satisfaction segmented by region, main products, or business type).

If these indicators are new to your board, work with them to learn how to understand and interpret social performance data. Start with a simple report that provides concrete information about the institution (e.g., client satisfaction data, employee retention rates, % female/male clients). Discuss the report, and allow the board to discover how the information is useful for decision-making. Use the same report format for several meetings in a row so that members become accustomed to reading the report. Then, discuss with board members how your institution might improve the SPM report to make it more useful for the board.

Report frequency

Provide an SPM board report at least annually, and as frequently as is necessary to ensure the board has relevant and timely information needed for decision-making. SPM should be on the agenda at each board meeting, regardless of how often data are provided to the board. Eventually, you should provide an integrated report with social performance alongside financial performance, for each board meeting. Additionally, the board should establish a set frequency (e.g., annually) to review your institution's strategy—particularly the social goals and products/services— and make any changes based on the institution's changing priorities, if necessary.

Give members specific responsibilities

Review the activities and mandate of the existing board committees to analyze whether social performance is adequately covered. If it is not adequately covered, consider adding a designated SPM committee. Whether you do so will depend on the extent to which this will marginalize or strengthen the SPM agenda within your particular institution.[45] Potential SPM committee responsibilities include the following: ensuring the credibility of SPM information; engaging employees at all levels in SPM; prioritizing SPM issues to be addressed by the board and management; drawing in relevant expertise for SP research and analysis; and proposing corrective actions for social performance risks identified by the board.

At Khushhali Bank Microfinance Ltd (Pakistan), board members receive an orientation on SPM and terms of reference that include these responsibilities: regular review of mission compliance from a risk management perspective, discussion of social performance results and social performance related risks (based on social data provided to the board), review of client protection practices (also based on social data), and appropriate growth/profit allocation.

[45] Some providers have found it best to spread SPM-related issues among various board committees so that SPM is integrated into all types of board decisions and activities. Other providers have found that having a designated SPM committee helps social performance issues to achieve equal status to financial performance issues.

The report on this page is a sample of one of the quarterly "Social Dashboard" reports reviewed by the board and management.

SOCIAL DASHBOARD
(September - 16)
Khushhali Microfinance Bank

CERISE | the smart campaign | miX Microfinance Information eXchange | SocialPerformance TASK FORCE

OUTREACH

FEMALE/MALE (FOR JUN & SEP)

Jun-16: 23% Women, 77% Men
Sep-16: 26% Women, 74% Men

■ Women ■ Men

RURAL/URBAN

	Jun-16	Sep-16
Urban	10%	14%
Rural	90%	86%
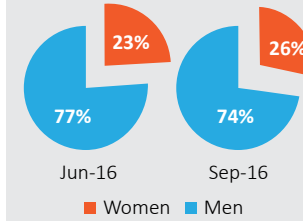
■ Rural ■ Urban
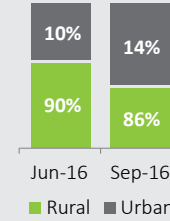
CLIENT RETENTION

Jun-16: 67.12%
Sep-16: 75.54%
Target (Sep): >74

SERVICE QUALITY & PRODUCT DIVERSITY

COMPLAINTS

Jun-16: Technical 14, Product 16, Behaviour 16
Sep-16: Technical 34, Product 23, Behaviour 14

■ Behaviour ■ Product ■ Technical

CHANNEL OF COMPLAINTS

Jun-16: Branch 5, E-mail (blank), Phone 29, Post 9, Central Bank 3
Sep-16: Branch 2, E-mail 9, Phone 52, Post 5, Central Bank 3

■ Central Bank ■ Post ■ Phone ■ E-mail ■ Branch
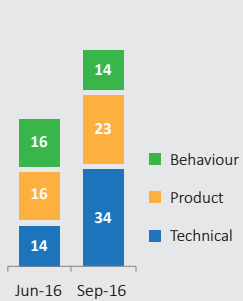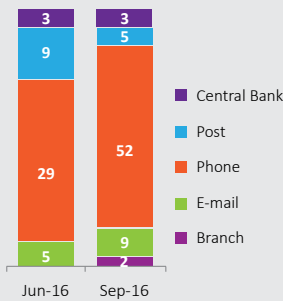
DIVERSE DELIVERY CHANNELS (No. of Transactions)

■ ATM ■ AGENT ■ BRANCH

Sep-16:
- BRANCH 96% (4,099,821)
- AGENT 3% (122,398)
- ATM 1% (65,207)

DIVERSE PRODUCT SUITE

Product	Jun-16	Sep-16
Cash Sahulat-God	12,047	8,209
Cash Sahulat - (Agri Passbook, TDC/NSC)	2,501	1,259
Khushhali Livestock	8,034	6,152
Khushhali Qarza Plus	13,079	6,143
Khushhali School Loan	119	97
Value Chain Financing	16	0
Shandar Bachat Scheme	2,168	2,984
Khushhali Sarmaya	1,177	1,484
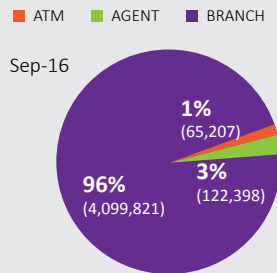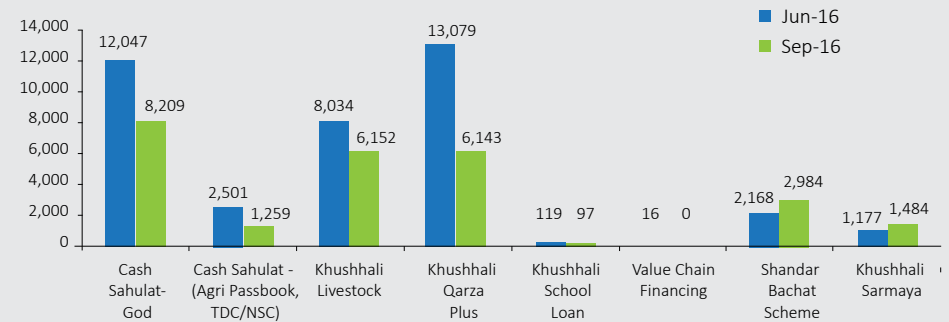
■ Jun-16 ■ Sep-16

SPM PRACTICES (SPI4 SCORES)

USSPM/CPP RESULTS

	Jun-16	Sep-16
1 - Define and monitor social goals	78	86
2 - Commitment to social goals	86	95
3 - Design products that meet clients' needs	46	80
4 - Treat clients responsibly	94	99
5 - Treat employees responsibly	73	90
6 - Balance social and financial performance	74	88

BENEFITS TO STAKEHOLDERS

DEPOSIT RATE V INFLATION

Jun-16: Avg. rate paid on deposits 7,88%, Latest CPI 3,90%
Sep-16: Avg. rate paid on deposits 7,87%, Latest CPI 3,20%

■ Avg. rate paid on deposits ■ Latest CPI
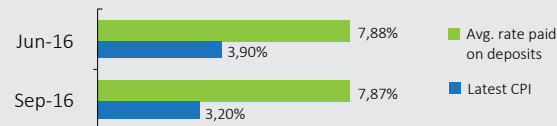
SHAREHOLDERS	Jun-16	Sep-16	Target (YE)
ROA (Return on Assets)	3.19%	2.75%	3.20%
ROE (Return on Equity)	21.42%	18.56%	20.00%

EMPLOYEES	Jun-16	Sep-16
Attrition Rate (Annualized)	21.55%	21.73%
No. of Promotions	96	186

DEVELOPMENTS IN 3RD QUARTER

Reported social data to national network (PMN) for their Social Performance Country Report.

• Preparing Application and conducting due diligence for becoming an Accredited National Implementing Entity (ANIE) of the United Nations Framework Convention on Climate Change (UNFCCC)'s Green Climate Fund

• Engaged IFC approved vendors such as SRE (Sustainable & Renewable Energy) Solutions for development of Green Products & consideration of Renewable Energy adaptation in infrastructure.

• Preparation for Smart certification early next year. Agreement has been vetted and signed.

FIELD EXAMPLE 19. **ASKI USES A SOCIAL DASHBOARD FOR BOARD REPORTS**

FIELD EXAMPLE 20. **FUNDACION GENESIS EMPRESARIAL REPORTS TO BOARD ON SPM PROGRESS**

With technical assistance from *MicroSave*, ASKI (Philippines) developed a set of social indicators that the FSP tracks on an ongoing basis. The board reviews the indicators in a highly visual dashboard format as shown below.

Read the full case study here.

Figure 2: The SP Dashboard for the Board

SPM DASHBOARD FOR THE BOARD : FIRST SEMESTER

OPERATIONS

Reporting Period:
January to June 2014

% of active borrowers

26% Female / 74% Male
16% Urban / 84% Rural

■ Female ■ Male ■ Rural ■ Urban

Benchmarks: NA

% of poor incoming / new clients:

% of clients living under the 5$ a day — 63%
% of clients living under the 2.5$ a day — 30%
% of clients living under the 1.2$ a day — 7%

0%   50%   100%

% of minority borrowers

29% Small Farmers
0.49% Fisherfolk
2% Indigenous People
0% Persons with Disability

31%

Benchmarks: NA

% of poor incoming / new clients: by Product

40.35 — AKP
32.89 — POVERTY RATE — New Clients
21.02 — New Clients

Annual targets
*40% poverty likelihood (< 2.5$ a day) among new clients of AKP
*20% poverty likelihood (< 2.5$ a day) among individual clients
*40% poverty likelihood (< 2.5$ a day) among the AMP clients

% of clients without access to formal financial services before joining ASKI

NA

Benchmarks: NA

Client Borrowing Capacity (Exposure to ASKI loans)

Average Loan Size of Clients

14,669 Pesos

Threshold : NA

Client Retention Rate

70.58%

After learning about the Universal Standards and integrating social performance into their overall strategic plan, Fundación Génesis Empresarial (Guatemala) created a unique "traffic light" system for tracking their SPM implementation efforts. The traffic light uses the colors green, yellow, and red to indicate the following:

- **Green**—the institution currently implements all of the Essential Practices for the standard, and this implementation is well documented and verifiable;

- **Yellow**—the institution has already begun planning for or piloting the implementation of the standard (e.g., a strategy exists but has not been implemented); and

- **Red**—the institution has not yet considered how to implement the standard.

Though the board has requested quarterly updates, Fundación Génesis Empresarial will realistically update the traffic light once or twice a year, as part of the annual planning process. This updating process will help the FSP to evaluate which practices are strengthening, which are weakening, and which the FSP can focus on for the coming year. The updates are shared with management and the board.

Highlight the risk management implications of SPM

Many aspects of SPM need to be integrated into your risk management strategy: a failure to deliver positive outcomes for clients will lead to client exit (if the products and services are not helpful, why would clients keep using them?); failure to protect clients will have similar negative impacts and will lead to reputational damage. Conversely, clients who use products and services that help their businesses thrive and improve their well-being are more likely to recommend the provider to their peers, remain clients in the long-term, and be able and willing to repay loans. Table 13 offers some ideas of common social performance risks.

Ensure that board discussions about risk include this client perspective. To make this practical for board use, segment client data according to characteristics that highlight clients who are most at risk. For example, segmenting exit clients by loan cycle may show that the majority of exit cases happen in the first and second cycles, which is highly costly for the provider, as the recruitment investment is not recovered.

When an external evaluation showed that IDEPRO (Bolivia) was not achieving the expected results for its target clients, the FSP started a special program called *Pro-Cadenas*, which offers business development services alongside credit, with services tailored to the economic and market characteristics of five key business sectors.[46] The program was a big investment, and failure represented a huge risk for the FSP. The IDEPRO board and management closely monitored key client business outcomes over time and found that *Pro-Cadenas* clients generally were achieving good results in all sectors except one: tourism. Management therefore decided to stop offering *Pro-Cadenas* in the tourism sector. In this case, social performance data helped the FSP modify their offering before suffering losses.

Consider effects on clients

The board should review every decision in light of how it will affect clients. This check may be as simple as asking: "how does this decision affect clients?" before choosing a course of action. The board should decide on the best way to introduce this check. For example, one board member might be in charge of raising the issue, or each board agenda might include time dedicated to the "client check." With time, the board should naturally begin to raise and discuss the positive and negative effects of decisions on clients.

• The SPTF's publication *Your Board's Social Responsibilities: Guiding your board to manage social performance* is a short overview on how to improve your board's SPM related work.
• Imp-Act's Risk Management Guidance Note discusses how SPM can be used as a risk management tool. Also available in Spanish and French.

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[46] Adapted from the SPTF's *Making the Case for Outcomes Management to Financial Services Providers*. Read IDEPRO's full case study. Also available in Spanish. Read IDEPRO's full case study.

FIELD EXAMPLE 21. SÈVIS FINANSYE FONKOZE SPM COMMITTEE CHARTER

Sèvis Finansye Fonkoze's (SFF) (Haiti) Board SPM Committee is responsible for ensuring that "an appropriate SPM system is in place to support the Board's overall stewardship responsibility and the discharge of its obligations to the shareholders and clients of SFF." The following committee requirements are outlined in SFF's SPM Committee Charter.

RESPONSIBILITIES OF THE COMMITTEE

The committee has the following responsibilities:

- Orient new board members on SFF's social mission, goals and related metrics;
- Create and maintain a three-year SPM strategy for SFF, which includes SFF's mission and social goals and output and outcomes indicators and related performance targets;
- Provide input on: staff incentives related to social performance; client targeting; product development processes and proposed (new) financial and non-financial product/service offerings as they relate to SPM; and financial product/services pricing, effective interest rates and transparency of the same;
- Ensure the CEO Performance Management process includes SPM metrics;
- Monitor social performance related risks (mission drift; reputational risks; client exit; barriers to financial inclusion for target clients);

- Monitor relevance, quality and adequacy of data produced from SFF's management information systems related to SPM;
- Review analyses of client outcomes, client product usage, client satisfaction/complaints, client retention/exit and proposed product/delivery/channel changes based on such analyses;
- Engage in direct contact with clients on behalf of the Board, through field visits or meetings with client representatives;
- Update the Board on social performance issues and developments occurring globally within the microfinance industry;
- Provide input to the Board regarding profit allocation as applicable;
- Provide the Board with recommendations regarding the prevention of institutional mission drift during changes in ownership structure; and
- Liaise with internal or external parties who may be engaged in the social auditor rating of SFF, or other similar assessment of the institution.

COMPOSITION OF THE COMMITTEE

The Committee consists of a minimum of three Directors elected annually by and from the Board of Directors as well as up to two additional individuals who are not members of the Board who bring skills/experience relevant to SPM. SPM Committee meetings are held as required but at least twice per year.

- AMK Cambodia's Social Performance Committee (SPC) is a board committee put in place to safeguard AMK's social mission as the organization works toward financial sustainability. This video documents their efforts.
- Chamroeun Microfinance (Cambodia) SPM Committee Terms of Reference provide an example of how to structure an SPM Committee.

2A.3 EVALUATE THE CEO ON SOCIAL PERFORMANCE

Board evaluations of the CEO/Director should be based on the financial performance and the social performance of your institution. The board should take the evaluation criteria directly from the social targets established in the social strategy.[47] Example evaluation criteria include:

- Institution serves target clients;
- Institution meets client retention targets;
- Institution meets client satisfaction targets;
- Institution makes progress toward achieving its social targets, as measured by the social indicators that the institution tracks;
- Institution meets employee retention targets;
- Institution implements an SPM action plan within a given time period; and
- Institution responds to issues highlighted in market research report by modifying a product or service.

Kashf Foundation (Pakistan) sets many social key performance indicators (KPIs) for its Chief Operating Officer (COO). In fact, most of the KPIs have both a social and financial component. Kashf does not distinguish between the two, which reflects the FSP's belief that social and financial performance are complimentary. For example, part of achieving 80% annual client retention and PAR 30 under 1% is using client surveys, exit interviews, and complaints data to improve the client experience. Other KPIs include 86% annual staff retention, development of HR policies that improve employee work-life balance, and addressing hiring issues when the rate of females to males drops below 50% for a specific staff position. These and other staff and client-facing KPIs ensure that the COO is focused on balanced performance management.

The board's evaluation of the CEO/Director should determine how s/he is compensated (salary and bonuses). The board should take corrective action if the CEO/Director achieves positive financial performance (e.g., meeting profitability targets) but demonstrates poor social performance (e.g., failure to meet many of the institution's established social targets).

2A.4 PRESERVE THE MISSION

YYour board should safeguard the institution's social mission at all times, but particularly during periods of major change that make your institution vulnerable to "mission drift" (e.g., serving relatively wealthier clients over time).

New investors

Before accepting a new investor or donor, the board and management should consider:[48]

- whether the investor has already made a commitment to, or is likely to commit to your institution's social goals; and
- whether the investor brings experience and/or resources for social performance

Non-profit providers generally have more freedom to choose board members that represent the institution's values. For-profit providers have to balance the need for capital with the desire to bring in investors that reflect the providers values. Nonetheless, all providers should be careful when considering a new investor or donor, to avoid bringing in a stakeholder who could steer them away from their mission. Some providers have declined donations and investments because they came from organizations whose interests were not aligned with their mission. Even if interests between your institution and new investors seem to align, you should include performance expectations in shareholder agreements.

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[47] Guidance for standard 1a discusses how to set social targets.
[48] The guidance for standard 6b discusses how to align investor and FSP expectations on social and financial performance.

New products, target clients, and/or geographic expansion

Your board should protect the institution's social goals when making decisions about new products and outreach to new target clients and geographic areas. They should consider both the commercial and social implications of such decisions, and they should use client data during the decision-making process. For example, if the board is deciding whether to add or adjust a savings product, they should consider what percentage of clients are currently saving, over time. If the number is low (i.e., only a small percentage of clients are savers) this suggests that the current saving product is a "finance-only" decision meant to generate capital for the institution rather than to address the multiple needs of clients. Additionally, if average savings balances are higher than average loan sizes, it might suggest that the current savings product does not meet the needs of the majority of target clients. Using relevant indicators, your board will be well-positioned to ask critical questions about the social impact of their new product decisions.

Similarly, when deciding whether to pursue new target clients and/or a new geographic area, the board must question whether the institution already understands the needs of the new group, and if so, whether the institution is well-placed to serve those particular needs. Alternatively, does your institution need more time to research the needs of the new group and to consider which products and services will meet their needs? Additionally, the board should think through both the commercial and social advantages of expanding client outreach, and whether the institution will achieve both, or only one. An example of achieving both: the institution expands to more rural areas, meeting the social goal of financial inclusion and the financial goal of reducing the risk of client exit based on poaching from other urban lenders.

Maintaining your Social Focus During Transformation: Key Questions to Ask discusses the measures that FIE (Bolivia) took to protect its social mission when it made the transition from a non-profit NGO to a for-profit provider. It offers lists of key questions to ask potential new donors and investors.

Senior management oversees implementation of the provider's strategy for achieving its social goals.

> **Essential Practice 2B.1** Senior management operationalizes the provider's social strategy.

> **Essential Practice 2B.2** Senior management analyzes and addresses social performance-related risks.

> **Essential Practice 2B.3** The CEO/Managing Director holds senior managers accountable for making progress toward the provider's social goals.

2B.1 OPERATIONALIZE THE SOCIAL STRATEGY

Managers should make all strategic and operational decisions with the goal of balancing the institution's financial and social goals. In practice, this means:

- Integrating your institution's social performance goals into strategic planning; and
- Considering all decisions for their potential effects on clients and employees, and monitoring these over time.

Strategic and operational decisions

As described in standard 1a your institution's overall strategy should include the mission, target clients, social goals, targets, and indicators. Beyond this institutional strategy, all business plans (e.g., contracts with investors; new product proposals) should be in line with the provider's social goals. A practical way to achieve this alignment is to require a social performance review of all business plans/contracts/strategies/operational decisions before they are finalized. Management should discuss how any given plan or decision may:

- Affect clients;
- Affect employees;
- Impact your institution's ability to achieve its social targets, as well as its public reputation;
- Require the institution to collect additional social performance data; or
- Require adjustments to the institution's stated social goals

For example, if a provider were considering pursuing a more aggressive growth strategy, management and the board would need to consider not only the financial implications, but the effects on staff and clients. Will the strategy help achieve the provider's goal of increasing financial inclusion for unbanked people? (most likely). Will it place additional strain on busy staff? (yes, unless new staff are hired or other efficiencies introduced). Will clients experience aggressive sales due to new, higher case load targets for staff? (likely, unless mitigating measures are taken).

In addition to management and the board considering the effect of strategic decisions on clients, you should ask managers at all levels to do an automatic "social performance check" on all daily business decisions. This check can be as simple as asking: "how does this decision affect clients?" before choosing a course of action. Discuss with managers how this check might play out in the normal course of daily business and how it might cause them to change current operations or planned activities. Identify key middle management employees and field employees who can help answer this question by bringing field-level experiences and realities to the discussions.

Compare performance to targets

A provider cannot truly know how it is performing against its social targets unless it measures and monitors its performance in a regular, objective, and deliberate way.[49] Anecdotal evidence and impressions can be misleading and even grossly inaccurate. Therefore, managers should use social data to track progress on social targets on a regular basis. Such tracking will allow:

- Management to hold itself accountable to the targets;
- Board members and/or investors to hold management accountable to the targets, including holding the CEO/Director accountable to the targets;[50]
- Management to incentivize employees against social performance targets and reward those with good performance;
- Management and the board to investigate the reasons for poor results or unexpected results, and to respond—for example, by modifying products, services, and delivery channels;

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[49] Standard 1a discusses setting social targets.
[50] Guidance for standard 2b discusses board evaluation of the CEO/Director.

- The provider to demonstrate progress to external stakeholders, improving its credibility in the marketplace; and
- All non-management employees to see how the provider is progressing (or not) toward its social targets, building awareness about what the provider wants to achieve.

For example, CRECER (Bolivia) found through client research that its *Credit with Education Program* was not creating changes in the nutrition-related health behaviors of mothers nor the nutritional status of their children.[51] Investigating further, CRECER found that the quality of instruction provided to clients varied greatly among field agents, with some providing high-quality instruction and others struggling to do so. When CRECER disaggregated the clients' scores by higher-quality instruction and lower-quality instruction, the clients who had received higher-quality education *did* show positive results—findings that were initially masked by the client average. This sent a clear message that the program *could* be effective, but only with the right instruction. These findings lead to significant changes in the way CRECER trained and supervised staff.

MicroLoan Foundation (Malawi) also made strategic improvements based on social data. The FSP has a strong social mission, and initially it assumed it was reaching rural poor women, given that it was working in communities with many poor people. But after tracking baseline poverty data, MicroLoan Foundation realized that nearly half (46%) of new clients were *above* US $1.25/ day purchasing power parity (PPP), making them *less poor* than the average rural Malawian. Following workshops with branch staff and management, a number of barriers were identified that were stopping the poorest from having access to loans, including organizational culture (lack of awareness that outreach to the poorest could be improved, lack of data, belief that the poor could not repay reliably, staff incentives based on portfolio size); product design details (minimum loan sizes too high for the poorest, compulsory

savings requirement to access a loan not feasible for the poorest); and client self-exclusion (risk aversion, lack of confidence).

To address these barriers, MicroLoan Foundation conducted workshops with staff to ensure clearer understanding of the social mission and how to serve the poor better, and they launched a pilot with significant methodological changes, including: the design of a new pro-poor loan (smaller loan size plus savings), client mentoring, loan rescheduling options, quality checks on group members, and prevention of over-indebtedness by tracking individual clients' missed savings and repayments. Staff incentives were accordingly revised to promote inclusion of the poor.

- Imp-Act's *SPM Practice Guide* (Chapter 3) discusses how to create a strategy to achieve social objectives. Also available in Spanish and French.
- Imp-Act's *Guidance Note on Strategic Planning* lists key issues to consider when setting a strategy for SPM. Also available in Spanish and French.
- *Opportunity Bank Serbia: Implementing a Strategic Plan for SPM* details how management and the board developed a new strategic plan. It outlines the roles that different people played in the process and how they set strategic objectives for the organization.

[51] Adapted from here.

2B.2 MONITOR SOCIAL PERFORMANCE RISKS

Risk management systems within many FSPs tend to focus on financial and operational risks like fraud. But your institution may also face risks that are more closely related to your ability to serve clients effectively. For example, using client satisfaction surveys, CREZCAMOS (Colombia) identified three significant problems related to transparency of information: 1) clients did not understand contract clauses, 2) clients had difficulties understanding some of the charges (fees, interest, insurance, etc.) included in payment instalments, and 3) clients did not understand what procedures CREZCAMOS would follow in case of default or late payment. The FSP recognized that lack of transparency was a major risk to its portfolio, and they decided to institute a "Welcome Kit" for clients, which provides in one place all of the information clients need to know about a given product. CREZCAMOS reports that the new transparency measure has improved the FSP's public image and made it easier to recover loans because clients are informed on collections procedures in advance[52].

Internal audit and/or risk management should integrate social performance criteria into their regular activities. In addition, your institution can use external assessment of social performance risks such as social ratings, audits, or client protection certification. Table 13 offers some ideas of common social performance risks. Generate your own list of risk factors to monitor based on your social goals and market context. Discuss preliminary findings that signal possible threats, and monitor these more closely.

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[52] Read the full CREZCAMOS case study here. Download the Welcome Kit (Spanish) here.

TABLE 13. SOCIAL PERFORMANCE RISKS TO MONITOR

RISK	EXAMPLES OF MONITORING
Client over-indebtedness	• Generate regular client PAR reports, segmented by client characteristic and branch. • Check client repayment capacity evaluations performed by loan officers. • Interview delinquent clients to check for multiple borrowing and inappropriate loan sizes. • Review whether loan products fit with the investment needs of clients (timing, duration, grace-periods, flexibility to irregular incomes or unanticipated down-turns).
Lack of transparency on terms and conditions	• Interview clients to assess their knowledge of product/service terms and conditions.
Employee dissatisfaction/exit	• Assess salaries to check for gender and other biases. • Conduct exit interviews with employees. • Check compliance with local law and transparency of salary scale.
Disrespectful and/or abusive loan collection practices	• Check client complaints registered through the institution's complaints mechanism. • Interview a sample of exiting clients and ask about collections practices.
Incentives that can lead to negative employee behavior	• Conduct annual review of employee incentives, checking for unintentional, negative consequences of incentives (e.g., client recruitment incentives that lead employees to recruit clients who already have loans with multiple institutions).
Client dissatisfaction/exit	• Conduct periodic or ongoing client satisfaction surveys. • Monitor client exit by branch.
Selection of clients outside target group (e.g., wealthier clients)	• Check reports of client business types. • Monitor poverty levels of incoming clients.

FIELD EXAMPLE 22. **KASHF FOUNDATION MONITORS RISK USING CLIENT INTERVIEWS**

Kashf Foundation's (KF) (Pakistan) Compliance Department conducts monthly interviews with 3,000 to 3,500 randomly selected clients to check whether staff are complying with KF policies and procedures in the field. The interviews take about ten minutes each. The interview data is compiled, analyzed and presented to management each month.

Interview Questions:

1. Compliance Officer asks the clients to show him/her their pass book, checking for completeness.
2. Who is the loan user?
3. For which business was the loan used?
4. Compliance Officer checks the raw materials being used in the business, checking that the loan was used for the purpose stated in the loan application and business appraisal forms (LABAF).
5. Estimates of income/expenses are reconfirmed, and in case of inconsistency with LABAF, details are recorded.
6. Have you taken a loan from any other provider? If so, in what amount?
7. Has any staff member ever misbehaved during loan recovery or forced you to sell any asset to make the recovery payment?
8. Has any staff member used unprofessional language with you?
9. Have you faced any delay in service on the part of branch staff during the loan process?
10. Are you making your loan payments in advance? If so, how many days in advance?
11. Has a staff member ever asked you to pay a commission or bribe in order to get your loan?
12. Were all the pricing terms disclosed to you, including the documentation fee, insurance premium, and interest rate?
13. Are you satisfied with KF products and services?
14. Are you aware of how to make a complaint to KF?
15. Do you have any questions about KF's policies and procedures?
16. Are KF staff members helpful when you have questions or problems?
17. What do you like about KF? How can we improve?

Read the full case study here.

FIELD EXAMPLE 23. **CASHPOR IDENTIFIES A SOCIAL AND FINANCIAL RISK**

At Cashpor (India), client data showed continuing poverty among a significant proportion of clients, even among those with five years of regular borrowing. The board of Cashpor reflected on these findings and, drawing on other studies, identified health problems and the related costs of medical care as a major threat to Cashpor's portfolio. Cashpor made the strategic decision to partner with the NGO Healing Fields, which trains Cashpor staff and selected clients to work as community health facilitators, delivering focused health modules at group meetings after the financial transactions are completed. A study of the results found that client health improvements justified a larger investment in the program. Cashpor now allocates 10% of its net profits to their health and education program.

• Imp-Act's *Guidance Note on Internal Controls and Audit* (also available in Spanish and French) and *Guidance Note on Risk Management* both describe how FSPs can systematically check compliance with their social mission. Also available in Spanish and French.
• *Learning from Client Exit* discusses how to monitor one specific type of risk—client exit—and how to use exit information to benefit the institution. Also available in Spanish.

2B.3 HOLD SENIOR MANAGERS ACCOUNTABLE FOR THE INSTITUTION'S SOCIAL GOALS

While your institution should evaluate *all* employees based on their ability to perform their social performance related duties,[53] senior managers should be particularly accountable to your institution's social goals. Senior managers set the tone for other employees, and their level of commitment to your institution's social goals will determine your institution's overall ability to achieve these goals.

Table 14 provides a list of senior management positions, along with examples of institutional goals for which they are responsible and example targets they should meet. Each senior manager at your institution should have such a list of their responsibilities and targets and their regular performance reviews should examine their success in achieving these goals.

TABLE 14. **EXAMPLES OF SOCIAL TARGETS FOR SENIOR MANAGERS**

SENIOR MANAGEMENT POSITION	SOCIAL GOALS FOR WHICH THE EMPLOYEE IS RESPONSIBLE	TARGETS FOR THE SENIOR MANAGER
Internal audit manager	• The institution will disclose all product terms and conditions to clients. • The institution will respond to client complaints. • Field officers will record client data accurately. • Field officers will evaluate client capacity to repay using a cash flow analysis.	• Survey a 5% sample of all new clients to check for understanding of product terms and conditions. • Follow up on 10% of client complaints to check for satisfactory resolution. • Check a 10% sample of client data entries for each branch annually. • Check a 10% sample of loan application forms for accurate cash flow analysis.
Operations director	• The institution will target low-income women. • The institution will prevent client over-indebtedness.	• 80% of new clients are women. • 60% of new clients are under the US $1.25/day poverty line. • Update institution's policies on client debt thresholds by the end of the year.
Human resource manager	• The institution will respond to employee grievances through a formal mechanism. • Employees will receive skill development and training.	• 100% of employees are informed on the mechanism. • 100% of employee complaints are answered within one week. • Employee training needs are identified, and a training plan is presented to executive manager by the end of the year.

[53] Guidance on standard 2c discusses how to evaluate employees on social performance.

Standard 2C

Employee recruitment and evaluation is based on both social and financial performance criteria.

> Essential Practice 2C.1 Employee job candidates are screened and hired for their commitment to the provider's social goals and their ability to carry out social performance-related job responsibilities.

Essential Practice 2C.2 The provider trains and evaluates employees on both social and financial performance responsibilities related to their position.

Essential Practice 2C.3 Employee incentives promote progress toward the provider's social goals.

Essential Practice 2C.4 The provider incentivizes staff to approve quality loans. (Client Protection standard 2.5)

2C.1 CONSIDER SOCIAL PERFORMANCE WHEN HIRING EMPLOYEES

Your institution's Human Resources function should prioritize recruitment of employees who fit your institution's culture and values. It is imperative that you hire employees who are aligned with your mission and are enthusiastic about working with your target clients. Outline a list of personal qualities and work/educational experience that suggests commitment to your social goals. For example, you might desire candidates with a strong sense of responsibility for helping marginalized people, problem solving abilities, good teamwork skills, and integrity. Relevant experience might include work in communities with similar target clients, customer service responsibilities, travel to rural areas, ability to speak a local language, and experience working on a team.

If you are unsure which attributes and work experience make someone a good "fit" with your social mission, consider talking with field staff—managers, in particular—about the skills and personal characteristics that make someone a high-performing employee. For example, VisionFund International (VF) hires local people, since loan officers who come from the clients' own communities are best able to identify, recruit, and work with VF's target clients. Unlike many providers who place a lot of emphasis on an applicant's formal education, VF has found that higher education is not among the top attributes that make a good loan officer. Instead, they value the following characteristics: numeracy and literacy sufficient to complete the loan assessment and application forms; knowledge and language of the local area; dedication, tenacity, and commitment to microfinance; interpersonal and sales skills; willingness and ability to work in the field; and commitment to VF values. (See Field Example 51, Standard 5b)

TABLE 15. **EXAMPLES OF EMPLOYEE POSITIONS AND RELATED SPM DUTIES**

POSITION	SPM DUTIES
Loan officer	- Recruit clients who fit with the institution's target criteria - Undertake a loan appraisal for all loans - Understand and help resolve repayment problems for clients who have willingness but not capacity to repay a loan - Collect information on clients' living conditions - Respond to client complaints
Internal auditor	- Verify quality of social performance data collected by loan officers - Investigate potential violations of the institution's Code of Conduct by employees - Check for successful resolution of client complaints
Information Technology (IT) manager	- Make upgrades to the MIS to allow storage of social performance data - Produce reports that combine social and financial performance data - Provide a technology platform for the institution to receive client complaints
Human Resource manager	- Monitor adherence to the institutional Code of Conduct. - Align human resources policies and processes (such as recruitment, performance appraisal, promotions, etc.) with SPM practices. - Monitor the employee grievances redressal mechanism. - Produce regular reports on employee management, including: staff exits, staff satisfaction, employee grievances, etc. - Periodically refine the staff incentive schemes to ensure balance of social and financial performance criteria and any unintended consequences. - Conduct surveys to understand the occupational hazards and safety issues for employees.

Identify social performance-related responsibilities for each position, and when hiring new employees, screen candidates for their ability to carry out those responsibilities. Table 15 provides examples of employee positions and their related SPM duties. Create a similar list for your institution, tailored to your specific social goals.

Finally, in addition to requiring employees to sign the institution's Code of Ethics, consider developing a "commitment contract" which states that a job candidate will do his/her best to carry out the institution's social goals.

- Grameen Foundation's *Recruitment and Selection Module* discusses the importance of recruiting and selecting employees who fit with the FSP's mission and strategic goals. It includes many practical tools, including interview guides and sample job descriptions.
- *ADRA Peru: Recruiting and Selecting Mission-driven Staff* is a case study that describes how the FSP's recruitment process is designed to identify staff that share ADRA's philosophy and are dedicated to its social mission, and to decrease staff turnover.

2C.2 TRAIN AND EVALUATE EMPLOYEES ON SOCIAL PERFORMANCE

Using your existing employee evaluation methods, introduce an evaluation of employees' social performance responsibilities. Choose criteria that correspond directly to your institution's social goals. Table 16 highlights example social goals for a loan officer and their related evaluation criteria. Each employee at your institution should have such a list of their responsibilities, and regular performance reviews should examine the employee's success in fulfilling these responsibilities.

Be aware that employees who are accustomed to being evaluated only on financial performance responsibilities may resist this new form of evaluation. Before adding social performance criteria to your employee evaluations, ensure that employees have first been trained on the institution's social strategy[54] and their social performance responsibilities.

TABLE 16. **EXAMPLE OF EMPLOYEE RESPONSIBILITIES**

LOAN OFFICER RESPONSIBILITIES	EVALUATION CRITERIA
Recruit clients who fit with the institution's target criteria	• Percentage of target clients (e.g., youth; women) in loan officer's portfolio
Collect social data on clients	• Number of client surveys conducted • Accuracy of client data collection
Respond to client complaints	• Number of client complaints received • Number of client complaints resolved
Maintain high portfolio quality	• PAR > 30 • Client retention, by loan cycle
Treat clients respectfully	• % renewed loans • Client complaints registered against employee • Client satisfaction with employee

[54] Guidance for standard 1a discusses the institution's social strategy.

FIELD EXAMPLE 24. **FINCA MICROFINANCE BANK LTD. EVALUATES EMPLOYEES ON CUSTOMER CARE**

In 2010, FINCA MFB (Pakistan) rolled out a comprehensive "Customer Care Program" that seeks to understand the customer experience, tailor products and services to the real needs of clients, and provide excellent customer service. As part of this program, employees are evaluated on how well they implement the FSP's *Customer Care Standards*.

In order to develop the *Customer Care Standards*, the FSP first evaluated the current level of customer care for each branch, examining staff treatment of clients, the branch environment, and how product information was relayed to clients. FINCA MFB analyzed which practices were associated with to high standards of customer care, as well as those that detracted from the customer experience or violated clients' rights. In addition to this evaluation of branch staff behavior, the institution's Research Department surveyed a sample of clients, asking questions about their experience and satisfaction with staff treatment and products and services.

Based on the information above, FINCA MFB then developed the *Customer Care Standards* which govern the behavior of every bank employee. To ensure that employees take the standards seriously and apply them to their daily work, the bank evaluates each field-level employee using a Service Quality Assessment tool. The tool examines staff treatment of clients, how product information is relayed to clients, and staff personal appearance and demeanor. As part of the assessment, specialized staff called "Service Quality Assessors" contact clients to get their feedback on each of the above elements. This direct client feedback is then integrated into the Service Quality Assessment.

Each quarter, the bank's Customer Care Department communicates the results of the Service Quality Assessments to the relevant Branch Manager and Operations Manager. If the results reveal violations of the Customer Care Standards, these managers take corrective action. Additionally, the results of the assessments are recorded as part of the KPIs of branch staff. Finally, the results of the Service Quality Assessment are mapped by branch and region, allowing branch management to understand how its own customer care compares to other branches/regions.

Imp-Act SPM Practice Guide (Chapter 7) addresses how Human Resources supports balanced SPM, including hiring the right people and training staff on the institution's mission. Also available in Spanish and French.

2C.3 AND 2C.4 INCENTIVIZE SOCIAL GOALS, INCLUDING QUALITY LOANS

Pay a living wage

Fair compensation is the foundation of any balanced incentive structure. Staff should receive a living wage as a base salary. Incentives such as bonus pay should never replace a living wage for staff, as under-compensation combined with high bonus pay may unintentionally incentivize fraud/theft, client mistreatment (e.g., bribing or overcharging clients), over-selling of products in order to reach performance targets, and other behavior that is harmful for clients.

First, examine your institution's wages to determine whether you pay a *living wage*. A **living wage** is sufficient to provide minimally satisfactory living conditions for the employee in the location where s/he lives. This means that based on his/her basic pay (excluding bonus pay), an employee can afford safe housing, and sufficient food, clothing, and transportation necessary to perform their workplace and personal duties. Your institution can determine the living wage using relevant collective bargaining agreements as a good indicator. When in doubt, conduct a simple study on the cost of living by interviewing employees. Remember that the living wage is not a static amount, particularly in countries with high inflation. Each year, examine whether salaries are still responsible, given changes in the cost of living.

Incentivize balanced performance

The indicators used to measure and reward employee performance communicate an important message to staff and clients about what your institution values. If your organization claims to have social goals but incentivizes financial performance exclusively, employees have no choice but to deprioritize social performance. For example, it is safe the assume that a "zero tolerance for arrears" incentive policy will lead some loan officers to use unacceptable collections practices. And you cannot expect that a manager will spend time mentoring staff and cultivating new leaders if this is not part of his/her KPIs.

To design and implement an employee performance management system that includes social and financial goals, first consider: *What are the behaviors and achievements that we want to promote?* For example, do you simply want field agents to recover the maximum number of overdue loans possible, or is respectful treatment of delinquent clients also a goal? Do you want employees to sell as many microinsurance policies as they can, or do you also care that an insurance policy is the right fit for the customer who buys it? Is it good enough for a field agent to simply fill out a client's social data profile, or is it important that the information also be accurate? Think carefully about your social goals—such as respectful treatment of clients, good product fit, and accurate data collection—so that you are clear on what behaviors your rewards system should encourage.

A good incentive system will:

- **Balance social and financial goals.** Integrate "social" variables into your incentive system without exceeding the recommended five variables that keeps the system manageable and uncomplicated. See Box 8 for example social variables. The **weights**[55] assigned to social and productivity variables should be balanced to make sure the same importance is given to social and financial performance. In some cases, the importance of a social goal can be stressed by placing it as a *condition*[56] (rather than a variable) in the incentive system. For example, a loan officer's rewards may be conditional upon having a certain percentage of target clients (e.g., women, rural farmers) in his/her caseload. Additionally, you could emphasize desired customer treatment by excluding employees who are being sanctioned for mistreating clients.

- **Incentivize good treatment of clients.** It is important that the variable proportion of a field officer's salary be reasonable—never more than 50 percent, though 20 to 30 percent is often a better limit for preventing poor

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[55] Generally, a single variable should carry a weight between 10 and 35%. Weights lower than 10% are not motivational, and those above 35% create lopsided behaviors (i.e., neglect for other variables).

[56] **Conditions** are certain minimum levels of performance that staff are required to meet in order to be eligible for their rewards.

practices such as aggressive sales or recovery tactics. Set limits for field officer caseloads, so that clients do not suffer under staff with too-high caseloads (see Box 9). Also consider setting a cap on disbursement/sales incentives to reduce the incidence of overly aggressive sales practices. For example, one FSP decided that anything disbursed over and above 120% of the disbursement target is not accounted for in the incentive calculation.

- **Be simple and straight-forward.** Incentive calculations should be simple and transparent for each employee group; a good rule of thumb is that any employee should be able to calculate his/her own incentives. **Variables**—the key indicators that combine to evaluate an employee's performance against pre-defined targets—should not exceed five for each employee group. Track variables and metrics in your MIS or other reliable system that is perceived as transparent and fair by employees.
- **Set attainable goals.** Aim to set conditions that qualify at least 70 percent of employees for rewards. Especially when introducing new variables or weights into your incentive system, err on the side of more employees achieving the reward, rather than fewer. Over time, you will be able to gauge whether you have established attainable goals and can adjust the incentive structure accordingly.
- **Promote equality among employees.** While some providers choose only to apply incentives to certain positions, experience shows that a comprehensive incentive system that covers the majority of job positions at the institution— or at least the field positions—creates a greater sense of equality among employees. Additionally, while junior and senior staff may have different KPIs based on their responsibilities, the indicators should all be aligned to the same end goals. For example, a branch manager might be incentivized by a client drop-out target, while a customer service representative at that branch would work toward resolving a target number of customer inquiries—and both would be working toward the same goal of customer retention.

BOX 8. **EXAMPLE SOCIAL VARIABLES FOR INCENTIVIZING EMPLOYEES**

Most variables are not purely "social" or "financial" in nature. In other words, most variables indicate something about client treatment and financial performance at the same time. All of the variables in the list below contain a social element, in that they incentivize the employee to devote attention to client progress and view clients as a longer-term investment.

- Portfolio at risk
- Product uptake (new accounts created, policies sold, etc.)
- Product dormancy (non-use of product without closing the product account)
- Renewal rate (for loans, insurance policies, etc)
- Client exit/retention rate
- Loan amounts disbursed comply with credit policies on client debt levels
- Clients from target group
- Quantity/quality of new client training delivery
- Client satisfaction with/complaints against employee (based on client feedback)
- Client movement ("graduation") from one product level to the next
- Savings frequency (frequency of savings deposits)
- Quantity/quality of non-financial services delivered (e.g., client education/training)
- Average time for insurance claims resolution

BOX 9. SET CASELOAD LIMITS

Too-high case load targets will degrade service quality, and may cause other problems such as staff attrition. The productivity levels below are suggested as a general guideline. Set benchmarks that are specific to your context, and test them with staff.

* Individual lending (loans per Loan Officer):

- Green Zone (low risk to clients): below 200
- Yellow Zone (moderate risk to clients): 200-300
- Red Zone (high risk to clients): > 300

* Solidarity group lending:

- Green Zone: below 350
- Yellow Zone: 350-500
- Red Zone: > 500

BOX 10. EXAMPLE INCENTIVE STRUCTURE THAT BALANCES PORTFOLIO GROWTH/SIZE AND QUALITY

The table below provides a simple example of an incentive system that balances social and financial objectives. It is modeled on the indicators used by a mid-sized microfinance provider in Peru.

Variable	Indicator	Weight
Loan officer productivity	# new groups formed during the period	25%
	Active loan portfolio size	25%
Portfolio quality	PAR 30%	25%
Reaching target clients	Average loan size in portfolio	15%
Client education	% of education sessions facilitated (calculated as "education sessions facilitated/education sessions targeted")	10%

Once you have created your incentive system, invest time in communicating to employees the rationale behind the system and how it works. Prepare an organization-wide training before implementing a new system, or if you believe employees do not fully understand the current one. Complement training with short, simple employee guides that explain the policies and provide sample calculations.

Finally, each year, your institution should review the incentive system. This task should fall to senior management and Internal Audit/Risk Management. These staff should examine any new system after three to six months and then annually thereafter. The role of Internal Audit is to monitor the factors presented in Table 17 and report to management. Senior management should use this information, in addition to market information, to ask the essential questions presented in Table 18. The ultimate goal is to ensure that the incentive system is not creating unintended negative consequences for clients.

- The Smart Campaign's *Balanced Incentives for Frontline Staff* discusses practical ideas and case studies for balancing financial and client protection goals.
- Grameen Foundation's *Total Rewards Toolkit* describes how to develop a reward system to motivate employees to achieve the FSP's social and financial goals, and it includes practical tools such as incentive plans and merit increase guidelines.
- Imp-Act's *Staff Incentives Guidance Note* frames the key questions to consider when reviewing a staff incentive system and identifies some emerging practices in balanced staff incentives. Also available in Spanish and French.
- A case study on FinDev Azerbaijan provides a practical overview of the process of developing and implementing a staff performance appraisal system and salary compensation scheme.
- *Rethinking Staff Incentives: An Experience from India* finds that non-monetary incentives (such as training for staff) have greater, positive effects on staff behavior while monetary incentives did not have as much impact.

TABLE 17. FACTORS FOR INTERNAL AUDIT TO EXAMINE WHEN REVIEWING YOUR STAFF INCENTIVE SYSTEM

FACTOR	SOURCES

Staff treatment of clients	• Client complaints data from the complaints system[57] and client exit surveys[58]
	• Staff disciplinary reports
	• Client feedback on staff behavior, including:
	  › Respect toward clients
	  › Ability/willingness to explain products and answer questions
	  › Delinquency/recovery handling procedures
	  › Ability/willingness to resolve client problems
	  › Treatment during sales (e.g., pressuring clients)
	  › Quality of training provided to clients
	• Peer feedback on staff behavior, including:
	  › Conduct toward clients (see above)
	  › Adherence to staff rules and Code of Conduct including instances of violations

Staff training	• Review of topics covered in recent/routine training (e.g., orientation) • Checks on staff knowledge of the Code of Conduct, client rights, sanctions for client mistreatment
Portfolio/sales	• Growth patterns (locations; changes in trends; unusual cases; comparison with targets) • Spot checks of randomly selected staff portfolios (proper selection; proper loan decisions; check for ghost clients)

TABLE 18. ESSENTIAL QUESTIONS TO ANSWER WHEN REVIEWING YOUR STAFF INCENTIVE SYSTEM

QUESTION	INFORMATION TO CONSULT
Do incentives contribute to staff mistreating clients?	• Growth targets and actual performance • PAR targets and actual performance • Retention targets and actual performance • Information from Internal Audit on staff treatment of clients (see Table 17)
Do incentives contribute to staff mis-selling or overselling products?	• Growth targets and actual performance • Data on client multiple-borrowing and over-indebtedness[59] • Information from Internal Audit on staff treatment of clients (see Table 17)
Do incentives impact service quality?	• Staff workload or caseload (e.g., clients per loan officer) • Sales targets (e.g., number of insurance polices sold in a period) • Client feedback/complaints on customer service • Client questions about products/misunderstanding of products (reflecting possible poor quality of understanding/explanation on the part of staff)
Are incentives appropriate to current market conditions?	• Growth targets and actual performance • PAR targets and actual performance • Market conditions, including: • Growth and saturation, by location • Factors affecting client ability to repay (e.g., political crisis)

[57] Guidance on complaints mechanisms is found in Standard 4e.
[58] Guidance on client exit surveys is found in Essential Practice 3a.2.

[59] Guidance on understanding client multiple-borrowing and over-indebtedness is found in Standard 4a.

FIELD EXAMPLE 25. **UJJIVAN INCENTIVIZES CUSTOMER SERVICE**

Due to financial constraints related to India's microfinance crisis, Ujjivan Financial Services Ltd. was forced to scale back incentive pay for staff in order to avoid staff layoffs. However, the FSP still uses awards to motivate Customer Relationship Staff (CRSs)—the term Ujjivan uses for loan officers. The incentive system relies on a balance of portfolio quality and quantity indicators, and it requires that managers carefully evaluate the performance of branch staff.

CRSs are scored using a scale of 0 (poor performance) to 5 (excellent performance) on five assessment parameters:

1. Number of borrowers
2. % of idle customers > 60 days
3. Portfolio balance outstanding
4. Client repayment rate
5. "Customer connect"

Ujjivan's "customer connect" parameter is an assessment of how well the CRS performs the following duties:

- Developing positive relationships with customers and delivering excellent customer service;
- Organizing and leading the branch's social development programs (including health outreach programs, education activities, and other social programs);
- Identifying customers who are in immediate need of additional support services from the FSP; and
- Participating in meetings for client leaders.

The customer connect requirement is the only subjective indicator in the incentive system, and as such, it requires time and effort on the part of branch management to evaluate. However, it is also an indicator that encourages strong customer relationships, and it has a positive effect on branch culture.

Read more on this case study here.

FIELD EXAMPLE 26. **ESAF REWARDS STAFF FOR ACHIEVING SPM TARGETS**

ESAF Small Finance Bank (India) put in place social performance targets for branch staff. These targets are analyzed on a quarterly basis and reported to the head of the Operations department as well as to the board. ESAF is revising its incentive system around these targets. Each branch will receive an overall score and the best branch will be rewarded.

1. Social targets

Reach the poor	80% of new clients are "poor," living on INR 8,000 (US $125) per month or less
Reach woman	At least 10% of the clients should be women-headed households
Reach rural people	Portfolio is 70% rural
Reach PWD	At least 1% of clients should be people with disabilities (PWDs)
Increase clean water	All 4th-cycle loan clients should have at least one water purification method
Increase toilets	All 4th-cycle loan clients should have access to a toilet (their own, a nearby public toilet, or other sanitary facility)
Improve housing	The number of 4th-cycle loan clients with cement ("pucca") homes should be, on average, 25% greater than the number of cement homes among new clients
Reduce economic poverty	The poverty level of 4th-cycle loan clients should be, on average, 25% lower than the poverty level of those same clients at entry, as measured by the Progress out of Poverty Index (PPI)
Increase health insurance	At least 25% of 4th-cycle loan clients should have health insurance cover (whether through the government or a private provider)

2. "SPM Audit" from each branch in the region (parameters listed below)

- Client social profiles (e.g., poverty data) are complete
- Exit client surveys are filled out
- Complaint/suggestion box is visible and maintained
- Client receipts (for payments made) are all signed by the client
- The following are on display: interest rates, complaints information, manager contact information
- Client passbooks are filled out
- The branch office is orderly and clean

3. Client satisfaction survey scores

4. Staff behavior: Cases of staff violations of the Code of Ethics will lower the branch's overall score.

5. Client transformation stories: Each branch must report to the SPM Department one client transformation story per month. The client should be in his/her 4th loan cycle or greater. The story must describe the following elements:

- The client's family (spouse, parents, children) and their occupations
- The client's home (# of rooms, flooring, walls) and any changes to the house during the client's tenure with ESAF
- The client's income-generating activity, monthly earnings, and ability to employ others
- Any investments (gold, land, property, household appliances, animals, etc.) during the client's tenure with ESAF
- Some important family and business decisions that the client made in the past year
- The client's plans for the future (business, family, investments, etc.)
- The client's feelings about whether s/he is a respected person in his/her household and community.

6. Completion data for non-financial services: Data on clients participating in ESAF's Client Empowerment and Education Program, which teaches financial literacy, health awareness, leadership, and business skills.

Dimension 3:

Design Products, Services, and Delivery Channels that Meet Clients' Needs and Preferences

Dimension 3 includes two standards:

> Standard 3A. The provider understands the needs and preferences of different types of clients.

> Standard 3B. The provider's products, services, and delivery channels are designed to benefit clients, in line with the institution's social goals.

Standard 3A

The provider understands the needs and preferences of different types of clients.

> **Essential Practice 3A.1** The provider seeks information on clients' needs, preferences, and experiences for product design and delivery.

> **Essential Practice 3A.2** The provider monitors the suitability of products, services, and delivery channels. (Client Protection standard 1.2.0)

3A.1 CONDUCT CLIENT RESEARCH

In addition to data collected to understand whether your institution is meeting its social goals, your institution should conduct market research on your target clients to gain a deeper understanding of their needs and preferences.

Traditionally, market research starts with a provider's products and services (current or potential) and investigates whether clients like or dislike the different features of these. However, *client-centric market research* starts with the client, not the product. This means *first* understanding the lives of your target clients, and then designing or modifying products to satisfy their needs and priorities. This type of market research requires that you investigate multiple facets of target clients' lives—not just the purely financial aspects. You want a holistic picture of the challenges and opportunities your clients face throughout their lifecycle so that your products fit into their lives.

For example, in order to understand the needs and preferences of clients living in rural areas, you would need to collect financial information such as agricultural business types, monthly profit generated from these businesses, variations in seasonal income flows, and client demand for various financial services. In addition, you would want to understand their "non financial" priorities: What are their goals for their families? What are their most significant vulnerabilities? What is their social status and how does that affect their ability and willingness to engage with service providers?

For users of digital payment services, you would want to understand their comfort level with a mobile interface, the types of transactions they prefer to do digitally as opposed to face-to-face, and which user errors might affect the safety of the mobile product. You might also look at their short- and long-term goals as determinants of the types and sizes of digital transactions that they value.

Regardless of the product or delivery mechanism, client research should examine:

- Characteristics of your target clients (e.g., business type, female/male, income);
- Behaviors of your targets that affect their economic situation (e.g., savings habits);
- The day-to-day and life-cycle financial needs of your target clients (e.g., home improvements, school fees);
- The economic and social opportunities and constraints facing your clients;
- Barriers that target clients face to accessing your products (e.g., distance from branch offices, language barriers, lack of financial education, behavioral/psychological barriers such as only focusing on short-term needs);
- Risks and common emergencies that target clients face (e.g., lack of health insurance, vulnerability to natural disasters);
- The extent to which your current products and services meet these above needs; and
- How products could better address the above opportunities and constraints.

Your institution can use multiple sources for client data,[60] including client interviews, focus groups, surveys, field observations of target client behavior, participatory rapid appraisal, and data mining of the management information system (MIS). You can also glean insights on clients by interviewing field employees and managers who have regular contact with clients. Table 19 provides a comparison of the uses of various types of market research techniques.

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[60] The guidance for standard 1b discusses social data collection.

When choosing your research technique(s), check that they:

- Allow for segmentation by the characteristics of the target population;
- Cover a representative sample of clients and non-clients[61] who belong to the target population (i.e., sample composition is similar to the target population and of reasonable size[62]); and
- Use neutral parties to collect and analyze the data (e.g., avoid involving employees who might conceal negative responses).

The first three market research techniques in Table 19 are "rapid appraisal" techniques that can be deployed quickly and inexpensively. These might be used as a first step, to understand which data will help you to better understand clients' lives and experience with your institution.

| TABLE 19. **MARKET RESEARCH TECHNIQUES** |

TECHNIQUE	USE THIS TO...
Shadow frontline staff: Spend a few hours following a field employee as s/he interacts with clients and completes typical processes.	Understand client-staff interactions; reveal inefficiencies or frustrations on the part of staff; generate ideas for ways to improve clients' experiences with staff.
Household/workplace interviews: Visit clients where they live or work to observe their daily activities.	Understand how customers conduct business, interact with their own clients, and use money. Observe household and business assets.
"Fly-on-the-wall" observations: Unobtrusively listen and watch the way customers interact with staff, points of service, and even other customers.	Gain insights into customer behavior without influencing it. Sometimes clients behave differently when they know they are interacting with their FSP (e.g., provide overly positive feedback). Using this technique removes that bias.
One-on-one interviews: Talk directly with a specific type of client.	Get answers to questions about a certain type of client or gain insights into multiple areas of a single customer's life (e.g., spending several hours with one person to observe and talk about their business).
Focus groups: Conduct short, targeted discussions or longer workshops with groups of clients.	Gather feedback on a specific research question— "do you understand our insurance product?"—or explore a set of ideas to uncover customers' beliefs, biases, habits, and goals.
Written surveys (paper, SMS, online): Gather written feedback to multiple choice (e.g. "rate this experience") or open-ended questions.	Gather feedback on specific questions (e.g., "how was your branch experience on a scale from 1 to 5?") or allow customers to leave general feedback (e.g., suggestion box).
Mystery shopping: Managers or external consultants interact with the institution by purchasing a product, asking questions, registering complaints, or behaving in a certain way, and then report on the experience.	Understand a real customer's experience with the institution. If staff know they are interacting with a researcher or manager, they may act differently (usually better). This technique removes that bias.

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[61] "Non-clients" refers to people in the provider's target group who are not currently accessing the provider's products/services.
[62] The correct sample size is a factor not of the size of population but the degree of variation within the population. The appropriate number can be derived from a binomial (statistical) theorem that combines confidence level, error margin, an estimate of the incidence of what is being measured, and the sampling method. Based on this theorem, the minimum sample size is around 100—for a simple random sample, confidence level of 95% and error margin of 10%. Reducing the error margin to 5% at the same confidence level and random sampling requires a sample of around 400. See EDA Rural System's Technical Note on estimating sample size for additional guidance.

• CGAP's *Customer Experience Toolkit* contains a comparison of qualitative, quantitative, and blended research methods, explaining their uses, pros, and cons. See page 35 (English version).

• Acumen's *Lean Data Field Guide: Tips For Collecting Customer Data to Build More Impactful Businesses* describes how to use low-cost technology to communicate directly with end customers, getting high-quality data quickly and efficiently.

• The *IDEO Human-Centered Design Kit* explains how to use various research methods to understand customers.

• *The Feedback Loop: Responding to Client Needs* provides practical guidance on collecting data on clients' needs, and using it to design products and services.

• *Understanding Clients Through In-Depth Interviews* describes the methodology and how to get useable information from clients.

• *Using Mystery Shopping to Understand Clients* documents Arvand Tajikistan's experience using the mystery shopping methodology to gain insights into the customer experience.

• Resources for choosing the appropriate sampling strategy include Grameen Foundation's *Confirming the Sampling Strategy* (written for the PPI but applicable to any social data) available in Spanish and French; the National Statistical Service for Australia's online calculator, and M-CRIL's *Technical Note on Estimating Sample Size*.

FIELD EXAMPLE 27. **MICROFUND FOR WOMEN USES MIXED RESEARCH METHODS TO EVALUATE MICROINSURANCE PRODUCT**[63]

The study of a recent microinsurance initiative of MicroFund for Women (Jordan), in collaboration with Women's World Banking, demonstrates how mixing qualitative and quantitative research methods creates richer data.

In 2008, MicroFund for Women (MfW) introduced a microinsurance product called "Caregiver," designed to provide backup funds to women in case they or a member of their family were hospitalized. In 2015, (seven years after product launch), MfW tested the outcomes of this product. The approach involved both quantitative data from the MIS and qualitative data from direct interviews.

Quantitative data collection/mining included: Analysis of 2008-2015 transactions data for loans, PAR, and 25,000 Caregiver claims to capture the demographics (e.g., age) of clients making the claims, and trends in claims behavior mapped against loan repayments.

Qualitative research included: Exploratory focus groups and interviews with 78 female claimants, exploring the following questions:

• To what extent clients had used the Caregiver payout to cover outstanding medical expenses
• Whether clients had been able to avoid additional debt and maintain basic consumption during times of hospitalization (as the product was designed to do)
• How well clients understood insurance cost and its effect on loan cost
• How clients perceived the benefits of Caregiver
• How Caregiver contributed to clients' decision-making in the family.

In this mixed methods approach, the quantitative and qualitative research methods each provided different but very useful insights. Specifically, the analysis of transactions data (quantitative) showed evidence of clients maintaining loan repayments as a result of Caregiver. Data from focus groups (qualitative) captured client feedback that allowed MfW to better understand the product's effects on clients and how it could be improved.

[63] SPTF, Guidelines on Outcomes Management for Financial Institutions, page 18.

Segment client data

Customer segmentation can help divide a heterogeneous market into a number of smaller, more homogenous markets based on one or more meaningful characteristics.[64] Your institution should segment[65] client data for all products, not just credit. Segmentation acknowledges that even among the "low income" population segment, peoples' wants, needs, and behaviors are nuanced. Use segmentation to your advantage and to benefit clients. Table 20 is a menu of possible segmentation variables to use with existing and potential clients.

For example, to understand how savings clients experience your product, you might segment client use data by demographic data (if available), followed by in-depth interviews with a sample of users.[66] This would tell you whether your product is reaching your intended target clients, how they are using the service, and how it could be improved. Take users of a savings product for example: segmenting savings data (e.g., deposit amount and frequency) by several relevant client characteristics (e.g., age, employment status, and gender) could provide valuable information on how savings habits vary among your clients. Combined with interviews with each of those segments, you might learn that young people prefer to save for specific goals (e.g., education, car purchase) and would respond well to goal-oriented savings products; salaried employees want an easier way to deposit their paychecks; men benefit from savings reminder SMS messages; and women business owners need to be able to to check their account balances from their mobile phones.

Identifying barriers to access

Barriers to access are factors that prevent people in your target population from using your products and services. In addition to understanding how current clients and former clients use products and services, your institution should identify why *non-clients* from your target group *do not* use your products and services.

Examples of such barriers include product features that do not match client income flows, delivery channels that are not convenient or affordable for clients, product terms that are too complicated for your target population to understand, and collateral or fee requirements that are set too high. Barriers can also include clients' own behaviors, such as an over-focus on short-term needs, leading to reluctance to save or purchase insurance. Market research should include non-client members of your target client, and it should seek to identify whether your product/service design unintentionally prevents certain people from accessing your institution's products and services.

- Grameen Foundation's Guide to Segmenting describes how segmentation can be used to better understand your clients. Though it focuses on poverty data collected by the Progress out of Poverty Index, the guidance is useful for other types of data as well.
- CGAP's *Segmentation of Smallholder Households* and *Understanding the Financial Service Needs of the Poor in Mexico* provide great examples of the use of segmentation to understand clients' needs.
- Women's World Banking's *Gender Performance Indicators Manual* describes a full suite of financial and social performance indicators you can use to analyze outreach to women, suitability of product design to meet women's needs, product diversity, service quality, client protection, and staff gender diversity, as well as to understand how serving women clients contributes to your financial sustainability and generates positive social outcomes.

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[64] CGAP's Customer Experience Toolkit, page 39
[65] Guidance for standard 1b discusses how to segment client information using your institution's management information system (MIS).
[66] See Box 2 for guidance on sample sizes.

TABLE 20. **SEGMENTATION VARIABLES**[67]

The variables in the "general" column are relevant to any product or service. The variables in the "specific to your offering" column use mobile banking as an example offering.

DEMOGRAPHIC	LIFESTYLE	BEHAVIORS	ATTITUDES
GENERAL		**SPECIFIC TO YOUR OFFERING**	
Age (younger, older, middle age)	Level of responsibilities/relaxed vs. busy lifestyle	Financially proactive (saves, budgets)	Open to learning about new technology
Location (urban, peri-urban, rural, deep rural)	Spontaneous vs. planner	Purchases frequency (personal and business)	Seeks/highly values cost savings with phone use
Children (Yes/No)	Stressed vs. relaxed	Cell phone use: sends/receives SMS, calls, checks balance, uses USSD menu	Seeks/highly values promotions with phone use
Proximity to family members	"Connected"/social (Yes/No)	Proficient with phone (commands, use)	Concerned about safety of carrying money, in general
Literacy/numeracy	Entrepreneur (Yes/No)	Purchases phone recharge frequently (Yes/No)	Associations with organization
Income/poverty level	Homemaker (Yes/No)	Knowledge of money transfers (none, low, medium, high)	Values convenience (speed) of money transfers
International monetary transfer recipient (Yes/No)	Has many leisure activities/expenses (Yes/No)	Frequency of sending money	Values cost savings of money transfers
Level of education	Social standing	Frequency of receiving money	Has emotional barriers to using money transfers (trust, fear, etc.)
Employment status	Leadership in community	Amount of transfers (low, medium, high)	Has rational barriers to using money transfers (relevance, perception of benefits, etc.)
Type of employment/source of income		Level of loyalty to money transfer products (low, medium, high)	Optimist/aspirational (Yes/No)
Frequency of income (daily, monthly, unpredictable)		"Stores" money vs. "saves"	Need/desire for prestige (Yes/No)
Has bank account (Yes/No)		Most frequently used transaction type (current money transfer users)	Perception and importance of social norms
Has mobile wallet (no, mini, standard)		Use of internet	
Has national ID card (Yes/No)		Use of phone games	
Has structural barriers to using money transfers (access/convenience)			

[67] Table adapted from CGAP's Customer Experience Toolkit, page 27.

[FIELD EXAMPLE 28. **FRIENDSHIP BRIDGE SEGMENTS CLIENTS TO CREATE PERSONAS**[68]]

Guatemalan provider Friendship Bridge wanted to understand the diversity among their clients who are mostly rural, indigenous woman living in poverty. Using the Progress out of Poverty Index (PPI) as their primary data collection tool, they identified that the average client is a Guatemalan woman, 38 years old, with four children, two years of school, and a household that lives on between US $1.12-$4.51 per day. In order to understand the data, they looked at three different segments of women within that range. Here are the three segments that they identified:

Segment 1: The most likely to be poor. The average client in this segment spends most of his/her earnings on basic food. S/he has mud floors, cooks over an open fire, depends on work activities with inconsistent income, and has very few assets. S/he sometimes skips meals, is probably illiterate, and rarely sends his/her children to school.

Segment 2: Intermediate likelihood of being poor. The average client in this segment earns enough to have more than one set of clothing, a better house, improved food security, and a more consistent income, but it is very easy for him/her to fall deeper into poverty when s/he faces economic and health shocks, which are very commonplace. Some clients read and write, and they are more likely to be able to send some of their children to school.

Segment 3: Least likely to be poor. The average client in this segment earns enough to have a floor made of brick or better, and has improved nutrition, a refrigerator, and more consistent income. It is still easy for him/her to fall backward when they face shocks, which are still common. Most clients can read and write, and they are typically able to enroll their children in school.

Based on these three segments, Friendship Bridge developed three client personas. These were descriptions of three representative clients. Painting a picture of these clients and their associated characteristics helped the MFI to strategize on how to serve them in ways that are strategic and data-driven, but also deeply humanized. Keeping their customer in mind as they began to develop different products allowed them to design for specific use cases that were actually relevant to their clients' lives.

The three personas are shown below. They include the educational, family, and household data that are correlated with each type of client (based on PPI data). Each of the variables listed in a persona affect that client's preferences and decisions.

Read more on this case study here.

most likely to be poor	intermediate likelihood	least likely to be poor
María 43% DES CLIENTS	**Juana** 20% DES CLIENTS	**Catalina** 19% DES CLIENTS
Quiché / 38 years old / Farmer/weaver 46%	Sololá / 37 years old / Commerce 79%	Totonicapán / 39 years old / Commerce 87%
education 0–2 YEARS / 11% LITERACY	**education** 0–3 YEARS / 52% LITERACY	**education** 0–5 YEARS / 79% LITERACY
family MARRIED 80% / 4 CHILDREN / 84% HAVE DEPENDENTS UNDER AGE 14	**family** MARRIED 77% / 4 CHILDREN / 80% HAVE DEPENDENTS UNDER AGE 14	**family** MARRIED 76% / 3 CHILDREN / 70% HAVE DEPENDENTS UNDER AGE 14
home 11% OWN REFRIGERATOR / 24% OWN GAS OR ELECTRIC STOVE / DIRT OR MUD BRICK FLOOR	**home** 52% OWN REFRIGERATOR / 76% OWN GAS OR ELECTRIC STOVE / MUD BRICK FLOOR	**home** 79% OWN REFRIGERATOR / 93% OWN GAS OR ELECTRIC STOVE / CONCRETE OR TILE FLOOR

[68] Adapted from Grameen Foundation's case study How Friendship Bridge Used Segmentation to Build Client Personas. Adapted with permission of the Innovations for Poverty Action.

- CGAP's *Customer Experience Toolkit* offers guidance for understanding customer needs and behaviors, and designing products, channels, and experiences that bring value to customers. The accompanying workbook provides printable templates for the ideas discussed in the toolkit.
- *How the Poor Organize Their Money* is a short brochure highlighting four common money management practices of poor people.
- MicroSave's Briefing Note, *Behavioral Insights in Insurance* discusses the behavioral aspects of low insurance uptake and how providers can understand clients' motivations for insurance uptake.
- Imp-Act's *SPM Practice Guide* (Chapter 3) discusses how to create a strategy to achieve social objectives. This requires managers to use clients' needs as a starting point, rather than the products themselves, or else risk missing an opportunity to effectively help clients. As part of this guide, the chapter discusses how to identify and overcome barriers that clients face in their economic lives, and how to reduce or mitigate risks. Also available in Spanish and French.

3A.2 MONITOR PRODUCT SUITABILITY

Understand client satisfaction

Collecting client satisfaction data is one specific type of market research. Your institution should use one or more methods for collecting satisfaction data, which could include a formal client satisfaction survey, client focus group discussions, or meetings between clients and employees to discuss client satisfaction (with the results of these conversations shared with managers).

Collect satisfaction data on an ongoing basis or at least annually. Select a representative sample of clients to reduce bias. Remember that satisfaction is different from client complaints,[69] and you should collect both types of data. In fact, the two can be complementary—for example, you can mine complaint data to better understand an area of low client satisfaction.

Regardless of the collection method you choose, client satisfaction data should investigate your institution's ability to meet client needs, such as: reducing risks

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[BOX 11. **HUMAN-CENTERED DESIGN (HCD)**]

HCD is a process for designing products and services that respond directly to clients' needs. It goes beyond typical market research to learn directly from clients in their own environments and test product ideas with immediate client feedback.

The design process typically involves three steps:

1. Client observation and conversations: designers learn from clients by observing and recording what they do in real life (e.g., watching customers interact with a bank teller).
2. Analysis and brainstorming: designers discuss their in-depth observations and brainstorm innovative design concepts, considering all ideas, no matter how unconventional.
3. Prototyping and testing: A few design concepts are translated into simple prototypes that are tested with customers. As more feedback is gathered, the prototype is modified, responding quickly to client input.

HCD requires more resources than typical market research, as designers must spend intensive time observing and talking to clients. However, experience has shown that the process is highly responsive to clients' real lives, and it may lead to products that are better suited to clients' needs.[70]

and coping with common emergencies, investing in economic opportunities, and addressing anticipated household needs. In order to investigate your institution's ability to meet client needs, feedback from clients should address the following:

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[69] Guidance for standard 4e discusses mechanisms for complaint resolution.
[70] See CGAP's Designing Customer-Centric Branchless Banking Offerings for more detail.

- Who is the actual user of the product, and what is the end use of services (e.g., business working capital, consumption smoothing, lump sums for asset building and life events);
- Overall satisfaction with the customer experience and value of the products;
- Satisfaction with the convenience, safety, and reliability of delivery channels to access the services;
- Satisfaction with the timeliness, ease of procedures, conditions, and guarantees to obtain the services;
- Satisfaction with the relationship with field officer and/or agent;
- Satisfaction with the adequateness of savings/loan/insurance services (amounts, costs, schedule flexibility) and with non-financial services; and
- Suggestions for product improvement.

Level of trust in the institution

Segment the above information by client characteristic. It would be unusual for all types of clients to experience your products similarly, and segmented satisfaction data uncovers ideas for how you could serve a particular client segment better. For example, your mobile banking interface might work well for younger clients but be entirely incomprehensible to older clients who did not grow up using mobile technology. If you did not segment your mobile banking users by a relevant characteristic such as age, you might trust that the "average" customer was well served by your current mobile interface.

The results of client satisfaction surveys also allow your institution to determine whether products are used as expected. If there is a gap between how your products are *designed* to be used, and how they are *actually* used, then you are at risk of client exit, repayment problems, and/or not meeting your social goals.

- CGAP's *Customer Experience Workbook* offers a sample customer satisfaction survey that guides the FSP through important factors to consider when conducting client satisfaction surveys, and it provides example questions about customers' experiences at service locations.
- Al Majmoua uses client satisfaction and client exit surveys to understand the client experience and make adjustments to products and services. This case study examines the technical aspects of the surveys, including sampling, training staff on survey use, and creating the questionnaires. Also available Spanish and French.
- ASKI Philippines gathers client feedback on product features, non-financial services that complement microfinance, customer service, and how ASKI compares with key competitors.

Analyze product usage

Product **uptake** refers to clients buying your product (e.g., purchasing insurance), signing up for a service (e.g., opting into SMS savings reminders), or entering into contract (e.g., opening a savings account). Product **usage** is different—it refers to actual transactions or interactions between the client and the products/services. The distinction is important, because many providers measure product success by uptake alone, measuring for example, the number of clients who purchase optional insurance or the number of savings accounts opened. Though uptake is an important measure of product suitability, product usage is a better indicator of how valuable your products are to clients.

Monitor whether clients are *using* the products and services that they have purchased or signed up for—especially savings, insurance, and additional services designed to assist them in managing their finances. Low usage should prompt your institution to investigate the reasons that clients are not using the products over time.

Track client retention/exit

Client dormancy, cancellation, and exit are also good indicators of product appropriateness. Track client retention on a regular basis (at least annually) and by different segments (at least: client characteristics, products, branches/areas). Choose a retention formula,[71] and use it consistently over time. Your institution should be able to use the information found in the MIS to calculate the client retention rate. However, first ensure that the MIS has a unique client identification system that allows the institution to distinguish between exit clients and clients who are simply resting between loans (and who eventually re-join), as well as any who have graduated to other institutions that offer larger loans. These important distinctions can affect the retention rate significantly.

As often as your institution calculates the retention rate, it should report the data to the board and senior management.[72] Segmenting the data by branch, and even by loan officer, helps management focus their attention more precisely on problem areas. In addition to monitoring the rate for potential client and portfolio problems, the board and senior management should determine a level of client retention that they consider "unacceptable"—a level that prompts further action (e.g., interviews with clients to inquire about the problem; placing particular branches/managers on probation; offering emergency loans after a natural disaster).

One of the best ways to understand the reasons for client dormancy, drop-out, and cancellation is to survey clients who have exited your institution, are dormant, or have canceled a benefit such as a voluntary insurance product. Choose survey questions that will provide management with information they can use to understand the reasons behind client exit, and take corrective action. Box 12 provides sample client exit survey questions and Box 13 demonstrates how exit data can be used to make operational and product adjustments.

Some providers chose to conduct exit surveys on a regular basis. Others have found that exit survey responses tend to be similar over time, so they conduct exit surveys on an annual basis and when they wish to investigate specific problem areas (e.g., low client attendance at group meetings).

Finally, look for ways to augment survey data with other client information including portfolio and demographic information from your institution's MIS and additional market research gathered from focus groups, client interviews, and other methods. Exit data alone may not be sufficient to make conclusive decisions, but combining exit survey findings with other information provides a more complete picture of the client experience.

- The Smart Campaign tool *Collecting and Using Client Exit Data* provides detailed guidance on creating and using an exit survey instrument.
- The SPTF's *Learning from Exit Clients* discusses how to collect and use exit client data.
- Grameen Foundation's *Deconstructing Drop-Out* presents the results of interviews with drop out village banking clients, demonstrating the factors that contribute to drop out.
- CGAP's *Business Challenges Booklet* offers lists of "customer experience questions" that you can use to think through the experiences that lead clients to become dormant or exit your institution (see "Retention: Maintaining your customer relationships").
- M-CRIL's *Technical Note: Estimating Client Exit Rate* suggests a working definition of "client drop out" and proposes a formula to calculate drop out from the simple records that most providers have.

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[71] The MIX social performance indicator for client retention uses the following formula to calculate client retention: Client retention rate = Active clients at the end of the period / (active clients at beginning of the period + new clients during the period).
[72] Guidance for standard 2b and standard 2c discusses management/board review of social performance data.

BOX 12. **EXAMPLE EXIT SURVEY QUESTIONS**

- What is your most recent: loan size, savings deposit, on-time repayment/ late repayment, business type?
- How is your business doing now?
- During your most recent loan cycle, did you experience problems with: your loan officer; group members; business; family?
- During your time with our institution did you have problems: understanding the terms and conditions of your product; making payments on time; getting the loan size you needed for your business?
- Would you consider returning to our institution? If so, under what conditions?
- Do you have suggestions for how our institution can improve products; services; delivery channels; customer service?
- Are you currently using products/services from another financial institution?
- Would you recommend our institution to your friends or relatives?

Evaluate the use of technology

While technology such as mobile money may benefit clients through convenience and lower transaction costs, it is important to make sure the technology you employ is appropriate for your target clients. Use the same client-centered research methods discussed above, with a specific focus on client understanding of, and ability to use technology. For example, mobile money menus are often confusing to clients. They may have difficulty with the language or the number of steps required to complete a transaction. Observe how clients interact with the technology and explore ways to make it easier to use.

Evaluate the value of insurance

It is often difficult for individual clients to assess the value of insurance, particularly if they do not have much prior experience with insurance or have never made a claim. Your institution has the responsibility to assess the overall usefulness of insurance. Record and analyze the data in Table 21 on a monthly or quarterly basis. The information should be available either from your system or that of the insurance provider.

- *The Design Toolkit for Mobile Money* describes how to use Human-Centered Design to design a mobile money interface that works for low-income clients. Though created for the Pakistani market, the principles of appropriate design apply more broadly.
- CGAP's blog series *The Power of Smartphone Interfaces for Mobile Money* includes a series of articles on the importance of interface design for client use and understanding of mobile money.
- *Financial Services Apps in India* reviews six smartphone apps currently available in India and highlights the design elements that are essential to client understanding.

BOX 13. **USING EXIT DATA TO INFORM PRODUCT DESIGN AND IMPROVE OPERATIONS**[73]

RESEARCH QUESTION	FINDINGS	MANGEMENT DECISIONS
What are the primary reasons for business failure among exit clients?	• 35% of exit clients report some type of business failure as contributing to their exit. • The top three reasons provided are: 1) Needed additional capital and could not get it; 2) Sold goods on credit to customers and did not recover amount owed; 3) Profits were not reinvested in the business due to family needs. • Over half of business failures occurred among "new" clients (tenure less than one year). • Of clients reporting failure from selling on credit, over half also reported lack of knowledge about bookkeeping procedures.	Management will work to prevent exit due to business failure by: • Investigating further the need for larger loan sizes; • Providing financial education to small business owners, including the topics of selling on credit and bookkeeping; and • Increasing monitoring of loan utilization among first-year clients.
Are loan repayment schedules problematic for clients?	• Of exit clients with unpaid loans, 85% mentioned problems with repayment. • Of these, 70% reported difficulty paying on schedule. • Of this group, the top two reasons provided were: 1) the business is seasonal but repayments are monthly, 2) clients prioritized family expenses over on-time repayment. • Data on loan use shows that at least 25% of exit clients used small business loans for agricultural activities.	Management will address the problem of exit due to repayment problems by: • Increasing the time devoted to discussion of repayment schedules during client orientation; • Improving staff training on how to match clients with the most appropriate loan product; and • Developing a pilot agricultural loan product to test among rural clients.
Among clients who do not renew their insurance policy (exit), was the insurance policy well-understood?	Data available from the MIS: • Overall renewal rate on the insurance product is 37%. • Of all non-renewal clients, 12% made a claim when their policy was active. • Of these, 25% were denied. Data available from the survey of exit insurance clients: • 4% report they made a claim when their policy was active. • 56% can recall receiving a verbal product explanation. • 38% can recall receiving written product information. • 75% exhibit low understanding of the product.	Management will work to increase the renewal rate of the insurance product by: • Commissioning an external evaluation of client demand for different products; • Monitoring how the product is explained to clients and what materials are made available to clients, and adjusting staff training accordingly; and • Printing the institution's customer service number on the insurance policy documents, with text encouraging clients to call if they have insurance questions.

[73] Excerpt from the Smart Campaign's *Collecting and Using Client Exit Data*, page 11

TABLE 21. **INSURANCE DATA TO ASSESS PRODUCT VALUE**[74]

RATIO	HOW TO MEASURE IT	WHAT IT TELLS YOU
Product uptake	Number of new policies purchased in a time period	Client interest in the product and the success of your sales and marketing strategy. It is important to look at this number in the context of the renewal rate (below), as renewal is a better indicator of product value.
Incurred claims ratio	Claims/total (unsubsidized) premium collected by insurer	The average proportion of premium that is returned to the insured in the form of benefits. The higher the ratio, the more certain you can be that the product benefits clients.
Claims rejection ratio	Number of claims rejected/Number of claims in the sample	The proportion of claims that have been disqualified for benefit payment, for any reason. If this ratio is high, it can indicate that clients do not understand the product and/or that it does not cover scenarios that are common to your target clients—i.e., too many exclusions.
Renewal rate[75]	Number of renewals/Number of potential renewals[76]	The value of the product as perceived by the client. It applies specifically to term products (products with a fixed term of coverage such as one year). If the client is satisfied with the quality of the product and the services, and the product is well-adapted in terms of client capacity to pay, they are more likely to renew.
Coverage ratio	Number of active insured clients/Target market[77]	How difficult the product is to sell; how easily clients understand the product and desire to buy it.
Promptness of claims settlement ratio	The percentage of claims paid within each of the following intervals: 0-7 days; 8 to 30 days; 31 to 90 days; more than 90 days	How quickly client claims are settled. Insurance should provide cash during clients' time of need. If claims are not settled quickly, the product will not be as valuable for clients.
Complaints ratio	Number of complaints registered/Total number of policies	Overall client satisfaction levels, as well as the ease with which clients can submit a complaint. If this number is too low, it is likely that clients do not know how to submit a complaint, or it is too difficult. Couple this indicator with client satisfaction data for a more complete picture of clients' experience with insurance.
Reasons for lapses in coverage	Data from client interviews on reasons for non-renewal. Gather this data on a sample of lapsed clients.	Understand whether there are problems with the product that lead to clients dropping the product, and whether product changes could improve uptake and renewal.
Reasons for rejections of claims	Data from rejections database. This data should be recorded and analyzed by either the insurer or your institution.	Understand gaps in customer knowledge and gaps in coverage. Claim rejection generally decreases as customer understanding of coverage increases.
Demographics of those covered	Demographic data related to your target clients (e.g., gender, age, location, business type).	Compare demographic data to your targets to understand whether you are reaching your target clients.

• Social performance indicators for Microinsurance: A handbook for Microinsurance Practitioners describes the ratios found in Table 21, and it discusses how to analyze each ratio, in order to improve the value of microinsurance for clients. Also available in Spanish and French.

[74] Much of the information in this table comes from Social Performance Indicators for Microinsurance: A Handbook for Microinsurance Practitioners.
[75] Use a pre-identified time frame (usually one year) or a random sample.
[76] The number of potential renewals is the number of clients that could have renewed their coverage. This number excludes those who become ineligible due to old age, death, or due to other reasons that result in ineligibility during the period in question.
[77] Your social strategy should define your target market (see Essential Practice 1A.2). Estimate the number of potential clients in your target market, using market information.

FIELD EXAMPLE 29. **UJJIVAN COLLECTS SATISFACTION DATA FACE-TO-FACE**

In the past, Ujjivan (India) found it challenging to collect accurate client satisfaction data. Customers declined to fill out client satisfaction surveys or to use the customer help line. If they were unhappy, clients would simply leave the FSP. When personally interviewed, they did not want to criticize or complain, unless a loan was disbursed late.

Ujjivan's solution was to place a customer care representative in each branch. The representative talks with customers in-person to determine any issues and perform exit interviews if a customer leaves. At least once a year, representatives hold customer meetings with each group leader to get feedback on products and services and to determine which client needs are not being addressed.

To keep its customer connection strong, all senior managers must attend a meeting with customers three to four times per year. Managers complete a meeting checklist that captures client feedback on products, operations, services, and grievances—all of which is reviewed by a Service Quality team. Ujjivan leaders are confident that the relationship among management, staff, and customers will grow stronger, allowing the FSP to get more accurate, straightforward feedback from clients.

Standard 3B

The provider's products, services, and delivery channels are designed to benefit clients, in line with the institution's social goals.

> Essential Practice 3B.1 The provider offers products and services that are suited to clients' needs. (Client Protection standard 1.1)

> Essential Practice 3B.2 The provider's products and services are designed to reduce the barriers to financial inclusion for target clients.

> Essential Practice 3B.3 The provider's products and services are designed to reduce client risks.

> Essential Practice 3B.4 The provider creates benefits for clients by enabling them to invest in economic opportunities and address anticipated household needs.

> Essential Practice 3B.5 A process and documented policy are in place to prevent aggressive sales techniques and forced signing of contracts. (Client Protection standard 1.3)

> Essential Practice 3B.6 The provider monitors the risks associated with agents and networks and addresses problems.

The guidance for standards 1b and 3a discusses why and how to *collect data* on clients' needs and preferences. The guidance for standard 3b discusses why and how to *use this information* to design products and services that meet clients' needs and preferences.

3B.1 AND 3B.2 OFFER SUITABLE PRODUCTS THAT REDUCE BARRIERS FOR CLIENTS

Product suitability is one of the most important ways you can protect clients' interests and assist them to make economic progress. Client progress should be a core focus for your institution, and it should be defined in a policy that states how you will offer suitable products and services through appropriate channels, including designing products and monitoring their suitability.

Specifically, the following product/service features should match the needs of target clients:

Size: Maximum and minimum loan sizes and savings requirements should match target clients' income, business type, savings habits, etc.

Price: Prices should be affordable to clients.[78]

Guarantee/collateral requirements: Collateral requirements should match target clients' access to physical collateral and/or guarantors. An institution policy should describe acceptable and unacceptable pledges of collateral and provide clear guidelines for how collateral is registered and valued. Base the policy on local norms, and never accept items that would create severe hardship or affect the client's earning ability. Determine the value of collateral based on a verifiable market price/resale value, verified by a manager or credit committee.

Loan repayment schedules and savings withdrawal conditions: Repayment schedules should match the cash flows of your target clients, and savings withdrawal conditions should be designed to provide target clients with maximum access to their savings when they need it.

Loan/saving/insurance product use requirements: Requirements for product use should be consistent with your target clients' livelihood activities.

Delivery channels: Delivery channels should be affordable, convenient, and reliable for your target clients (e.g., mobile banking, smart cards/prepaid cards, points of sale, ATMs, or agents for remote areas if necessary). They should be adapted to overcome cultural and/or social barriers such as language, literacy levels, gender roles, etc.

In addition to these features, your products/services should consider the **financial capability**[79] of target clients, as this has significant implications for product design. Financial capability refers to a client's capacity to act in his/her own financial best interest and to select and access financial services that suit his/her needs. Financial capability is based on a client's literacy, attitudes, skills and consumer behavior. It is important that you understand your target clients' financial capability and how it affects their use of financial services. The following are examples of how a client's financial capability influences product uptake:

- For group-based financial products, poorer people are often excluded by group members who believe them to be less desirable, or poorer people may self-exclude based on negative self-perception.
- Many clients do not want to use delivery channels that allow family members to see or access savings.
- Some clients are more likely to save if they have set a savings goal, even if it is non-binding.
- A client might refuse insurance because a premium expenditure is a certain and near-term expense, while the claim benefit is uncertain and distant.

In addition to offering a suite of products and services designed to fit your clients' financial lives, it is essential that your employees understand product suitability. Specifically, this means that not only should your employees be intimately familiar with product features, they should be trained in how to match clients with the right products/services. A provider can have perfectly designed products, but in order

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[78] Guidance for standard 6c discusses setting prices that are affordable to clients.
[79] **Financial capability** refers to the client's "internal capacity to act in his/her own financial best interest, given socioeconomic and environmental conditions. It encompasses knowledge (literacy), attitudes, skills, and behavior of consumers with respect to understanding, selecting, and using financial services, and the ability to access financial services that fit their needs." (The World Bank/OECD Russia Trust Fund)

for clients to benefit from them, staff must be able to assist clients in choosing the appropriate products and options.

As discussed in the guidance for standard 3A, your institution should base product/service/delivery channel decisions on market research. Table 22 uses the delivery channel example found in the guidance for Essential Practice 3a to show how an institution can use its analysis of client data to make decisions. The example demonstrates a delivery channel decision that reduces a barrier to financial inclusion faced by the institution's target clients.

TABLE 22. DELIVERY CHANNEL DECISION BASED ON CLIENT NEEDS

CLIENT RESEARCH DATA	DELIVERY CHANNEL DECISION BASED ON CLIENT NEEDS
Segmented client data show: • Clients living in the east live within 2 km of their local branch office, and clients in the west live within 10 km. • Clients in the west spend three times more on transportation to branches than clients in the east. • Over 85% of clients living in both the east and west own mobile phones. • Clients in both regions prefer the convenience of mobile banking.	The institution decides to pilot mobile banking, as a majority of its clients have expressed demand for it. It begins with five branches located in the west, as these clients live further from their local branch offices and spend more money on transportation to the branches.

FIELD EXAMPLE 30. VISIONFUND UGANDA REDUCES THE BARRIERS TO FINANCIAL INCLUSION THROUGH PRODUCT TERM CHANGES

VisionFund Uganda works to provide "sustainable, gender-sensitive microfinance." Though the institution aims for 60% of its clients to be women, in recent years, actual outreach to women dropped to 32%. Through Oikocredit's SPM mentoring program, VisionFund realized that this decline was linked to two operational decisions:

1. emphasizing group loans while decreasing individual lending, and

2. requiring clients to present land title deeds as collateral for loans.

These product features created barriers to women clients, as men generally discourage their wives from joining borrower groups, and Ugandan women do not generally hold land titles. VisionFund therefore reviewed its balance between group and individual lending, explored other collateral that women could use, and systematically tracked its outreach to women. Eighteen months after tailoring product terms to women's needs, VisionFund Uganda's outreach to women had risen to 42% of clients.

FIELD EXAMPLE 31. **KOMIDA USES DATA-DRIVEN PRODUCT DESIGN**

Koperasi Mitra Dhuafa (KOMIDA) (Indonesia) surveys clients and non-clients within their target groups to understand their financial needs, constraints, and goals. One survey identified several problematic financial and lifestyle conditions facing KOMIDA's target group:

- They have high but predictable expenses during celebration seasons. During this time, some people sell their assets or borrow money formally or informally.
- They save money informally—including storing cash, gold, and jewelry in the home—and as such, they do not earn interest on their savings, and sometimes they lose the money they set aside (e.g., it is stolen).
- They are often sick due to a lack of clean water and sanitation.

Based on this market information, KOMIDA introduced interest-bearing savings accounts, celebration loans, "feast day savings" accounts specifically for savings money for celebration seasons, WASH (water, sanitation, hydration) loans, and a pilot for community health facilitators who will assist clients with using their WASH loans effectively. KOMIDA believes that in order to use a data-driven design process, a provider must be committed to the costs, risks, and challenges of reinventing their perceptions of clients, and ultimately, the products and services.

Read more about KOMIDA's SPM practices here.

3B.3 REDUCE CLIENT RISKS

Your institution should consider how it can offer a diverse or flexible set of products/services that clients can use to reduce risks and cope with common emergencies. Your institution may offer the products directly or indirectly through partners. Such products include:

- Loans to cope with emergencies and reduce risks, including but not limited to emergency loans;
- Rescheduling or restructuring of loans when appropriate;
- Savings to cope with emergencies and reduce risks, including products that allow clients to withdraw money rapidly and without complicated procedures;
- Voluntary insurance, including but not limited to coverage for credit-life, life, health, assets (e.g., home), and agriculture;
- Payments/remittances services that allow clients to quickly receive funds from other people when needed;
- Training services to strengthen clients' capacities to prevent risks (e.g., health education), or to strengthen their capacities to cope with risks (e.g. women's empowerment, or business skills); and
- Funds or reserves earmarked in case of collective disaster, such as an emergency fund against which cooperative members can borrow at zero interest.

Microfund for Women (Jordan) offers two insurance products—credit life insurance ("Himaya"), and hospitalization insurance ("Afietna"). The credit life product not only covers the borrower, but also his/her spouse, such that if the borrower's spouse dies, the insurance product can be used to pay funeral expenses or cover other needs. The hospitalization insurance covers the entire immediate family for a cost of US $3.50 per month, and it ensures that each family member is covered for up to 36 days in the hospital during each 12-month period that the

borrower has a loan. Both products are based on client research that indicated that healthcare is one of the top concerns of female clients, most of whom care for children and/or elderly parents. Some clients were refusing hospitalization based on cost and missed work opportunities. These products reduce client risks by providing assistance in times of distress and addressing clients' reasons for not seeking care.

Table 23 shows how a provider can use its analysis of client data to make product decisions that help clients to manage their risks and cope with common emergencies.

- CGAP's *Designing Financial Services to Respond to Household Shocks* uses a case study from Burkina Faso to discuss how best to design financial products for anticipating and covering health shock expenses. *Resilience and Health Shocks* discusses findings from the field suggesting that health savings accounts and health loans have great potential to help the poor better manage health shocks and build resilience.
- Microfund for Women's *Caregiver Experience: Lessons from Jordan on Health Microinsurance* is a case study on MfW's insurance products.

Lend in local currency

Managing foreign exchange ("FX") rate risk is a complex task, but it is important to protect your clients from FX risk to the extent possible. **Currency mismatch** occurs when an FSP holds assets (such as loans) denominated in the local currency of the FSP's country of operation but has hard currency debt financing its balance sheet.[80] Some providers pass on currency risk by lending in hard currency to their customers or by indexing their lending interest rates to a given foreign exchange rate. In these scenarios, borrowers face higher than expected repayment amounts if the local currency is devalued.[81]

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[80] From MFX's *Identify, Quantify, and Manage FX Risk*. The resources available through MFX offer detailed examples of the various kinds of FX risk, as well as strategies for addressing them.
[81] From MFX's *Summary on FX Risk in Microfinance*.

TABLE 23. PRODUCT DECISION BASED ON CLIENT NEEDS

PRODUCT IDEA	DATA COLLECTED ON PRODUCT	ANALYSIS OF THE DATA, TO UNDERSTAND CLIENT NEEDS	PRODUCT DECISIONS BASED ON CLIENT NEEDS
Agricultural Insurance	• Claims by region • Asset value by business type (e.g., farming corn, raising livestock) • Client interview responses on product term preferences • Client survey responses on household needs	Segmented client data show: • Clients living in the north suffer natural disasters at three times the rate of clients living in the south. • Farmers' assets are worth twice as much as livestock owners' assets. Additional market research data show: • Farmers want to insure their crops as well as their farming inputs. • Livestock owners already have access to government insurance for their assets.	The FSP adjusts its current agricultural insurance product to target clients who are growing crops, rather than clients who are raising livestock. The basic product covers crops, but farmers are given the option to purchase supplemental insurance for their farming inputs, such as equipment and storage facilities. Farmers in the north are offered additional coverage specifically for natural disasters.

The most direct way to protect clients from FX risk is to lend to them in local currency to the greatest extent possible. Protecting your institution against FX risk is also essential to safeguarding clients. If you do borrow funds in hard currency, you should develop a strategy that closely monitors and assesses your FX exposure, supplemented by practices designed to help shield your institution from FX risk.[83]

The key ratio to monitor is the Foreign Exchange Risk (FER) Ratio, which calculates exposure to currency fluctuations using assets and liabilities, according to the following formula:

(Total Hard-currency Assets – Total Hard-currency Liabilities) / Total Net Assets

A higher ratio reflects a higher proportion of hard-currency assets relative to hard-currency liabilities, and therefore less vulnerability to currency fluctuations. An FSP can set a target range for its FER ratio and then closely monitor its balance sheet to gauge its risk exposure.

In addition to monitoring your exposure, the following practices can help shield your FSP from FX risk:

- Maintain a hard-currency deposit account (including setting a minimum hard-currency cash reserve threshold relative to hard-currency liabilities).
- Borrow in local instead of hard currency whenever possible, even if local rates are somewhat higher, including drawing on a local line of credit for short-term needs.
- Engage in "back-to-back borrowing," in which an FSP deposits proceeds from a hard-currency loan into a hard currency account at a local bank, which then serves as collateral for a local currency loan.

FIELD EXAMPLE 32. **MUSOMA USES SAVINGS TO HELP CLIENTS REDUCE RISK AND MANAGE ANTICIPATED NEEDS**

MUSOMA (Tanzania), a small savings and credit cooperative (SACCO, was troubled by poor uptake of voluntary savings amongst its members. They knew that clients needed savings to cope with unexpected and anticipated financial needs. Increasing savings would also provide the SACCO with additional capital. Therefore, MUSOMA took the following steps:

- Developed and distributed leaflets that explained voluntary savings, targeting both current members and non-members;
- Trained credit committee members to talk to other members about saving;
- Reviewed interest paid on savings and increased this from 1% to 5%; and
- Reviewed procedures and made voluntary savings more easily accessible to the members when they need to make withdrawals.

Due to these measures, between March 2012 and August 2013, MUSOMA saw a 30% increase in voluntary savings (compared with a 5% increase in new members).

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[83] The strategies discussed here do not include hedging FX risk through the use of derivative mechanisms, which is typically not recommended unless the FSP has significant FX exposure.

[FIELD EXAMPLE 33. **FRIENDSHIP BRIDGE MANAGES FOREIGN EXCHANGE RISK**]

Friendship Bridge (FB) (Guatemala) provides microcredit to self-employed women. FB's funding sources include both local currency (the Guatemalan Quetzal, or GTQ) and US dollars. Though the Quetzal has been a relatively stable currency over the past 15 years, FB knows that an unexpected currency devaluation poses a risk to their ability to repay their USD notes. FB engages in multiple ways of mitigating this FX risk, without using derivative hedging instruments.

FB monitors its Foreign Exchange Risk Ratio, calculated as: (Total USD Assets – Total USD Liabilities) / Total Net Assets (USD & GTQ). If the Ratio exceeds FB's target limits, FB's finance committee reviews the situation.

FB also uses several other strategies, including:

- Keeping reserves and as much idle cash as possible in USD;
- Utilizing local lines of credit in GTQ for short-term needs;
- Borrowing in GTQ instead of USD when possible, even though rates are typically 5% higher than borrowing in USD;
- Keeping a minimum of 10% in reserves for future obligations, and increasing the percentage as maturity dates approach;
- Back-to-back borrowing;
- Stress testing of exchange rate risk fluctuations;[82] and
- Conducting a quarterly "Economic Risk Assessment," evaluating key indicators to measure supply and demand for the GTQ. These metrics include:
  - Trade deficits
  - Budget deficits
  - Price level/inflation (for Guatemala and FB's own "basket of goods")
  - Monetary policy (interest rates and monetary base for Guatemala and US)
  - Country risk rating
  - Informal economic activity
  - Bank ratings
  - Domestic and foreign income
  - Significant economic or political events

This Economic Risk Assessment is formally reviewed by the finance committee semi-annually, and it is followed by a report to the board of FB. Depending on the longer term trends in the value of the GTQ, FB may in the future also consider use of derivative strategies to hedge against potentially harmful currency fluctuations.

[82] The Federal Reserve Bank of San Francisco offers an explanation of stress testing.

3B.4 ENABLE CLIENTS TO INVEST IN ECONOMIC OPPORTUNITIES AND ADDRESS ANTICIPATED HOUSEHOLD NEEDS

Your institution should consider how products and services create benefits for clients, including the ability to invest in economic opportunities and address anticipated household needs at each life cycle stage. These products can include:

- Business loans, such as start-up business capital, working capital, lines of credit, and alternative forms of collateral to facilitate productive loans (e.g., leasing machinery for a business); and
- Loans for specific life cycle events such as weddings, funerals, education, and home improvements
- Savings products that address life cycle needs such as youth savings, educational savings, housing savings, wedding savings, funeral savings, and pension savings.

Table 24 shows how a provider can use its analysis of client data to make product decisions. The example demonstrates a product decision that helps clients to address anticipated household needs.

TABLE 24. **PRODUCT DECISION BASED ON CLIENT NEEDS**

PRODUCT IDEA	DATA COLLECTED ON PRODUCT	ANALYSIS OF THE DATA, TO UNDERSTAND CLIENT NEEDS	PRODUCT DECISIONS BASED ON CLIENT NEEDS
Voluntary savings	- Deposit size by client age - Deposit frequency by client age - Client interview responses on product term preferences - Client survey responses on household needs	Segmented client data show that younger clients (21-35 years) make larger, less frequent deposits. Additional market research data show: - Income flows are variable for younger clients - Younger clients save for weddings and mortgage payments	The FSP pilots two savings products— wedding savings and home purchase savings. The accounts offer higher interest rates but require larger minimum deposits that must be made at least twice a year. Clients may withdraw savings after a minimum of one year.

FIELD EXAMPLE 34. **GENESIS LOCATES POINT OF SALE DEVICES IN CLIENT BUSINESSES**

Fundación Genesis Empresarial (Guatemala) uses a delivery channel that is both convenient for clients who are *making* a transaction and beneficial for clients *conducting* the transaction. The innovative FSP is using point of sale (POS) devices to allow clients to make loan payments and send and receive remittances—and they have located the POS devices *in client businesses*, such as small stores and kiosks. This placement creates benefits for clients who are making payments, as the POS is located in their own community, usually much closer than a Genesis branch location. Additionally, clients who manage the POS also benefit, as their businesses get more foot traffic, they earn a commission for each transaction and each new person they refer to Genesis, and they receive customer service training and technical training on the use of the POS device.

Before this new system, Genesis clients made many of their loan payments at local banks. Clients were often intimidated to go into the banks, and sometimes the banks would even poach Genesis' customers or intentionally provide poor service. The new system is more in line with clients' preferences. Clients are transacting with fellow clients in locations that are familiar and unintimidating; complaints or problems can be resolved directly by Genesis (as opposed to going through the banks first); and since the POS operators are existing clients, they are familiar with Genesis' Code of Ethics and standards for customer treatment.

In addition to financial services related to loans and remittances, the POS devices can be used to pay utility and credit card bills, so clients can check several things off of their "to do" list at once. Furthermore, client businesses typically have longer working hours than banks (8:00-21:00 versus 9:00-16:00), which means greater convenience and lower opportunity cost for clients using the POS service.

3B.5 DO NOT USE AGGRESSIVE SALES TECHNIQUES

Train your employees on how to sell your products and services without pressuring clients. Aggressive sales techniques can be particularly damaging for low-income clients and those with limited financial capability, as they may be likely to buy products based more on sales pressure than on actual product "fit."

Clearly define for your institution what "aggressive sales" look like and what you will do to monitor and sanction sales employees who practice aggressive sales. Examples of aggressive sales include:

- Telling clients that there is a time limit on a specific offer ("you must sign *today*, because the price will go up tomorrow");
- Continuing to pursue a client who has clearly declined a product;
- Discouraging or preventing clients from consulting with a trusted person;
- Discouraging or preventing clients from reading product information, contract, etc.;
- Arguing, being hostile, or condescending toward the client;
- Intimidating or threatening the client ("if you don't purchase life insurance, you are going to look like you don't care about your family"); and
- Requiring all group members to renew a loan, with no option for one of the members to opt out.

Employees need to be able to talk about the products in a way that clients understand. Train employees to ask the right questions so that they can point individual clients to the most appropriate products. They should be able to sell a product by highlighting how it will be useful for the client; the tactic should be to convince the client that the product is valuable, not to badger him/her into signing a contract. Also, train employees to respect the client's right to refuse a product.

Sales techniques should be adapted to clients' education and literacy levels, as well as to local market conditions. For example, clients who have never used an

insurance product are vulnerable to aggressive sales, as they may have difficulty determining whether the product fits their needs, or they might believe that premium payments are refunded if claims are not made. Ensure that sales techniques—client recruitment, the sales pitch, and promotional materials—will not mislead clients about the benefits of a product.

Your institution is not responsible for training agents or third-party providers (e.g., mobile agents, insurance companies, money transfer companies) on aggressive sales, but you should check that such providers train their own representatives. Monitor your own employees as well as any third parties you are affiliated with. Routine monitoring should include checks on how employees sell products. Interview clients as well as staff.

3B.6 MONITOR AGENTS AND NETWORKS

While agent banking can help you reach more clients and deliver new services, you give up some control when using agents versus your own staff. This phenomenon is heightened when you use agents in conjunction with digital financial services. Many users are not only new to both formal finance and technology, they also live precarious financial lives that allow little room for error.[84] It becomes critical that you recognize the risks associated with agents and digital channels in your market. For many providers, these risks include:

- Inability to transact due to network downtime;
- Insufficient agent liquidity or float, which also affects clients' ability to transact;
- Transaction mistakes that are difficult or impossible to correct;
- Agent fraud that targets clients (e.g., charging clients extra fees);

- Loss of client data privacy or security;
- Insufficient recourse mechanisms available at the agent; and
- Confusing user interfaces (e.g., mobile banking menus).

Through close monitoring—typically by Internal Audit/internal control—you should be aware of potential risks and recurrent problems. Make sure that not only do routine risk management procedures include checks on agents and networks, but that you collect client feedback on agents and networks as part of your ongoing client satisfaction monitoring (see 3a.2). Keep in mind that agents and agent managers frequently underreport problems.

Your solutions to agent/network problems will depend on your capacity and the availability of cost-effective solutions. In some markets, for example, there is not an easy or low-cost fix for network downtime. A starting point for preventing problems is to make sure that agents are sufficiently trained in client-facing issues. Though you are not responsible for training agents who are managed by a third party (e.g., agent network manager), you are responsible for verifying that the third party trains their own representatives on at least the following topics:

- Fair and responsible treatment of clients. The training is aligned with the provider's code of conduct and spells out unacceptable behavior. (See 4c)
- The provider's debt collections practices and loan recovery procedures. (See 4c)
- Not using aggressive sales techniques and to respect clients' right to refuse products. (See 3b.5)
- Loan analysis and the credit approval process. (See 4a)
- How the complaints mechanism works, the role of complaints staff, how to appropriately manage complaints until they are resolved, and how to refer them to the appropriate person for investigation and resolution. (See 4e)
- Policies and processes related to privacy of client data. (See 4d)

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[84] From Doing Digital Finance Right: The Case for Stronger Mitigation of Customer Risks, page 1.

- CGAP's *Doing Digital Finance Right* suggests actions that providers can take to improve the safety, reliability, and transparency of digital financial service products, channels, and systems, as well as to help customers to understand and mitigate associated risks. Also available in Spanish and French. *Recourse in Digital Financial Services* focuses on the role of recourse specifically. Also available in Spanish and French.
- The Better Than Cash Alliance's *Responsible Digital Payments Guidelines* identifies eight good practices for engaging with clients who are sending or receiving digital payments. Also available Spanish and French.
- MicroSave Briefing Notes #110 and #111 discuss both the agent and client perspective on agent banking, including how to problem solve common issues such as customer dissatisfaction.
- CGAP's *Fraud in Mobile Financial Services* highlights how fraud is impacting mobile money providers, agents, and consumers, as well as efforts to reduce risks and vulnerabilities to fraud in mobile money and related services.

FIELD EXAMPLE 35. ASSOCIATION BASE FANDIMA DEVELOPS A FLEXIBLE GROUP LENDING METHODOLOGY

A social audit using the SPI4 revealed that Association Base Fandima (ABF) (Burkina Faso) was failing to reach its target clients—poor and excluded women living in rural areas. With technical assistance from Entrepreneurs du Monde, ABF developed a new lending methodology to reach their target clients, while pursuing sustainability over a three-year period.

ABF identified barriers to access for clients: lack of loan guarantees, lack of financial education/literacy, and limited mobility. ABF designed a new product—Taan Yama—that addresses these barriers. Taan Yama uses a quasi group-lending methodology: clients are eligible for loans after creating a group of 30 people, but each person takes an individual loan, and does not co-guarantee others. As such, loan amounts, start dates, and terms vary among members, depending on their capacities and the needs of their businesses. Additionally, groups receive training on various social and financial topics.

To maintain the financial viability of such a product, ABF requires:

- Groups to meet weekly and to reach 30 members before any member takes a loan;
- Compulsory savings;
- Each group maintain a strict leadership structure and set of rules for conduct; and
- Group members visit delinquent/missing members and support them to repay (financial aid, advice, research into outlets where they can sell their products, etc.).

ABF has learned that the product must be flexible (e.g., different loan terms during the dry and rainy seasons) but group requirements must remain firm. Additionally, training sessions must be interesting and beneficial for the members in order to keep them engaged in learning and to keep meeting attendance high.

The Taan Yama product has allowed ABF to reach the poor—the average loan amount decreased from 208% of GNI per capita to 101% in one year. ABF is also reaching people who have been rejected from banks based on their ethnicity or their religion, such as immigrants. The new product was also accompanied by an improvement in ABF's portfolio quality—PAR 30 has decreased from 15.95% to 4.64% in one year.

Dimension 4:

Treat Clients Responsibly[85]

Dimension 4 includes five standards:

> Standard 4A. Prevention of Over-indebtedness—Client Protection Principle 2 - Providers will take adequate care in all phases of their credit process to determine that clients have the capacity to repay without becoming over-indebted. In addition, providers will implement and monitor internal systems that support prevention of over-indebtedness and will foster efforts to improve market-level credit risk management (such as credit information sharing).

> Standard 4B. Transparency—Client Protection Principle 3 - Providers will communicate clear, sufficient, and timely information in a manner and language that clients can understand, so that clients can make informed decisions. The need for transparent information on pricing, terms, and conditions of products is highlighted.

> Standard 4C. Fair and Respectful Treatment of Clients—Client Protection Principle 5 - Financial service providers and their agents will treat their clients fairly and respectfully. They will not discriminate. Providers will ensure adequate safeguards to detect and correct corruption as well as aggressive or abusive treatment by their employees and agents, particularly during the loan sales and debt collection processes.

> Standard 4D. Privacy of Client Data—Client Protection Principle 6 - The privacy of individual client data will be respected in accordance with the laws and regulations of individual jurisdictions. Such data will only be used for the purposes specified at the time the information is collected or as permitted by law, unless otherwise agreed with the client.

> Standard 4E. Mechanisms for Complaint Resolution—Client Protection Principle 7 - Providers will have in place timely and responsive mechanisms for complaints and problem resolution for their clients, and providers will use these mechanisms both to resolve individual problems and to improve their products and services.

[85] The Universal Standards contains all of the Smart Campaign's client protection standards. The Client Protection Standards describe adequate practice for each of the seven Client Protection Principles. This Dimension—Dimension 4—contains most of the client protection standards. The remaining standards are relevant to Dimensions 2, 3, and 6, and they are located in those sections. To view all of the client protection standards in one place, please visit the Smart Campaign's website.

Standard 4A

Prevention of Over-indebtedness

Providers will take adequate care in all phases of their credit process to determine that clients have the capacity to repay without becoming over-indebted. In addition, providers will implement and monitor internal systems that support prevention of over-indebtedness and will foster efforts to improve market-level credit risk management (such as credit information sharing).

> Essential Practice 4A.1 The provider has a sound policy and well-documented process for loan approvals and makes decisions using appropriate information and criteria. (Client protection standard 2.1.0)

> Essential Practice 4A.2 The provider uses credit reporting information, when feasible in the local context. (Client protection standard 2.2.0)

> Essential Practice 4A.3 The provider's senior management and board monitor the market and respond to heightened over-indebtedness risk. (Client protection standard 2.3.0)

> Essential Practice 4A.4 The provider maintains sound portfolio quality. (Client protection standard 2.4.0)

4A.1 ANALYZE CLIENT REPAYMENT CAPACITY

Your institution should have policies that define each step in the loan analysis and credit approval process. In your effort to prevent client over-indebtedness, the policies that guide field staff are your most important tool. Make sure that field staff not only know the procedures but understand why over-indebtedness is dangerous for clients and bad for their own portfolios.

Do not rely on guarantees (cash deposits, assets, joint liability, co-signers, or salaries) as a substitute for good repayment capacity analysis. Your credit staff should assess client repayment capacity for every loan cycle, using a cash flow analysis and review of current indebtedness. The cash flow analysis should take into account business and household income/expenses and liabilities from all sources, including informal ones such as a loan from a neighbor. Include all household members in the debt assessment (e.g., a spouse's loans outstanding), and count indirect debt (e.g., guarantees made for another person's loan).

In the policy, list the specific sources of income that count toward the client's total. For example, remittances may be a volatile income source in some cases (e.g., a relative living abroad has an informal job and sends variable amounts on an occasional basis)—in which case they should not count as income—or they might be relatively stable (e.g., a husband has steady employment and sends regular payments)—in which case it is likely safe to count the remittances as income. Provide explicit guidance on different sources and scenarios.

Define the maximum percentage of a borrower's disposable income that can be applied to debt service, including debt from your institution. Loan officers should *not* exceed the maximum loan amount. Consider using 50 to 80 percent as the maximum for this ratio: installment/household surplus. Use conservative criteria when information collected from the client is less reliable than usual, the client is new to the institution, market saturation is high, the institution is experiencing system-wide delinquency, and in other situations where the client may be more vulnerable to over-indebtedness.

The benchmark used for the household surplus ratio generally increases for renewal loans, depending on the number of loans the client has with the provider and the client's repayment history. For example, you may determine that for the first loan this ratio must not exceed 60 percent, for the second loan 70 percent, and for all subsequent loans, 80 percent.

Additionally, enforce prudent limits to allow for renewal in the case of early repayment. Require a "cooling off period"—a short break—between loans, to inhibit clients from using borrowed money in order pay loans early and take a larger loan. Such behavior increases the risk of over-indebtedness and gives the impression that the client's credit history is good, when in fact s/he is borrowing elsewhere to pay off loans.

Train new staff on your credit policies, and ensure they can apply them correctly in the field. Training should describe how to conduct a client visit, how to collect and evaluate financial and non-financial data, how to perform a cash flow analysis, and how to crosscheck data for accuracy. Conduct refresher trainings on an annual basis, and provide interim refresher discussions as needed—for example, extra training would be appropriate for a branch where audit results indicate that staff are not abiding by the credit policies.

As a second layer of protection from overburdening clients with debt, the loan approval process should not rely solely on the credit officer. A staff member who does not have a direct relationship with the client—such as a branch manager or designated credit committee—should be required to approve the loan amount and terms.

Your risk management department should verify compliance with credit policies and systems on a regular basis. Check that field staff execute accurate repayment capacity analysis and other over-indebtedness prevention practices like credit history checks and collateral valuation. Auditors or compliance officers should also visit a representative sample of clients each

year to crosscheck compliance through client interviews. Pay particular attention to branches with high PAR or where other risk factors are present, such as high client exit rates, cases of multiple borrowing, or renewals after early repayment. Additionally, where group members are responsible for loan appraisal, this monitoring is essential to ensure that the system is working.

- The Smart Campaign's tool, *Avoidance of Over-indebtedness: Guidelines for Financial and Non-financial Evaluation* provides detailed information on how to assess clients' ability and willingness to repay a loan, and it contains a sample business and household income statement and balance sheet. Also available in Spanish and French.
- Banco Solidario's Loan Officer Training Manual (also available in Spanish and French) and KazMicroFinance's Loan Officer Training Presentation are examples of procedures for financial and non-financial loan evaluation that help loan officers make quality disbursement decisions and minimize the risk of client over-indebtedness.
- Monitoring Individual Repayment in Group Guarantee Mechanism demonstrates two simple approaches of monitoring the implementation of group guarantees.
- Microfund for Women Jordan's *Client Business Evaluation Toolkit* (also available in Spanish) and Opportunity Bank Serbia's Loan Calculator are examples of forms and calculations used to evaluate client repayment capacity.
- Partner Microcredit's case study describes how the FSP performs rigorous credit analysis of its clients before issuing a loan and how it follows up with audits to verify that credit staff are applying the credit methodology properly (also available in Spanish and French). A follow up recorded webinar and accompanying PowerPoint presentation describe the FSP's policies on maximum debt thresholds and risk management procedures.

FIELD EXAMPLE 36. MUSOMA INTRODUCES A REPAYMENT CAPACITY POLICY

MUSOMA (Tanzania), a savings and credit cooperative, was concerned that some members were repaying their loans by selling assets. The FSP conducted field research to understand the problem, and it took the following actions based on the findings:

- The loan appraisal process was strengthened to ensure that members have the capacity to repay loans without becoming over-indebted. While previously loan officers could approve loans, now, local leaders must also verify repayment capacity. MUSOMA's Credit Committee now looks at the financial capability of members during the loan approval process.
- Member-leaders received training so that they in turn could train (group) members on entrepreneurship skills to strengthen businesses, and ultimately, repayment capacity
- MUSOMA now provides financial education to members, highlighting the dangers of using business loans for unproductive purposes as well as the dangers of borrowing from multiple organizations.

As a result of these actions, the FSP saw a reduction in the incidence of member over-indebtedness. Members also report benefits from the financial education and business skills training. At the same time, PAR > 30 dropped from 14% to 8%, and the number of court cases on non-repayment dropped from 12 to 1. Finally, MUSOMA reports that they now rarely have to resort to seizing assets for loan recovery.

4A.2 USE CREDIT BUREAU AND/OR COMPETITOR DATA

An effective client repayment analysis depends on accessing information about the client's outstanding debt and credit history. If an effective credit bureau exists in your country, require that credit staff consult it for all loan cycles to assess clients' current debt levels and repayment history. Also, require staff to systematically report client data to the credit bureau.

If there is not a credit bureau available to your institution—or if the existing credit bureau is unreliable—your calculation of a client's repayment capacity should take into account the possibility that s/he has additional, non-disclosed debt. In such a case, your policies and practices should require credit staff to use alternative sources of information on clients, including consulting with local competitors to find out pertinent information about potential clients, including loans outstanding with other institutions and repayment history. In areas where competition is fierce and the risk of multiple lending is high, institutions should still try to create informal arrangements with competitors to share delinquent client lists. Consider an informal arrangement with competitors based on trust that is not legally binding. Such a resource is especially important for larger loan sizes. Sometimes microfinance networks can facilitate this type of information sharing among members.

Regardless of the availability of a credit bureau, your institution should have a supervisory system to ensure credit bureau or competitor data is effectively used to inform credit analysis and decisions. This process may be done by Internal Audit, internal control, compliance, or another specific control system conducted before or after loan disbursement.

4A.3 MONITOR OVER-INDEBTEDNESS

Management should monitor your institution's portfolio for potential over-indebtedness problems. Management should review and analyze portfolio quality reports (non-performing loans, rescheduled loans, write-offs) on a regular basis—at least quarterly. They should also analyze credit bureau information at the aggregate level (if available) in order to inform decisions about products, expansion, and targeting. The board should receive and review portfolio reports at least quarterly.

As a complement to management and board monitoring, require your loan officers and branch managers to monitor their own portfolio quality at least monthly to identify the risk of over-indebtedness. They should examine the overall quality of the branch portfolio and then segment it by products and pertinent client segments (e.g., clients with multiple internal loans, clients with specific types of businesses).

Over-indebtedness is not an absolute level of debt, but is commonly understood as a situation where a client has to make unacceptable sacrifices in order to repay a loan (see Box 14 for examples of these sacrifices). Management and board should develop a definition of over-indebtedness for your institution's context (i.e., "what does over-indebtedness mean for our clients, and how do we identify it?"), and they should define indicators and benchmarks that serve as early warnings for over-indebtedness. Examples of such indicators include: PAR by product; number/percentage of clients with multiple loans; number/percentage of clients repaying loans early; early repayment by product; calls on guarantees; delinquent loans; and client exit. In particular, track rescheduled loans, and produce reports at least monthly, as a rising number of rescheduled loans[86] may reflect rising over-indebtedness.

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[86] **Rescheduled loans** are loans whose term has been modified to permit a new repayment schedule, to either lengthen or postpone the originally-scheduled installments, or to substantially alter the original loan terms, such as loan amount. The term "rescheduled loans" also usually comprises refinanced loans, which are loans that have been disbursed to enable repayment of prior loans for which the client was unable to pay the scheduled installments.

Your institution should also gather client feedback on possible cases of over-indebtedness. This client feedback is important because over-indebted clients are not necessarily delinquent, as they may use informal sources or sale of assets to meet contractual obligations, especially in saturated markets. Moreover, delinquency is a lagging indicator: by the time PAR starts rising, there is already a problem. Ask clients: *Are you making major sacrifices to meet your loan obligations? Have you had to borrow elsewhere, use savings, or sell an asset to make a loan payment?* These are questions that should be integrated into regular procedures (exit surveys, audit visits, etc.) as they will give management a more complete picture of over-indebtedness.

Partner Microcredit Foundation (Bosnia-Herzegovina)[87] uses Internal Audit to detect lending practices that could increase client over-indebtedness. Internal auditors regularly visit all branches, and they use a random sampling technique to select clients to interview from each branch. Auditors visit two groups of clients, selected at random: the first group of clients includes all types of clients, while the second sample is selected from delinquent clients only. Each client responds to a detailed questionnaire that auditors use to detect procedural violations by loan officers. The questionnaires also solicit general information on household debt levels. By focusing specifically on delinquent clients, auditors can determine if and how Partner policies or credit employees may have contributed to client over-indebtedness.

Overindebtedness monitoring efforts should be heightened in high-risk markets—this includes markets where multiple borrowing is common, there is no credit bureau, the credit bureau is unreliable, and/or there are high FSP growth and penetration rates. Under these conditions, your institution's credit approval policy should explicitly address borrower debt thresholds.[88] Box 15 lists more institutional and market conditions that create a heightened over-indebtedness risk.

BOX 14. **BORROWER SACRIFICES IN GHANA**

One study of overindebtedness in Ghana[89] highlights the seriousness of client repayment difficulties. The study examined debt stress in over 500 Ghanaian microfinance borrowers. The data below demonstrate how many times the borrowers in the study sample reported each of the common "sacrifices"—things that the borrower gave up in order to make a loan repayment. The list emphasizes how indicators like debt service rations, default, and delinquency often do not reflect the true state of client overindebtedness.

Number (%) of borrowers making each sacrifice	Sacrifices
325 (61%)	Work more than usual
240 (54%)	Postpone important expenses
179 (34%)	Deplete savings
96 (18%)	Reduce food quantity/quality
67 (13%)	Use family/friends' support
51 (10%)	Suffer psychological stress
26 (5%)	Reduce education
20 (4%)	Borrow anew to repay
20 (4%)	Sell or pawn assets
15 (3%)	Feel threatened/harassed
14 (3%)	Suffer from shame or insults
4 (1%)	Seizure of assets

[87] More information here.
[88] Debt thresholds can be known by different terms (debt coverage ratio, debt service ratio, repayment capacity ratio, etc.), and they may be calculated in different ways. When it comes to calculating repayment capacity, the ratio usually involves looking at installment/disposable income (or vice versa).
[89] Available here.

BOX 15. CONDITIONS THAT CREATE A HEIGHTENED OVER-INDEBTEDNESS RISK

Consider whether the following conditions are true in your context:

- There are many—or an increasing number of—informal sources of finance available.
- There are many—or an increasing number of—lending institutions.
- Consumer lenders are moving into the same market as microfinance.
- Multiple institutions often compete to serve the same customer.
- Credit bureaus are not available, are inadequate, or not widely used.
- Due to high growth, your systems are overstretched, and your risk controls are no longer sufficient.
- Clients complain about not having the right product fit, including the price and/or the size (especially too-small loans).
- You experience high staff turnover and/or difficulty providing adequate training to staff.
- Your incentives place a very high value on portfolio growth.

- The Center for Financial Inclusion's study, *Over-indebtedness of Microfinance Borrowers in Ghana* highlights important lessons for FSP managers on the drivers of overindebtedness and common indicators of client stress. Also available in Spanish.
- Fonkoze Haiti's *Client Evaluation Guide for Post-Disaster Recovery* is an example of how the FSP adjusted their lending policies to account for a period of heightened over-indebtedness risk following the 2010 earthquake.
- *Smart Operations* describes the responsibilities of management in monitoring the risk of overindebtedness (see section "Executive Management"). Also available in Spanish and French.
- Kashf Foundation describes their over-indebtedness monitoring measures in a recorded webinar and PowerPoint presentation.
- *Study on the Drivers of Over-Indebtedness of Microfinance Borrowers in Cambodia* looks at how providers (among other actors) have contributed to the overindebtedness problem in the country. It holds important lessons for providers in other countries.

FIELD EXAMPLE 37. UJJIVAN FINANCIAL SERVICES PVT. LTD. EDUCATES CLIENTS ON THE DANGERS OF OVERINDEBTEDNESS

Facing a growing incidence of multiple borrowing and ghost borrowing (clients taking out loans for other people in return for a commission), Ujjivan (India) developed an educational video highlighting the risks of these practices. Featuring the characters Sushila and Revati, rural women who represent typical microfinance borrowers in India, the video teaches by example.

In the first segment, a respected relative visits Sushila and her husband and convinces them to take out a large loan in Sushila's name and hand him the proceeds, which he promises to repay punctually. Soon after, he vanishes, leaving Sushila stuck with repayments she cannot afford. The second sketch shows Revati, a microfinance client who is bullied by her husband into taking out a second loan so he can buy a motorbike, and a third loan to make the repayments. Soon after, they find themselves unable to repay.

Ujjivan reports that clients are eager to discuss the scenarios after viewing the videos. Clients appear to identify readily with the characters, whose dealings with overbearing husbands and relatives closely reflect the family dynamics they see in their own homes. The film also introduces clients to the concept of a credit bureau, and it educates them on the importance of building a positive credit history.

Within its first year, Ujjivan showed the film to more than one million families, through local television channels as well as during its own client meetings, where it follows up with a guided discussion. The video is now mandatory for all new Ujjivan clients and staff, and it represents a notable contribution toward avoiding the types of issues that have plagued Indian microfinance in recent years.

Read more here.

4A.4 MAINTAIN A SOUND PORTFOLIO QUALITY

Declining portfolio quality is a leading indicator of an overindebtedness problem. Your institution should use these benchmarks as a check on your portfolio quality:

- Total credit risk—defined as PAR30 + write off + >360—has not averaged more than 10% during any quarter in the past three years, including the most recent quarter.
- Total credit risk *has* averaged more than 10% during any quarter in the past three years, but you put in place corrective measures that have been reversing the trend for at least the past two consecutive quarters.

In cases of declining portfolio quality linked to client non-repayment, consider whether one or more of the following corrective measures is appropriate:

- Conduct a portfolio audit to understand the issues;
- Reinforce compliance, internal controls, or audit checks on lending practices;
- Reinforce training of field staff on loan analysis;
- Reduce amount of lending until the PAR can be brought under control; and/or
- Increase measures to monitor context risks that can impact delinquency (political activity, non-repayment crises in neighboring financial institutions, etc.).

Standard 4B

Transparency

Providers will communicate clear, sufficient, and timely information in a manner and language that clients can understand, so that clients can make informed decisions. The need for transparent information on pricing, terms and conditions of products is highlighted.

> Essential Practice 4B.1 The provider has a policy and documented process in place that requires transparency on product terms, conditions, and pricing. (Client protection standard 3.1.0)

> Essential Practice 4B.2 The provider communicates with clients at an appropriate time and through appropriate channels. (Client protection standard 3.2.0)

> Essential Practice 4B.3 The provider takes adequate steps to ensure client understanding and supports client decision making. (Client protection standard 3.3.0)

4B.1 FULLY DISCLOSE PRODUCT INFORMATION

Transparency on product information is vital for client understanding. When clients understand the products they are buying and using, they are more likely to use them successfully. Client success is a major determinant for the health of your portfolio. Furthermore, client understanding helps build confidence and trust in your organization.[90] Table 25 lays out transparency policies for four products.

When providing the information listed in Table 25, observe the following practices:

- Write product contracts in simple language. If you are required by law to use technical language, then check that your Key Facts Document (see Table 25) is written in simple language. Do not use illegal clauses. Do not use fine print.
- For loans with a group guarantee or a guarantor, clearly define member or guarantor obligations, and communicate these to group members or guarantors.
- If the loan has a variable rate and/or is denominated in a currency different from the main currency of the client's source of income (e.g., the client earns income in pesos and the loan is in USD), clearly explain pricing and cost scenarios to the client, including a pessimistic scenario in which exchange rates change and the loan is not worth as much money.
- For clients using payment services, make sure that the documentation that lists all fees, terms, taxes, and cancellation conditions is provided at your payments agents. Such services include money transfers, bill payments, airtime top-up, and deposit withdrawal.

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[90] Results from the Smart Campaign's Client Voice research (page 18) show a clear correlation between client understanding of loan terms and whether a client rated his or her experience with FSPs as favorable or not. Those clients with a strong understanding of loan terms and conditions were more likely to rate their provider experience as favorable or very favorable. Those that did not understand terms well were more likely to rate their provider experience as very unfavorable or unfavorable.

TABLE 25. **TRANSPARENCY POLICIES AND PROCEDURES FOR FOUR PRODUCTS**

	Credit	Savings	Payments	Insurance
Information to disclose	- Total loan amount - Pricing, including all fees[91] - Total cost of credit (all principal, interest and fees) and APR/EIR[92] - Disbursement date and loan term - Repayment schedule with principal and interest amounts, number, and due dates of all repayment installments - Moratorium interest rates[93] - Grace period (if any) - Penalties for arrears or prepayment - Compulsory savings (if any) - Linked products (if any) - Member or guarantor obligations (if any) - Collateral (if any) collateral seizing procedures - Any restrictions on loan use - Cooling off periods - Cancellation rights - Consequences of late payment and default - Whether terms and conditions can change over time.[94]	- Fees[95] - Interest rate and how amounts will be calculated (on the basis of the original deposit or compounded for interest accruals) - Minimum and maximum balances and withdrawal limits - Other limits/conditions to accessing savings -Whether/how savings will be used in case of loan default - Whether deposits are governmentally insured	- Amount paid by sender in sender's currency - Estimated exchange rate - Amount to be received in the destination currency - Fees - Instructions for collecting money - Cancellation conditions - Instructions for resolving errors - Taxes (if any) - Linked products (if any) - Transaction confirmation	- Premium - Events covered - Individuals covered - Amount and term of coverage - When and how to file a claim - Required documentation to prove damage - Any major exclusions - Terms related to cancellation and prepayment - Cooling off periods - Cancellation rights
Information format	Provide above information in green in a Key Facts Document—a short document that highlights key product information, as opposed to the longer and legally binding loan contract. Include all of the above information in the loan contract.	Written document	Written document	Provide above information in blue in a certificate of coverage, after signing. Provide all information in writing or verbally, before signing.
Timing of disclosure	Prior to client signing the initial loan contract and prior to renewal.	Prior to depositing money	Provide the transaction confirmation immediately following a transaction, and all other information before initiating a transaction.	Prior to enrollment in the insurance plan and upon renewal. When a client initiates a claim, provide information on prospective benefits.
Other considerations	Upon signing, provide clients with a signed copy of contract with no blank spaces. This applies to group products as well as individual.	Make the same effort to educate clients about the savings products, whether they are sold as voluntary, mandatory, or bundled.		Make the same effort to educate clients about the insurance products, whether they are sold as voluntary, mandatory, or bundled. Also explain to clients the importance of informing beneficiaries of their coverage under the client's insurance products.

FIGURE 2. **KEY FACTS DOCUMENTS FOR LOAN CLIENTS (SAMPLE)**

In addition to providing the full loan document, supply clients with a Key Facts summary like the one below.

The basics
You are borrowing _____
Total amount you will repay if you repay on time _____
Your interest rate is _____
You will pay in fees and commissions _____

The repayment
Your loan starts on _____
You must repay every _____ by _____
If you repay on time every time, your last payment will be on _____

The guarantee
Your loan guarantee is _____
If you fail to repay the loan _____

Late fees and penalties
If you are late in your repayments, you will have to pay _____
For every additional day that your payment is late.

Your loan has insurance!
If you die of natural causes, your family should call _____
If your family follows the instructions correctly, they will keep the full amount of the loan but will stop making loan payments.

Questions or concerns?
If you have any questions about your loan call _____
If you have a problem with our service, call _____

Designed for the enabling APR/EIR Program | Images from www.clker.com

- The Smart Campaign tool, *Essential Documents for New Clients*, provides a sample template for a transparent loan summary and repayment schedule. Also available in Spanish and French.
- Mibanco Peru's loan contract summary handout is an example of a key facts document that helps clients understand their loan contract. Also available in Spanish.
- People's Bank of Caraga's (Philippines) disclosure statement helps clients understand key information including bank charges, interest rates, and other fees.
- JSC Microfinance Organization Crystal (Georgia) uses a plain language loan contract for clients seeking small businesses credit. This example contract is succinct, written in plain language, and uses very little jargon.

FOOTNOTES FROM TABLE 25 (page 143)

[91] In addition to communicating on other fees, if you deduct fees from the first payment of principal (i.e., upfront fee, insurance, guarantee deposit), clearly communicate this to clients before disbursement.

[92] APR (Annual Percentage Rate) and EIR (Effective Interest Rate) are both methods for communicating prices in annual terms. APR, the standard in some countries such as the United States, does not take into account the effect of compounding whereas EIR, the standard in countries such as those in the European Union, does take compounding interest into account. Both approaches agree on the figure for the price for a shorter period of time, such as a month. However, when annualizing that monthly figure, the compounding effect results in a larger annual figure than the nominal approach. The higher the monthly interest rate, the greater the difference between the annualized APR and the annualized EIR. The MFTransparency Calculating Transparency Pricing Tool can be used to calculate both APR and EIR. In markets in which interest rates are quoted in another form (e.g., flat rates, CAT in Mexico, TCEA in Peru, TEAC in Bolivia, etc.) by nearly all providers, the prevailing format may be used in addition to APR or EIR alongside total cost of credit.

[93] Moratorium interest rate (also called moratory interest rate) refers to the rate of penalty interests that are charged on top of regular interests in case of a late repayment of more than a fixed number of days, by way of damages in actions for breach of loan contract.

[94] Such as changes to interest rates in the case of variable rate loans or currency exchange rates in indexed loans.

[95] For example, fees associated with account opening and closing, account maintenance, balance inquiries, withdrawals, payments, transfers, use of ATMs and use of mobile phones for payment transactions. If fees vary depending on account balances and/or usage (e.g., if certain services are free when balance is maintained above a minimum), these conditions should also be made clear.

This sample loan contract is a part of a larger resource—the *Consumer Pricing Education Adaptation Guide* developed by MF*Transparency*.[96]

[96] © 2012 MicroFinance *Transparency*. Used with permission.

4B.2 COMMUNICATE IN A WAY THAT CLIENTS CAN EASILY UNDERSTAND, AT THE RIGHT TIMES

Often, FSPs may provide full and complete product information but communicate it in a way that is difficult for clients to understand. The way your sales and product management staff explain things to clients will make all the difference in whether clients can absorb the information and use it to make important decisions about their finances.

Clients should have time to review product information, to compare options, and to ask questions before making a decision. In order to do so, they need relevant product information at least 24 hours *prior to signing*. In practice, this means providing product documentation that clients can take home and review before the sale—many times, a client will want to share product information with a trusted person (e.g., spouse) prior to signing. Make sure the client also has an opportunity to decline the product without being made to feel that they are already expected to sign the contract.

Inform clients *before* making changes to the terms and conditions specified in their contracts—for example, if the interest rate paid on savings changes. Also inform clients before their insurance policy expires, so that they are aware and have the opportunity to renew the policy.

Finally, put in place a system for providing clients with accurate account information, on demand. For some providers, an on-demand mechanism is provided through online and/or mobile banking, which gives clients anytime access to their account information. Low-tech options including answering customer inquiries over the phone and in-person. Field and branch staff should have immediate access to up-to-date account information whenever they are interacting with the client. Provide clients receipts—paper or digital, based on client capability and context—for all transactions. For loans with a group guarantee or a guarantor and group savings accounts, provide each member in the group or guarantor with total balance of the account at least quarterly.

MicroFinanza Rating's *Transparency in Practice* suggests good practices for improving transparency at bank branches and in the field (e.g., at clients' homes and businesses).

FIELD EXAMPLE 38. **GATSBY MICRO FINANCE LTD. PROVIDES TRANSPARENT LOAN INFORMATION**

In the microfinance market in Uganda, non-transparent disclosures are the norm. There is no single point of reference that clients can consult to understand their loan pricing. Loan repayment schedules often fail to include interest rates, fees, commissions, and other pricing components.

In this market, Gatsby has developed a repayment schedule that stands out. On a single sheet of paper, Gatsby provides clear and complete loan information. The schedule shows all loan fees and commissions, the interest rate and its calculation method, the repayment grace period, a full repayment schedule that breaks out interest and principal installments, including those due and still to be paid, and the total amount of interest to be paid over the life of the loan. The schedule also includes important reference information, such as the loan officer's name, branch contact information, and the date the loan schedule was generated.

One major benefit to Gatsby is that in a market where loan officers regularly steal client repayments, clients now have a clear document that lays out exactly what they have paid and what they owe, thereby reducing the risk that their money will be stolen. Similarly, transparency allows clients to understand their loans better and allows Gatsby to build greater trust with its clients—an important advantage over its competitors.

4B.3 SUPPORT CLIENT DECISION MAKING

While your personalized interaction with clients (i.e., in-person meetings, phone conversations) is the most important channel for communicating information to clients, check that the information you make available to the public is also useful for client decision making. It should be accurate, and advertisements should not be misleading. Your prices should be published in the public domain (e.g., branch poster, your website), as APR or EIR. In addition to quoting the interest rate in APR or EIR, it is useful for clients to see the interest rate in the form most often used in your market (e.g., flat rates, CAT in Mexico, TCEA in Peru, TEAC in Bolivia, etc.).

Use various communication channels for important information. For example, pricing information (interest rates, fees, and commissions) should be displayed and visible in branches (via posters, brochures, pamphlets, etc.), and it should be explained to the client verbally. Other forms of communication include radio, websites, SMS messages, and television. Employees should be trained to discuss terms and conditions with clients on several occasions during the product application process. Staff should know how to evaluate client understanding, for example, using a set of conversational questions that indicate whether clients will be able to apply the product information shared by the employee. Field staff may want provide a phone number to clients, so they are available to answer questions. Provide your staff with refresher trainings annually. As with your other client protection policies, use an internal control process to verify that staff are applying your transparency policies.

Finally, it is important to participate in any transparency initiatives that are available in your country or region. Such initiatives might include organized efforts to publish provider interest rates, standardize interest rate calculations, create standards for transparency in advertising, or standardize contract language. If such efforts are successful, your transparency task will be easier, as it is difficult to be the "first mover" in a market. For example, it is hard to be the only institution quoting interest rates on a declining balance while competitors are quoting flat rates. Similarly, once a few providers start using deceptive advertising, others tend to follow suit. Your participation in market-wide transparency initiatives will increase the likelihood that you will be practicing client protection on a level playing field.

- MFTransparency's *Calculating Transparency Pricing Tool* is an Excel based tool that allows providers to calculate the prices of their loans in APR and EIR and to understand the factors that influence price. The complementary Consumer Education package is a suite of tools—manuals, images, videos, etc.—providers can use to improve how you talk about pricing with clients.
- The Smart Campaign's *Essential Documents for New Clients* can help you communicate with clients on key issues, including loan terms and conditions, client rights and responsibilities, data privacy, delinquency procedures, and more. Also available in Spanish and French.
- *Transparency in Promotions and Sales: A Checklist for Financial Service Providers* is a series of checklists for FSPs to check the transparency of their sales processes for different kinds of credit products and clients. Also available in Spanish and French.
- Transparent and Responsible Pricing at Mi-Bospo is a case study that discusses how the Bosnian institution communicates pricing to clients. Also available in French.

FIELD EXAMPLE 39. **MUKTINATH BIKAS BANK SUPPORTS CLIENT DECISION MAKING THROUGH PRE-LOAN TRAINING**

Muktinath Bikas Bank Limited provides microfinance services to low income women throughout Nepal. The bank offers a 14-hour pre-loan training to equip potential borrowers with the knowledge they need to be a successful group member. Over the course of seven days (two hours per day), a loan officer meets with potential clients and discusses the following information:

- **Day 1:** The causes of poverty and its effects on the poor, the bank and its values, a basic introduction to the microfinance program.
- **Day 2:** How group borrowing works, including group and center formation, how to select and dismiss group members, the roles and responsibilities of group leaders, and the benefits of participating in a group.
- **Day 3:** The principles of microfinance, the characteristics of a good center, center monitoring, and more on the rights and responsibilities of member/leaders.
- **Day 4:** Overview of the products and services the bank offers, their objectives, prices, terms, and conditions. These are compared with the informal financial tools typically used in Nepal, with a discussion of how formal tools are superior.
- **Day 5:** Loan security, money transfer, interest calculation, how group guarantee works, and the purpose of the loan utilization check.
- **Day 6:** The loan officer(s) conduct verbal tests with participants to gauge their learning during the training, and participants' family members are invited to ask questions about the program. These questions are answered by the trainees to demonstrate their understanding (with assistance by the loan officers, as needed). This interaction is also used to affirm the family member's support for the borrower to join a group.
- **Day 7:** The branch manager and loan officer(s) administer a verbal group recognition test—which covers the most important messages from the previous six days—and determine whether the potential clients are ready to form groups or if they need additional discussion with the bank staff.

This comprehensive training schedule is appropriate for Muktinath Bikas' target clients—people who have little or no exposure to formal financial services. It is designed to prepare potential clients for successful group participation by informing them fully on all aspects of the program and their rights. It also benefits the FSP by serving as a training for new loan officers (who study the training manual and attend the trainings as assistants), and by reducing risks such as poorly informed clients and group formation problems.

Read the full case study here.

Standard 4C

Fair and Respectful Treatment of Clients

Financial service providers and their agents will treat their clients fairly and respectfully. They will not discriminate. Providers will ensure adequate safeguards to detect and correct corruption as well as aggressive or abusive treatment by their employees and agents, particularly during the loan sales and debt collection processes.

> **Essential Practice 4C.1** The provider promotes and enforces fair and respectful treatment of clients in line with a code of conduct. (Client protection standard 5.1.0)

> **Essential Practice 4C.2** The provider has policy and documented processes to avoid discriminating against Protected Categories in selecting clients and setting terms and conditions. (Client protection standard 5.2.0)

> **Essential Practice 4C.3** Loans are collected by staff and collection agents in an appropriate manner. (Client protection standard 5.3.0)

> **Essential Practice 4C.4** The provider has effective systems to prevent and detect fraud. (Client protection standard 5.4.0)

> **Essential Practice 4C.5** The provider management and oversight support fair and respectful treatment of clients. (Client protection standard 5.6.0)

> **Essential Practice 4C.6** Insurance claims are processed in a fair and timely manner. (Client protection standard 5.5.0)

4C.1 ENFORCE A CODE OF CONDUCT

An institutional Code of Conduct (or Code of Ethics) helps employees practice fair and respectful treatment of clients by defining clear standards of professional conduct that they must uphold. A written Code does not guarantee ethical conduct, but it is a first step toward formalizing an ethical organizational culture.

Your Code should apply to all staff, agents, and third-party providers (e.g., agents, debt collectors), to ensure that clients are protected when interacting with anyone working on behalf of your organization. It should spell out expected behavior as well as sanctions for violations of the code. Box 16 provides a basic outline for the Code contents.

It is vital that staff sign their agreement to abide by the Code of Ethics and that you train them on the Code. While you are not responsible for providing training to third-party providers and agents, you should ask for verification that these parties have a Code of Conduct and train their staff on it.

When training your own staff, use "real life" examples that highlight situations in which compliance with the Code may be difficult (e.g., when dealing with disrespectful clients; when asked by another staff member to commit minor fraud). For example, Sahayata Micro Finance Pvt. Ltd (India)[98] uses "Customers' Rights and Responsibilities Illustrations"—a series of simple pictures and texts that demonstrate five client rights and five client responsibilities, allowing trainees to discuss each scenario. Trainees are asked to read the card and decide which customer right is supported or violated by the behavior described. The cards are used to stimulate discussion among small groups of trainees and to test trainees' understanding of ethical behavior.

In addition to training on the Code, some providers use mentorship to pass on the provider's culture of ethics to new staff. For example, Compartamos Banco (Mexico) created its own Ethics and Values Department.[99] One of the tasks of this Department

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BOX 16. CONTENTS FOR THE CODE OF CONDUCT

- Introduction on purpose of the Code
- Institutional mission and values
- Rules of conduct
  - Employee rights
  - Behavior toward other employees
  - Behavior toward clients
  - Behavior toward the community and the environment
- Sanctions for Code violations
- How to report Code violations and whistleblowing
- Updating and providing feedback on the Code

In addition to stating the positive values and behaviors expected of staff (e.g., "respond with patience and professionalism to angry customers"), also outline the behaviors that the institution will not tolerate. These should include, at least the following:

- using abusive language
- using physical force
- limiting physical freedom
- shouting at the client
- entering the client's home uninvited
- publicly humiliating the client
- violating the client's right to privacy
- mistreating a client based on any Protected Categories[97]
- using intimidation or threats
- sexual or moral harassment
- fraud
- soliciting or accepting bribes and kickbacks

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[97] Essential Practice 4c.2 calls on providers to implement a non-discrimination policy that prohibits client discrimination on the basis of "Protected Categories" of client characteristics, which include ethnicity, gender, age, disability, political affiliation, sexual orientation, caste, and religion.
[98] For more information on this example, see Illustrations and Activities for Training Loan Officers on Customers' Rights and Responsibilities (Sahayata Micro Finance Pvt. Ltd.). Also available in Spanish and French.
[99] For more information on this example, see Compartamos: Building institutional culture around a code of Ethics. Also available in Spanish and French.

is to select and maintain a network of 50 "Guardians of the *Esprit de Corps*,"[100] chosen because they have long tenures with the organization and exemplary records of leadership, ethical behavior, and customer service. As part of employee induction, each new recruit meets with one of the Guardians, who functions as a mentor and answers questions and addresses doubts.

Finally, clients need to know their rights in order to recognize and react when they are not treated with fairness and respect. In order for them to do so, you must inform them of the main aspects of your Code of Conduct including what is not acceptable behavior by your staff. Your clients should also know their rights when it comes to collateral seizure, loan rescheduling procedures, data privacy, making a complaint, and receiving account information. Communication may be verbal (at different points during the product process) or written (posters displayed in branches, inside client passbooks, on the contract, in a key facts summary, brochures, or other documentation).

- The Smart Campaign's publication, *How to Develop an Institutional Code of Ethics*, provides step-by-step guidance on creating or reviewing your Code. Also available in Spanish and French. The Smart Campaign also offers example Codes from all over the world.
- *Essential Documents for New Clients* includes a Sample Institutional Pledge to Clients, an example one-page handout that informs clients of their right to fair and respectful treatment by staff. Also available in Spanish and French.
- Grameen Financial Services Pvt. Ltd.'s Code of Conduct E-learning Module is an example of a test given to staff at the end of their Code of Conduct training.
- Sahayata Microfinance Pvt. Ltd.'s *Illustrations and Activities for Training Loan Officers on Customers' Rights and Responsibilities* is an example of how to use drawings and discussion to train staff on clients' rights. Also available in Spanish and French.
- Opportunity Bank Uganda uses its Customer Service Policy to train staff and hold them accountable to high standards of customer care.
- Kashf Foundation's Code of Conduct covers every area of client protection.

[100] *Esprit de Corps* is defined as a feeling of pride, fellowship, and common loyalty shared by the members of a particular group.

4C.2 DO NOT DISCRIMINATE AGAINST "PROTECTED CATEGORIES" OF CLIENT CHARACTERISTICS

Implement a non-discrimination policy that prohibits client discrimination on the basis of "Protected Categories" of client characteristics, which include ethnicity, gender, age, disability, political affiliation, sexual orientation, caste, and religion.

Discrimination is different from targeting clients for inclusion in a program (e.g., loans to women, savings accounts for youth). Targeting generally corrects an existing problem of exclusion, whereas discrimination involves treating a client or potential client differently and less favorably based on personal characteristics or affiliations. Terms and conditions for individuals should only differ based on: 1) risk-based analysis (e.g., rural farmers in frequently-flooded areas might be deemed too risky, or loans might be less expensive for repeat clients with stellar repayment histories); 2) target markets defined in your mission (e.g., "our mission is to serve youth in urban areas"); or 3) accommodations based on special needs (e.g., a person with limited mobility repays monthly instead of weekly, given her difficulty getting to the branch). Such differentiation should be applied consistently and transparently.

Very few institutions have a non-discrimination policy that protects the types of clients listed above. Most of these providers do not expressly want to deny clients' rights, but they are unaware of how institutional policies and staff behavior affect certain clients. Box 17 provides examples of discriminatory policies and staff behaviors. Even if you believe that your staff are treating clients fairly, put in place a non-discrimination policy to make clear the institution's expectations and to standardize behavior across all employees.

[FIELD EXAMPLE 40. **TUJIJENGE DISPLAYS A CUSTOMER SERVICE CHARTER**]

Tujijenge (Tanzania) displays the below customer charter in their banking halls and customer waiting areas. Though it appears in English below, the FSP uses local languages for the charters displayed to clients. The charter explains the services and information that clients have a right to expect from the FSP, as well as their right to voice complaints. Providers adapting this charter for their own use might consider adding a bullet on protection of data privacy.

OUR COMMITMENT TO CUSTOMERS

• We will listen to complaints and suggestions from our clients who will either visit, call or use the suggestion boxes and respond to their concerns urgently.

• We will inform you immediately in case of any changes of our services by using letters or notice boards

• Loan disbursements in our branches will take a short time. In case of any delays a client has the right to see the branch manager and demand explanation

• We will give you a receipt for any payment made to Tujijenge, therefore remember to claim for a receipt with Tujijenge stamp soon after making a payment. In case you are not

given a receipt please call the numbers provided at bottom of this document. All payments should be made at Tujijenge offices or via M-pesa.

• We will not ask or borrow money or claim for any kind of service from Tujijenge Tanzania clients

• If there is a need to make payments through Tujijenge staff, a client will be provided with an official written notification document from the office. A client has the right to claim for the document signed by the branch manager

For contacts call;

Hotline: 0719 34 10 34
Managing Director: 0688 467 934
Credit Manager: 0783 333 172
Manager Makumbusho branch: 0713 49 45 07

Manager Tazara branch: 0682 91 95 51
Manager Mbagala branch: 0682 91 95 65
Manager Mwanza branch: 0784 98 40 30
Manager Musoma branch: 0784 84 67 45

Build yourself with Tujijenge Tanzania

[FIELD EXAMPLE 41. **ASKI SANCTIONS CODE OF CONDUCT VIOLATIONS**]

Alalay Sa Kaunlaran, Inc. (ASKI), a Filipino MFI, believes that ethical staff behavior is a critical component of both good customer service and human resources management. ASKI implements their written "Code of Conduct and Discipline" through staff training, staff performance reviews, client satisfaction surveys, and the ASKI Values Protocol—an established process for addressing staff violations of the Code.

The Values Protocol establishes clear steps for handling staff violations:

1. The case is documented by the employee's immediate supervisor or auditor.
2. This documentation is presented to the employee's manager for review, if appropriate. If it is not appropriate to involve the immediate supervisor, the case is reviewed at a higher level, to ensure an objective assessment.
3. The Internal Audit Team conducts and documents an initial investigation, and it presents the findings to an Ethics Committee, which is led by the Human Resources department.
4. The Ethics Committee reviews the case and selects an appropriate sanction using the Code of Conduct and Discipline Manual as reference. Sanctions depend on the gravity of the offense.
5. Senior management follows up on the case to make sure appropriate steps were taken to resolve the issue.
6. The outcomes are documented by the immediate supervisor (unless implicated, this is the Branch Manager) and presented to the Ethics Committee. If the committee is satisfied with the outcomes, they declare the case closed.

An employee who receives any disciplinary action is ineligible for promotion for one year. Of course, more serious offenses may result in employee probation or termination. On the other hand, positive feedback is reflected in the employee's performance evaluation. The regular staff performance appraisal report includes an item relating to staff policy compliance. ASKI also recognizes outstanding staff members and uses compliance on Code of Ethics policies as indicator for this award.

> ### BOX 17. **EXAMPLES OF DISCRIMINATORY POLICIES AND STAFF BEHAVIORS**
>
> Discrimination may be institutionalized through policies, through "unofficial" but widespread practice, or it may be perpetrated by individual representatives of the FSP, even when institutional policies do not support their behavior. Examples include:
>
> - The FSP fails to provide sufficient guidance to employees on appropriate and inappropriate treatment of clients and potential clients.
> - The FSP fails to investigate and/or sanction cases of known discrimination by employees.
> - Women must have the approval of a husband or male relative to take a loan, while men do not require such approval.
> - People with disabilities cannot physically access the FSP due to the design of the building.
> - The FSP denies loan requests from people living in Muslim neighborhoods.
> - Pregnant women are routinely turned away from business loans.
> - Application forms ask applicants to state their political affiliation, thereby allowing credit officers to use this information during the loan approval process.
> - A cashier refuses to touch money handed to her by a Hindu client.
> - A credit officer denies a loan to a person in a wheelchair, assuming she will not be able to use the loan productively.
> - An employee makes disparaging comments about a client's skin color.
> - A credit officer refuses to shake the hand of homosexual client.
>
> - The Smart Campaign's *Responsible Treatment of Clients: Practicing Non-discrimination* is a short document that provides more detail on how to practice non-discrimination at your institution. Also available in Spanish and French.
> - The Smart Campaign also offers an example non-discrimination policy summary from Fundación Paraguaya. Also available in Spanish.

4C.3 DEBT COLLECTIONS PRACTICES ARE FAIR AND RESPECTFUL

It can be a challenge to convince employees to treat clients with fairness and respect during collections. That is why it is important to specify the standards of conduct expected of employees (including third-party staff, if collections are outsourced).

Specify acceptable and unacceptable behavior

In your credit manual, provide a detailed description of what is acceptable and unacceptable behavior and the steps to follow in the case of default, including the timeline (i.e., after how many days you will take action and what those actions are), and train staff on the policies. In addition to spelling out processes and identifying prohibited treatment, the training should include skills such as negotiating techniques, understanding customers, managing tensions, and reaching amicable agreements.

Put in place rescheduling and write-off policies

Include in your collections policy guidelines for rescheduling[101] or writing off loans. The policy should specify that rescheduling and write-offs should only happen on an exceptional basis, and not as a routine reaction to delinquency. List cases of specific client distress that would call for rescheduling or refinancing (e.g., natural or man-made disaster; major hospitalization, etc.) and those that would call for write off. As a further protection against overindebtedness and abuse, assess client willingness to repay as part of the loan recovery process and require that rescheduling/write-offs are authorized by a higher ranked employee than the one proposing the rescheduling, refinancing, or write-off. Box 18 presents an example rescheduling policy, based on the policy used by FUBODE (Bolivia).

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[101] **Rescheduled loans** are loans whose term has been modified to permit a new repayment schedule, to either lengthen or postpone the originally scheduled installments, or to substantially alter the original loan terms, such as loan amount. The term "rescheduled loans" also usually comprises refinanced loans, which are loans that have been disbursed to enable repayment of prior loans for which the client was unable to pay the scheduled installments.

BOX 18. SAMPLE RESCHEDULING POLICY

Rescheduling can only be considered for special cases in which the client has fallen into arrears or their payment capacity has been compromised due to factors out of the client's control. The client must demonstrate willingness to pay. Under no circumstances may a client have more than three loans rescheduled.

- Clients are eligible for loan rescheduling only in the following cases:
- Theft of key tool machinery or equipment used in the client's business
- Serious illness or death of the principal client's spouse or children
- Natural disasters involving significant loss to the client's business

In all cases, the client's payment capacity and willingness must be assessed by the following means:

- Complete repayment capacity analysis
- Home and business visit
- Payment history check
- Verification of guarantor outstanding debts
- Verification of collateral, where appropriate

Read the full policy here.

Put collateral policies in place

Abuse is more common during collateral seizure, but even delinquent clients have the right to fair and respectful treatment. Your collateral seizing policy should specify when and under what conditions seizing is appropriate. It should require that staff exhaust other options before moving on to collateral seizure and that they follow local laws (e.g., obtaining a court order). The policy should also prohibit staff from forcing clients to sell their own collateral to pay off their debt, as well as the practice of clients selling collateral to staff, agents, or anyone affiliated with your organization. If value of the seized collateral exceeds what the client owes your institution (the outstanding principal + accrued interest up to 180 days + any penalty fees and legal costs), return the difference to the client. Finally, if it is your institution's practice to keep collateral on the premises (e.g., at a branch office), it must be kept in a locked room or secure area, and the location should be noted in the client's contract.

It is important to make clients aware of collateral seizure processes before they take a loan. Doing so not only increases transparency for the client, but also creates greater accountability among staff, who will be aware that clients know their rights. If seizure becomes absolutely necessary, it must be preceded by informing the client and allowing the client to attempt to remedy the default. This policy applies to group and individual loans. In all client default scenarios, staff should not take any significant actions against the client—for example, collateral seizure—before taking the time to understand why the client has defaulted and discussing solutions for repayment.

- The Smart Campaign's Collections Guidelines for Financial Service Providers is a checklist for FSPs to assess their collections policies and practices, with the goal of strengthening client protection during the collections process. The tool addresses collections policies, practices, manuals, and training of field staff. Also available in Spanish and French.
- Accion's *Best Practices in Collections Policies* provides guidelines and case examples on effective and respectful collections. Also available in Spanish and French.
- The Smart Campaign's *Treating Clients with Respect at Fundación Mundo Mujer Popayán* is a case study of one Colombian institution that established clear guidelines on collections and loan restructuring. Also available in Spanish.
- CERISE's Training tool on fair and respectful treatment of clients during the collections process is a PowerPoint presentation that you can use to train collections staff.
- Swadhaar FinServe (India) uses a Code of Conduct for collections, as well as Collections Practices for Group loans, to hold staff and group members accountable for appropriate collections practices. Also available in French.

FIELD EXAMPLE 42. **FINCOMÚN INTRODUCES A "COLLECTIONS WITH DIGNITY" POLICY**

FinComún's (Mexico) "Collections with Dignity" policy was successful in reducing the client default rate by 7% over one year and in improving the FSP's reputation among clients.

"Collections with Dignity" de-emphasizes collections alone, and it instead promotes listening to clients and discussing repayment solutions. The policy includes several important features:

- It prohibits abusive or coercive collections practices and delineates sanctions for misconduct. Internal Audit checks compliance with the FSP's Code of Conduct and credit manual.
- It prohibits the use of third-party collections agents and requires that loan officers or recovery specialists employed by FinComún carry out all collections activities.
- It requires that collections staff meet several times with delinquent clients, to look for repayment solutions and maintain the client's trust. Staff are encouraged to refer to clients as "clients with late loans" instead of "delinquent clients" in order to avoid the negative connotations and disdain associated with this word.

Clients are asked to participate in satisfaction surveys, during which they are asked about their experience during the collections process.

In addition to reducing the client default rate, the policy has encouraged more delinquent clients to maintain their relationship with FinComún, such that each month, the collections department returns over 1,000 accounts to the commercial department, each representing a customer who has re-established their good standing with the institution.

Read more on this example from the Smart Campaign. Also available in Spanish.

It is not uncommon for providers to use third-party agents to help in loan collections. In these relationships, the provider is ultimately responsible for the agent's behavior. If your institution uses third-party collections agents, they should be held to the same standards of conduct as your institution's staff. You are not responsible for training third parties, but you must verify that they receive training on fair and respectful recovery practices. In addition, your Internal Audit should verify a sample of clients delegated to third-party agents to ensure compliance.

FIELD EXAMPLE 43. **SWADHAAR FINSERVE PVT., LTD. CODE INCLUDES COLLECTIONS PROCEDURES**

Swadhaar (India) uses a "Code of Conduct for Collections" that provides collections staff with specific guidelines and procedures for treating clients with dignity during the loan collection process. The Code details the hours that are appropriate for contacting clients ("between 7:00 am and 7:00 pm"); how employees should communicate ("All written and verbal communication with its borrowers will be in simple local language"); how client privacy is to be respected and how clients are to be treated ("Swadhaar will not resort to intimidation or harassment of any kind, either verbal or physical, against any person in their debt collection efforts, including acts intended to humiliate publicly or intrude the privacy of the client's family members and friends, making threatening and anonymous calls or making false and misleading representations").

Learn more about this field example here.

4C.4 PREVENT AND DETECT FRAUD

Though staff may perpetrate fraud at any given time, pay particular attention to the savings and money transfer processes. For example, staff collecting cash savings deposits must give clients transaction receipts to guard against staff pocketing the deposit.

During the money transfer process, sometimes a transaction fails. For example, the mobile network connection might drop, there could be a be an integration gap among multiple platforms, or clients might be unable to access mobile wallets due to technical problems or user error. Some of these problems lead to risky client behaviors such as leaving cash, personal ID numbers, or mobile phones with an agent to complete a transaction when the networks returns.

Establish a process for managing these situations so that fraud does not occur. Ensure that funds that are "stuck" between the sender and the recipient's account are returned to the sender with a notification of the problem. A typical policy is that if the funds cannot remit within 24 hours, the transaction is canceled and the client is notified. Similarly, if an electronic transaction is made to the incorrect account (whether the fault lies with the client or the agent), be sure to have a way to correct the problem. For example, Tigo Ghana (Bancolombia) and WFP (Kenya) have customer hotlines for staff and agents to call for resolution to their issues.

4C.5 CAREFULLY OVERSEE STAFF BEHAVIOR

Essential Practices 4C.1 to 4C.4 describe many concrete policies and processes for treating clients fairly and respectfully. Management oversight is the key to enforcing the policies that you put in place. Internal Audit should verify the uniform application of the policies described above. Internal Audit can use techniques such as the following:

- Checking staff understanding of the Code, for example, through random tests administered to different types of employees (e.g., various tenures, various geographic locations).
- Conducting business/household visits and client interviews on a representative sample of clients each year. Check that clients understand their rights, including the right to respectful treatment from employees, and the right to complain.
- Interviewing exiting clients to investigate reasons for leaving the institution (e.g., inappropriate products, employee behavior, difficulties meeting loan obligations).
- Verifying that employees comply with institutional policies on rescheduling/refinancing loans using client visits and loan files.
- Examining data on insurance claim processing, including promptness of claim settlement, and a sample of claims rejections.
- Examining a case of disrespect toward clients—including client and staff interviews—to determine breakdowns in policies and procedures.

Management should use audit results, as well as client satisfaction data[102] and complaints data[103] to get a complete picture of how clients are being treated. Together, this information provides invaluable insight into how your clients experience your staff and whether that experience is positive or negative. Act quickly to tackle any problems with client mistreatment. Disrespect toward clients can all too easily become part of the culture of your organization, and there is no better way to gain a poor reputation in your market. Conversely, staff and institutional policies that respect clients will stand out as one of the primary benefits of doing business with your institution.

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[102] Essential Practice 3a.2
[103] Standard 4e

VF AzerCredit (Azerbaijan)[104] audits each of their branches annually, and they include compliance with the FSP's Code of Ethics in their checks. The audit report goes to senior management, and a more succinct report is sent to the Board Audit Committee. When an issue of grave risk arises, the matter is discussed at the board level. VFAzerCredit estimates that of the approximately 2,000 issues of concern identified each year through the auditing process, around 300 relate to the Code of Ethics, and of those, between two and four will be serious enough to bring to the attention of the board.

4C.6 PROCESS INSURANCE CLAIMS FAIRLY

In order for clients to benefit from insurance, their claims must be settled quickly. One month is the maximum amount of time that your institution should take to settle claims, almost without exception. Some clients need the benefit proceeds right away in order to deal with an emergency situation resulting from the event that triggered the claim, and if claims payment is too slow, they may be forced to sell off their productive assets or borrow from another source. Untimely claims payment diminishes the value of the microinsurance service, and in some cases it may even aggravate the client's condition; the client may have been able to cope in an alternative way had s/he known beforehand the length of time that it would take to receive the benefits.[105]

CARD MBA (Philippines), the insurance arm of CARD Bank, has a "1-3-5 day" claim settlement policy for life insurance. The claim for indemnity must be settled within *24 hours* upon notification if the deceased person's body is not yet buried at the time of validation. The claim for indemnity must be settled within *three days* upon notification and with complete documents if the body is already buried at the time

of validation. Complex claims—for example, when it is difficult to obtain a death certificate or other proof of death—will be given action with finality within *five days* upon notification.[106] These prompt settlement times allow the family of the deceased to use the insurance payout for funeral and other immediate expenses.

Microinsurance Network's *Social Performance Indicators for Microinsurance* (2015)[107] establishes the "promptness of claims settlement" indicator as a way to measure the time elapsed between when an insured incident occurs and when the beneficiary receives his/her payment. It provides an analytical breakdown of service times taken to report and process a set of claims. The indicator is defined in terms of a schedule like the one presented in Table 26. The schedule more accurately describes the claims payment pattern as this type of information is lost in a simple arithmetic average.

TABLE 26. **HOW TO CALCULATE PROMPTNESS OF CLAIMS**

Interval	Number of Claims	% of Total Claims
0 to 7 days	_____	_____%
8 to 30 days	_____	_____%
31 to 90 days	_____	_____%
More than 90 days	_____	_____%
	Total_____	**100%**

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[104] *VF AzerCredit's Code of Ethics: Putting Values into Practice* describes how the FSP developed and monitors their Code of Ethics. The FSP's full Code of Ethics applies to all employees and the Board of Directors, and it details the FSP's expectations for ethical conduct when dealing with clients and other employees.
[105] *Social Performance Indicators for Microinsurance Handbook*, page 20.

[106] *Ibid* page 21
[107] *The Social Performance Indicators for Microinsurance Handbook* is available here.

Notify the claimant when your institution receives his/her claim, and again when the claim is settled. In the case that the claim is denied, give notice of the denial and provide a reason. Also provide a way for the client to correct any deficiency with the claim. For example, if the claim was denied because the client did not provide proper documentation, the client should be given a chance to fix his/her mistake. Again, clients will benefit from a short turnaround time between making the claim and receiving a rejection notification—aim to respond to the client within one month or less if possible.

- The Smart Campaign's *Smart Microinsurance* tool outlines key client protection guidelines for every phase of the microinsurance delivery process, from product design to responding to claims. Also available in Spanish and French.
- Microinsurance Network's *Social Performance Indicators for Microinsurance Handbook* defines and describes the "promptness of claims settlement ratio" along with many other measures of responsible microinsurance delivery.

Standard 4D

Privacy of Client Data

The privacy of individual client data will be respected in accordance with the laws and regulations of individual jurisdictions. Such data will only be used for the purposes specified at the time the information is collected or as permitted by law, unless otherwise agreed with the client.

> Essential Practice 4D.1 Client data is kept secure and confidential. (Client Protection standard 6.1.0)

> Essential Practice 4D.2 Clients are informed about data privacy and consent to the use of their data. (Client Protection standard 6.2.0)

4D.1 IMPLEMENT A PRIVACY POLICY AND APPROPRIATE TECHNOLOGY

Your clients share very important personal and financial information with your organization, and you have a responsibility to protect the privacy and confidentiality of this data. Misuse of data such as client photographs, account numbers, and personal identification documents can have devastating effects on clients.

Regardless of national regulation, your institution should have a written privacy policy and procedures that govern the gathering, processing, use, distribution, and storage of client information.[108] The policy should cover current employees and also those who leave the organization. Specify sanctions or penalties in the event that employees violate the privacy policy—for example by misusing or misappropriating client data, leaking information, or exposing client data to third parties without client consent.

If you work with third-party providers that have access to client data—for example, insurance providers, payments agents, marketing firms—your contract with these providers should specify that they will maintain the security and confidentiality of client data. Monitor whether third-party contractors are honoring their commitment to data confidentiality, for example by inquiring about the security of their systems, interviewing clients about their experiences regarding data security (e.g., "Did the agent ask you to sign this privacy agreement?"), and testing the provider's process through mystery shopping.

Staff who leave your institution no longer have many incentives to protect client data. Establish a process to safeguard data from misuse by former employees. Such measures may include terminating the employee's login credentials, collecting all work equipment (laptop, building keys, etc.), wiping (erasing the information from) the employee's own devices (e.g., mobile phone) of company data, and other security precautions that apply in your context.

Your IT systems are also vulnerable to misuse. Put in place security measures to protect against unauthorized access to data—including passwords, different levels of access for different staff, and adequate software infrastructure. Change IT passwords periodically, and allow different access to data according to the position of the staff member accessing the data. Additionally, back up your systems daily, with back-ups stored securely off-site.

FUBODE (Bolivia) has a specific room assigned within each branch to store clients' physical documents. Each of these rooms has smoke detectors, professional cameras, motion sensors, and fire-resistant lateral cabinets to store clients' physical documents. The room restricts access to only one staff member per branch. Additionally, the FSP invested an average of US $3,500 per branch to install in each branch surveillance cameras and a panic button for each cashier as well as an alarm system monitored by a third-party central office.[109]

Whether computerized or not, your information systems should ensure the security and privacy of client data. Restrict employees from taking home client files or copies of the databases, and keep records of the names of staff who request and/or are granted permission to access client files outside of normal conditions (e.g., after working hours). Keep hard-copy client files in a secure place, with controlled access. For example, FinDev's (Azerbaijan) policy on data security[110] states: "Loan contracts and copies of all other official documents regarding the client's loan file are kept in iron cases in the room of finance manager. Other documents are kept in locked bookcases under supervision of respective loan officer."

Plan for how to keep data safe in case of unplanned network downtime or emergency. A business continuity plan that covers several of the most likely scenarios—such as a security breach, network overload and slow down, or

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[108] The policy should define what client data is covered; who in the institution is ultimately responsible for ensuring client data privacy; what type of data can be obtained, by whom, from where, and what for; and any legal and regulatory requirements for collecting, sharing, and using information.

[109] Find more information on this field example in the Smart Campaign's Study of Client Protection in Latin America and the Caribbean.

[110] Excerpts from FinDev's policy can be found here.

a natural disaster that shuts down power and connectivity—will help keep information safe during unexpected events when data becomes vulnerable.

Finally, all product contracts should include a privacy clause that specifies how data will be used and protected. This clause should be included in plain language and prominently displayed in the contract—for example, do not hide it in small print. For savings products, it should be clear who has access to the client's account; for credit products, clients should know whether their information will be shared with a credit bureau, or others, such as insurance companies or collections agents.

- The Smart Campaign's *Training Tool on Data Privacy* contains several mini case studies on how client data can be mismanaged, and how to avoid these situations.
- FINCA Azerbaijan's case study on client data protection details the security measures used to safeguard client information, including database access restrictions and strict procedures for storing physical files.
- FinAmérica gives clients a pocket-sized brochure with tips about how to protect one's security and prevent identity theft, robberies, and other possible threats to the privacy of their personal information. Also available in Spanish and French.

FIELD EXAMPLE 44. **SKS AND EQUITAS PROTECT CLIENT DATA**[111]

SKS (India) has a written policy on sharing client information with external parties. It clearly categorizes types of information into "confidentiality critical" and "confidentiality sensitive" and lays down the process for handling each category—with greater protections for data in the "confidentiality critical" category. The FSP also has a policy on privacy of client data which is applicable to all employees. The policy states that SKS does not share client data with anyone except regulatory authorities like the Reserve Bank of India, credit bureaus, self-regulatory organizations, courts, and government agencies for the purposes of meeting compliance requirements. SKS ensures that its contracts with service providers and non-disclosure agreements are comprehensive and cover client confidentiality of information prudently.

Equitas (India) was the first MFI in India to have a core banking solution, TEMENOS-T24. This product is an extension of T24 Banking software, developed specifically for microfinance and the community banking sector. Client information is highly secured and well protected in TEMENOS, with defined user access and passwords. All back office employees are trained in the usage of this system. Branch staff do not have access to client data, except what is necessary to handle collections through the collection sheets. Equitas has a distinct client filing system and safe storage of the client information files. Soft copies of client files are stored in the software while hard copies of client files and loan documents are coded, stacked, and kept secured at a data warehouse in Chennai. Equitas invests regularly in IT audit and maintenance to review client security.

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[111] Find more information on this field example in the Smart Campaign's Implementing Client Protection in Indian Microfinance here.

4D.2 INFORM CLIENTS AND GET CONSENT BEFORE SHARING DATA

In addition to having secure internal systems for keeping client data safe, your institution must be completely transparent with clients about how their personal information will be used, and you must get their consent before sharing their data outside your institution. Your product contracts should have a clear explanation of how client data will be protected, how it might be used or shared, and with whom.

Starting at the time of the application, obtain client consent *before* sharing personal information with any external audience, including credit bureaus, family members, guarantors, insurance agents, collections companies, and marketing material (e.g., your annual reports, website), or other public content. If applicable, require that clients name one beneficiary for their life insurance policy, so that the institution can safeguard the clients' account from all other people who have not been named as the beneficiary. See Box 19 for a sample client data sharing consent form.

In order to inform your clients on data privacy, first make sure that your staff are well trained on the subject. Client data privacy should be part of staff induction training. The training will vary based on the employee's position; ensure that field staff understand and can explain the data sharing consent portion of the client contract. Similarly, train client group leaders on the importance of safeguarding sensitive group member information, particularly saving account balances, dates of loan disbursement, and information on repayment problems.

When talking to clients, emphasize the clients' own responsibilities for keeping data private, such as storing records in a secure location and not sharing personal identification numbers (PINs). Finamérica (Colombia) publishes a brochure for clients[112] with tips for information security, including: avoiding bank employee impersonators, avoiding robbery, keeping debit cards secure, protecting personal information, and how to contact the bank if a security problem is detected.

Finally, verify that third-party providers train their own representatives on data privacy procedures.

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[112] Also available in Spanish and French.

$$\Big[\quad \text{BOX 19. } \textbf{SAMPLE CONSENT FORM FOR SHARING CLIENT DATA} \quad \Big]$$

In addition to having a consent form like the one below, product contracts should contain a longer data privacy agreement. A sample agreement is available in the Smart Campaign Tool, *Essential Documents for New Clients* (see section "Sample Data Privacy Agreement").

MacroDreams respects the privacy and security of client data. This consent form will allow MacroDreams to use your photo for public purposes, and/or share your personal and financial information with third parties.

Instructions: Please read the following two statements and sign the line below each.

Statement 1. Sharing your photo

I authorize MacroDreams to use and publish my name, image, interview statement and/or information identifying myself and my business. This can be done in the form of printed or electronic photographs, video, recorded statements, publications, advertising, illustrations, presentations or other printed, digital or electronic media activities, such as the internet. I understand that I will not have any right to compensation in connection with the above granted rights.

Your signature: By signing on the line below, you acknowledge that you understand the statement above.

_____   _____   _____

Client name (print)   Client signature   Date

_____   _____

MacroDreams employee signature   Date

Statement 2. Sharing your personal and financial information

I authorize MacroDreams to share my personal and financial information with the National Credit Bureau; the National Microfinance Network; third-party service providers, including the Protecta Insurance Company; collections agencies (in case of serious default); and members of my group (if applicable). I understand that MacroDreams will make every effort to keep my data secure, as outlined in the MacroDreams Data Privacy Statement.

Your signature: By signing on the line below, you acknowledge that you understand the statement above.

_____   _____   _____

Client name (print)   Client signature   Date

_____   _____

MacroDreams employee signature   Date

BOX 20. **HOW UNAUTHORIZED DATA SHARING CAN HURT YOUR INSTITUTION**

The following story[113] of a fictional FSP is based on real experiences from several Indian providers.

Parivartan is a well-established FSP in southern India that regularly publishes client "success stories"—short profiles of clients who have used financial services to improve their lives. One such profile told the story of a client named Shubham, a restaurant owner in his third loan cycle.

Parivartan wanted to showcase Mr. Shubham's success story, and therefore it took some pictures of the client and his restaurant, and published these in their product brochure, annual report, and on their website. The FSP did not seek the client's verbal or written approval before using his picture for promoting the institution, but this did not bother Mr. Shubham, who proudly displayed the materials in his restaurant.

One day many months later, one of Mr. Shubham's regular customers—a lawyer—visited the restaurant. Seeing the promotional materials, he casually inquired about whether Parivartan had compensated Mr. Shubham for his role in promoting the FSP. Mr. Shubham replied that not only had he not received any payment, but he had been surprised to see his picture on the materials. He had not been consulted and had assumed that the photos taken by his loan officer were strictly for the purposes of the loan application. The lawyer was shocked to hear Mr. Shubham's story and sensed an opportunity to sue Parivartan on the basis that the FSP had used the photos for commercial gains without any written communication and consent.

Though Mr. Shubham did not go through with the lawsuit, he did confront his loan officer about why he had not been consulted and compensated. The loan officer raised the issue with his branch manager, who escalated the issue to senior managers. Management soon realized that they had narrowly escaped a costly legal battle and decided to create a policy on obtaining client consent before using client photos in any public format. They added a simple policy to the Parivartan credit manual and supplied loan officers with a client consent form. Loan officers also received training on how to communicate with clients about the use of their photos and to use the consent form.

- The Smart Campaign's *Smart Operations* tool details the roles and responsibilities for different operational areas—Executive Management, ICT, and Legal—in creating a data privacy policy and enforcing it. Also available in Spanish and French.
- FINCA Azerbaijan's case study on client data protection details the security measures used to safeguard client information, including training staff on security procedures, and getting client consent before sharing data.

[113] Adapted from the Smart Campaign's Training Tool on Data Privacy, page 3.

[FIELD EXAMPLE 45. **CAJA MORELIA VALLADOLID PROTECTS CLIENT DATA**]

Upon transformation from a cooperative to a regulated financial institution, Caja Morelia (Mexico) was required to meet Mexican federal data management and reporting requirements. This period of transformation provided the FSP with the motivation to strengthen its Information Communications Technology (ICT) system.

Caja Morelia's upgraded its system to include the following features:

- A single, "master" electronic database has remote access for branch offices. Each branch can modify client data for its own portfolio but cannot download the master database. Staff at headquarters can access the entire database but cannot change client profiles. This both prevents version control problems and ensures that employees only have access to the minimum client data needed to perform their duties.
- Each person who accesses the database uses an individual username and password. Users must change their passwords every four months and cannot repeat previous passwords. When an employee logs into the database, their name, the information they query, and the time when the request is made are all recorded in a query log.
- Headquarters employees enter and leave the main office using a thumbprint scanner and sign-in process to prevent unauthorized access to the client information stored there.
- Changes to client information must be authorized by two or more people, often from different departments. This prevents misuse of data by any one person.
- Each of the FSP's computers is configured to access the system for only one department (e.g., a computer configured for HR cannot be used by Accounting). This helps prevent access to data by unauthorized employees.
- During the collections process, only the collections agent, branch manager, and headquarters Collections Department have access to the personal information for clients with overdue loans. When the bank uses a specialized external collections firm, it shares only the few pieces of information that are most necessary for the firm to recover the loan.

To enforce the above changes, Caja Morelia requires employees to sign client data confidentiality agreements. In-house software developers also sign contracts to protect the proprietary nature of the software. The FSP has the right to bring criminal charges for violations of these agreements.

Read more on this example from the Smart Campaign. Also available in Spanish.

Standard 4E

Mechanisms for Complaint Resolution

Providers have in place timely and responsive mechanisms for complaints and problem resolution for their clients and use these mechanisms both to resolve individual problems and to improve their products and services.

> **Essential Practice 4E.1** The provider has an effective system in place to receive and resolve client complaints. (Client Protection standard 7.1.0)

> **Essential Practice 4E.2** The provider informs clients about their right to complain and how to submit a complaint. (Client Protection standard 7.2.0)

> **Essential Practice 4E.3** The provider uses information from complaints to manage operations and improve product and service quality. (Client Protection standard 7.3.0)

4E.1 RECEIVE AND RESOLVE CLIENT COMPLAINTS

Your institution should have a complaints system that allows clients to raise issues, make complaints, and ask questions. An effective mechanism allows for a timely response to clients, and it enables your institution to address both individual and systematic problems. A complaints mechanism empowers clients to deal with questions and problems, making it more likely that they will be informed, confident consumers. It also gives your institution the opportunity to resolve questions and complaints before they interfere with client loyalty and retention. Many issues are fairly simple to resolve—for example, questions about insurance benefits or complaints about a nonresponsive ATM—and are not worth losing clients. Responsiveness on your part also makes it less likely that dissatisfied clients hurt your reputation in the market.

Use a mechanism that allows clients to circumvent the person who is managing their product. For example, a borrower should be able to bypass loan staff and complain to a customer service representative, and a client sending payments should not have to complain to the sending agent, but have the option of calling a help line. This measure protects clients from retaliation or mishandling of the complaint. Most clients would rather suffer in silence than risk losing access to products and services.

The mechanism(s) your institution puts in place should be adapted to clients needs and preferences, and it should be easily accessible for the majority of clients. Usually, this means that you provide both a cost-free number that clients can call, as well as in-person customer service representatives. Many providers use suggestions boxes as their primary or sole complaints mechanism. However, suggestion boxes are insufficient. Illiterate clients cannot write suggestions/complaints, and making a complaint in writing presents the added burden of travel to the branch. Offer clients a mechanism that is convenient, appropriate for illiterate clients, and allows your institution to respond in a timely way. For example, use branch suggestion boxes, but also offer a complaints hotline, and make regular visits to client centers or businesses to inquire about complaints and problems.

Whatever mechanism(s) your institution chooses, you should put in place a specific complaints policy that includes the following elements:

- **Resolution procedures:** Define how to manage and resolve complaints, including what types of complaints can be handled by the person receiving the complaint (loan officer, branch manager), and what types should be referred to designated complaints personnel.

- **Reporting system:** The system should ensure that employees register all complaints—for example, by using a numbered register or tracking in a database that allows your institution to follow the case through to resolution, and to analyze complaints in aggregate.

- **Communication with agents:** If your clients have complaints about a third-party provider or agent (e.g., external collections agency), clients should be able to complain directly to the third party OR to you. Ask the external provider for access to client complaints made by clients of your institution. Clients see third-party providers and agents as an extension of your organization, so it is important that you know about client complaints against these organizations.

- **Defined timelines:** Respond quickly to client complaints, within no more than a month of submission for serious/complicated cases. Resolution time should be based on the severity of the complaint. Many issues can be resolved on the same day they are raised. These issues include the "frequent questions/complaints" that all employees are authorized to handle. Others

will require follow-up and investigation, such as accusations against an employee or problems using a product or service. Create a timeline for complaints resolution, including realistic but responsive timeframes for dealing with different types of issues.

Your institution's complaints "system" refers to the process of recording a complaint in a database, recording the resolution process, and analyzing the database of complaints for trends and institution-wide issues. This system should be as automatic as possible. For example, each complaint is recorded in an internal database and is automatically assigned a reference number. Additional database entries are recorded when that complaint is "in process" (e.g., being reviewed by an Ethics Committee), and when it is resolved. The database should allow your institution to easily aggregate complaints and analyze them by type (e.g., loan questions, employee misconduct), location, and other relevant factors. Ideally, the database will also generate reports on complaints trends.

- The Smart Campaign's tool *How to Design a Complaints Mechanism* provides a list of different complaints mechanisms, and analyzes the pros and cons of each. Also available in French.
- FINCA Azerbaijan explains their complaints mechanism and its benefits for the FSP in a recorded webinar and accompanying PowerPoint presentation.

Inform clients on their right to complain

Inform clients of their right to complain, and explain to them how to use the complaints mechanism(s). Provide a verbal explanation during the product application process—for example, at the time of the application interview, orientation sessions, and/or disbursement. At the same time, prominently display written information on how to submit a complaint in branch offices (posters, brochures) and/or in product documentation. For example, Equitas (India) prints on each client passbook phone numbers for the following people/agencies: Equitas' CEO's office, Equitas' internal ombudsman, and the national regulator.

Make sure clients know how to bypass a particular staff member, especially their loan officer, to make a complaint—particularly if the complaint is related to that person. Also, inform clients about complaints mechanisms available outside of your institution, for example national networks, local ombudsman, or a self-regulatory organization such as a consumer protection organization.

Your complaints system should make it possible for staff to inform clients when a complaint is resolved, and to stay in touch along the way if the resolution process requires client involvement or is taking a long time. Clients should also be able to follow up on their complaint if they have a question during the resolution process.

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BOX 21. **RESEARCH INDICATES THAT CLIENTS ARE NOT INFORMED ON COMPLAINTS MECHANISMS**

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The Smart Campaign's research in four countries—Benin, Georgia, Peru, and Pakistan—shows that the vast majority of client respondents were not told how to address problems or complaints. In Benin, only 14% of respondents recall being told whom to consult in case a problem arose. Even in Peru and Georgia, which are known for having strong microfinance and consumer protection regulatory environments, only 25% and 38% of clients, respectively, recall being told where or how to address concerns.

**Respondents that replied 'no'
to the question: "Did the provider inform you
where to complain?"**
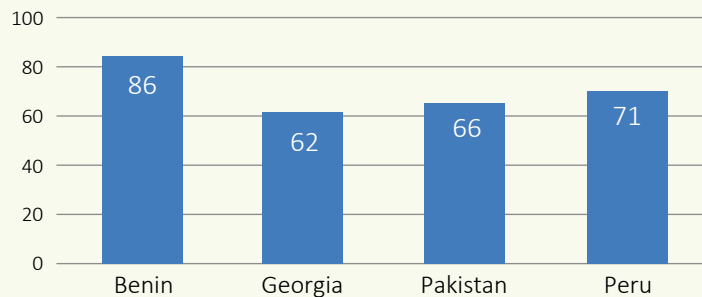
• The Smart Campaign's *Essential Documents for New Clients* includes an example complaints information handout that shows how you could inform your clients about your complaints mechanism. Also available in Spanish and French.

Train employees

Provide training to your employees on how the complaints mechanism works. The training should cover how the complaints mechanism works, the role of complaints staff, how to appropriately manage complaints until they are resolved, and how to refer them to the appropriate person for investigation and resolution. While all employees should memorize the customer service hotline number, for example, many other aspects of the training should be position-specific, as complaints handling responsibilities vary dramatically across the organization. For example, loan officers may be responsible for informing clients about the mechanism during orientation training, referring clients to it during the loan cycle, and reminding clients about it during group meetings. The training (and your staff book of rules) should be very clear on the importance of using the mechanism correctly, and it should specify sanctions for staff that willfully fail to report a complaint. Table 27 provides examples of staff responsibilities for complaints resolution.

Verify that third parties (e.g., agent network managers) train their own representatives on how the complaints mechanism works, the role of complaints staff, how to appropriately manage complaints until they are resolved, and how to refer them to the appropriate person for investigation and resolution.

TABLE 27. **EXAMPLE STAFF RESPONSIBILITIES FOR COMPLAINTS RESOLUTION**

Staff position	Responsibilities for complaints resolution
Two staff designated to the complaints hotline (each at 50% time)	• Respond to complaints over the phone—answer questions and solve simple problems. • Record calls in the database; Contact the appropriate manager on more serious issues. • Update the database when a complaint is resolved.
All area branch managers (each at 10% time)	• Respond to complaints appropriate for higher-level management. • Attend group meetings or visit individual clients at their business premises—both scheduled and impromptu visits—to check for and resolve client complaints. • Discuss complaints trends at management meetings. • Make operational/product improvements based on client feedback.
Customer service representatives at each branch (each at 25% time)	• Respond to complaints in person—answer questions and solve simple issues. • Record complaints in the database. • Contact the appropriate manager for more serious issues. • Update the database when a complaint is resolved.

• FONDESURCO's (Peru) *Complaints Handling Manual* describes the complaints process and which staff are responsible for each part of the process. Also available in Spanish and French. Tamweelcom (Jordan) has a similar manual and complaint intake form. Also available in French.

• CGAP's *Making Recourse Work for Base-of-the-Pyramid Financial Consumers* explores ways for policy makers and FSPs to raise awareness and improve accessibility of recourse mechanisms and use recourse data to address systematic problems in low-income markets.

FIELD EXAMPLE 46. **YEHU MICROFINANCE SURVEYS CLIENTS ON WHICH MECHANISMS TO CREATE**

When choosing the mechanisms your institution will use to resolve client complaints, consider asking clients how they would prefer to communicate with the institution. During Yehu's (Kenya) complaints mechanism review and redesign process, the FSP held four focus groups with existing clients, asking them to discuss their experience with the current mechanism and their preferences for new mechanisms.

The FSP found that clients were overwhelmingly dissatisfied with the current mechanism (verbal complaints passed from clients to center chiefs to loan officers) and suggested that the FSP introduce the following list of client complaints mechanisms:

• Introduce a customer service desk in the head office and at each branch, with a dedicated line/queue and staff.
• Provide clients with branch managers' and credit officers' cell phone numbers.
• Conduct regular client training—both during client orientation and regularly—on how to complain and what to expect in response from the FSP.
• Introduce open meetings between clients and management during which clients can raise issues.
• Schedule regular visits between customer service representatives and clients, particularly during center meetings.
• Schedule regular visits between branch managers and clients—visits to center meetings and a sample of individual client businesses.

4E.2 USE CLIENT FEEDBACK TO IMPROVE PRACTICES AND PRODUCTS

While complaints often focus on dissatisfaction—about not being approved for a loan, for example—your system may uncover more serious issues like employee fraud, mistreatment of clients, or other unethical behavior. It is critical that you are able to correct mistakes, rectify omissions, and address activities that may be harmful to the clients.

In addition to responding to individual client issues, your institution should be able to aggregate, analyze, and report client complaints information. Your designated complaints personnel should evaluate overall trends to identify any systemic problems that go beyond individual grievances. Chronic or repeating issues may call for changes to operations, products, and/or communications in order to provide better service and rectify those areas that are frequent subjects of complaint. For example, recurring complaints about long lines in the branch may highlight the need to change the branch layout or open a new teller window. Regular complaints about being denied a loan in a particular branch may indicate the need to review how the field staff in that branch are conducting loan analysis or client targeting. Table 28 provides examples of how chronic complaints could provide direction for operational improvements.

Management should review complaints data on a regular basis. Complaints reports should describe the number of client complaints received in a time period and over time, the mechanisms used to receive complaints (e.g., 40 percent of complaints received through suggestion box and 60 percent by phone), and the issues raised by clients (e.g., interest rate complaints, confusion on savings product terms). See Box 22 for an example complaints analysis report. Look for potential operational and product-related issues that are systemic and/or consistent over time, and discuss possible improvements to your institution's operations and products.

Complaints data is a valuable form of market research. Your institution should certainly employ other methods of market research that inform product design and delivery, as questions/complaints are biased toward poorly performing clients

TABLE 28. EXAMPLE COMPLAINT TRENDS AND OPERATIONAL OR PRODUCT IMPROVEMENTS TO ADDRESS COMPLAINTS

Example complaint trend	Example operational or product improvement
Lengthy wait time to speak to a teller at branch offices	• Open an additional teller window at busy branches. • Use customer service desk to answer simple questions that do not require teller involvement. • Offer clients additional product information while they wait.
Clients are surprised by fees when making a savings withdrawal	• Improve staff training on how/when to disclose fee information. • Introduce transparent marketing materials with savings account information.
Clients want the same savings interest rate offered by commercial banks	• Design savings account with a higher interest rate, made sustainable by requiring a higher minimum balance and/or limits on withdrawal frequency.
Clients do not want to pay for mandatory insurance product because they do not benefit from it	• Inquire into the types of risks clients face, needs for insurance coverage, and desire to pay for coverage. • Make changes to insurance products and/or prices based on new understanding of clients' insurance needs.

and those with grievances against your institution. However, client questions can reveal operational issues such as gaps in field officer knowledge, and complaints can spur product design ideas such as a grace period for loyal clients. Such information, when analyzed and discussed by management, can also help your institution narrow the focus of additional market research.

FIELD EXAMPLE 47. **USING CLIENT FEEDBACK TO IMPROVE COMMUNICATION**

Banco Delta (Panama)[114] segmented their client complaints by tenure with the FSP, and they looked closely at the questions/complaints coming from clients who had fewer than six months with the FSP. The results show that clients were confused about key loan-related details that were *already* included in their contracts. In response, the FSP developed an easy-to-understand "rights and responsibilities" brochure, which contains the 11 most important facts about client loans. These brochures are given to every client at the point of sale, and they help to increase clients' understanding of their loans.

After a period of rapid growth, Contactar (Colombia)[115] realized that suggestion boxes were not sufficient for keeping up with client concerns. In addition to simple feedback forms and a toll-free customer service line, Contactar used existing staff to conduct focus groups, during which they asked clients how the FSP could serve them better. They held at least one focus group in each of their 23 offices to increase the representativeness of their sample. These results showed that clients were unaware of the existence of home improvement, educational, consumption, and environmental loans. The FSP since has developed a product marketing spreadsheet to assist its loan officers in their sales pitch to clients about services available.

• Fundación Delamjuer uses a complaints analysis spreadsheet to record and analyze client complaints. Also available in Spanish and French.

[114] This story was originally published in the Smart Campaign State of Practice Report *Study of Client Protection in Latin America and the Caribbean*.
[115] Ibid

BOX 22. **EXAMPLE COMPLAINTS ANALYSIS REPORT**

**Management Report—Complaints Analysis—Quarter 4 2017**
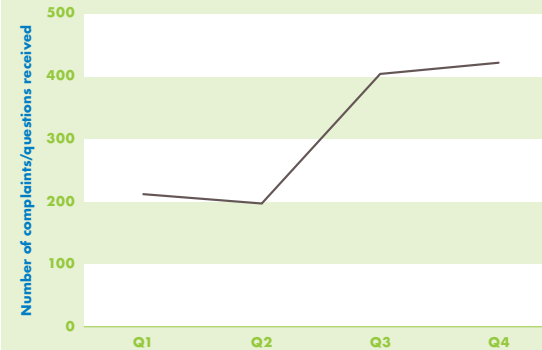
This graph demonstrates that our marketing campaign "We Are Listening!" was effective in increasing client awareness about the client complaints hotline.

Most common client complaints in Q4:

▸ Long wait times in branch offices
▸ Lack of time to ask questions during client orientation sessions
▸ Repayment problems related to national inflation in Q1 to Q4

These complaints are similar to those in Q3, suggesting possible management action on these items.

Channel Used by Clients to Complain

7% OTHER
11% DIRECTLY TO BRANCH MANAGER
19% CUSTOMER SERVICE DESK
63% HOTLINE
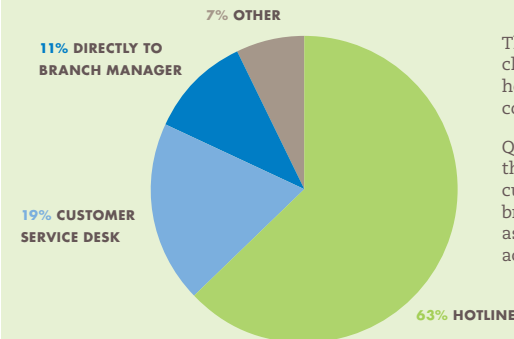
These results suggest that clients prefer to use the hotline to ask questions/complain.

Q3 client focus groups found that clients prefer to use customer service desks for branch-related issues such as disbursement delays and account opening questions.

Issue escalated to the Board Ethics Committee in Q4:

▸ Potential fraud case in Lewa Branch. **Status:** Investigation in progress.

This example comes from the Smart Campaign. See the full document here.

Finally, verify the effectiveness of the system on an ongoing basis. Internal Audit or some other controls team should conduct periodic checks to assess how many complaints are being registered—in order to test whether clients are using the system actively—and what actions were taken. It is helpful to investigate a sample of complaints, which would include follow-up with clients, to monitor not only whether the issue was resolved, and how quickly, but also whether the client was informed of the outcome.

BOX 23. ADVERTISE "QUESTIONS AND COMPLAINTS"

Attawfiq Micro-Finance (Morocco) uses the poster beside to help clients understand all the ways that they can contact the FSP with questions or complaints. The poster heading reads: "In order to improve our services, send complaints or suggestions in the following ways." Each of the icons includes a short description—from left to right, they read: "the phone; the post (the full address is provided); E-mail; Fax."

The Smart Campaign's tool *How to Design a Complaints Mechanism* details how FSPs can design and use effective complaints mechanisms.

التوفيق للتمويل الأصغر

من اجل تحسين خدماتنا المرجو إرسال شكاياتكم او اقتراحاتكم عبر:

العنوان البريدي :
التوفيق للتمويل الأصغر
مصلحة الشكايات
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البريد الالكتروني :
reclamation@fbpmc.ma

الهاتف :
0800 000 114

شكاية

الفاكس :
0522 434 939

FIELD EXAMPLE 48. **TAMEER BANK CREATES A CLIENT COMPLAINTS MECHANISM**

A client delinquency crisis forced Tameer Bank (Pakistan) to reevaluate its credit policies and procedures. As part of this process, Tameer realized that they needed to offer their clients better ways to communicate directly with the FSP. The bank wanted to strengthen their relationships with clients, better understand client needs, and respond quickly to client problems.

In line with these goals, Tameer established the Customer Services Unit (CSU). Among other responsibilities, the CSU was responsible for monitoring and addressing client complaints. The CSU accepts client complaints using a specific phone line and a dedicated staff to answer client calls.

When the CSU receives a call, an employee logs the details in a complaint-tracking database. If the complaint or inquiry is simple, it is resolved immediately, over the phone. Otherwise, the CSU contacts the appropriate bank department or branch office. For example, if a client complains about receiving the wrong loan amount, the CSU contacts the client's branch with the issue, and requests that the branch follow up with the client directly.

In the majority of cases, Tameer contacts the client within 24 hours of the initial complaint. If the bank needs to investigate further, they contact the client and inform him/her of the process and the expected date that they will provide a response.

Tameer actually receives more questions than complaints. Typical questions include topics such as interest rates, monthly repayment amounts, and other credit terms. By providing answers to these questions, the CSU keeps clients informed and also increases client satisfaction and understanding.

Finally, the CSU is also responsible for producing reports that highlight possible risk scenarios. These reports are based in part on client complaints, and they include risks such as client over-indebtedness, staff fraud, and client unwillingness to repay. These reports provide valuable information for management.

Read more on this example from the Smart Campaign here.

Dimension 5:

Treat Employees Responsibly

Dimension 5 includes three standards:

> **Standard 5A.** The provider follows a written Human Resources policy that protects employees and creates a supportive working environment.

> **Standard 5B.** The provider communicates to all employees the terms of their employment and provides training for essential job functions.

> **Standard 5C.** The provider monitors employee satisfaction and turnover.

Standard 5A

The provider follows a written Human Resources policy that protects employees and creates a supportive working environment.

> Essential Practice 5A.1 A written Human Resources policy, compliant with national law, is available to all employees and explains their rights.

> Essential Practice 5A.2 Employee compensation levels reflect competitive market rates, or at least the national or local sector minimum wage.

> Essential Practice 5A.3 The provider accepts and responds to employee grievances through a formal and confidential grievance system.

> Essential Practice 5A.4 The provider assesses employees' health and safety risks and takes steps to mitigate them before they occur. The provider investigates, documents, and reports all occupational incidents (i.e., accidents, injuries, or diseases) that occur.

5A.1 DEFINE A HUMAN RESOURCES POLICY

In order to serve clients well, employees must work in an environment that supports and protects their rights and makes them feel valued. A well-developed Human Resources policy provides the foundation for such an environment.

Your institution's Human Resources policy should be easily accessible to all employees, which means that each employee should know that the policy exists, what the contents include, and where to find the entire policy (e.g., on a shared computer drive). Provide an abridged version of the policy in hard copy, highlighting the policies that affect employees most significantly. Inform employees on changes to the policy in a timely way.

The Human Resources policy should contain at least the following, related to employee rights:

- **Wages/salary scale:** Describe your institution's pay scale; the mechanism through which employees will be paid (e.g., monthly direct deposit); and how your institution will communicate to the employee about how the amount paid was calculated (e.g., pay slips will indicate how the amount paid was calculated and the amount and purpose of any deductions).
- **Benefits:** Describe the benefits available to employees (e.g., government benefits, accident and/or health insurance, contributions to pensions/ retirement schemes) and to whom these benefits apply (e.g., full-time employees, part-time employees). Describe all conditions employees must meet in order to access these benefits and use your institution's financial services (e.g., loans, transfer services).
- **Working time and leave:** Describe employee rights to reasonable working hours, including rights to overtime pay; the rate for overtime pay; the length and frequency of rest periods; holiday dates; how employees will be compensated for work on holidays; number of expected work hours per week; and to whom these apply.

- **Safety at work:** Describe employee rights to a safe work environment, as well as the institution's responsibility to provide one. Include information on the use of safety equipment; emergency response instructions; steps to take in case of accident or injury; employee rights to compensation for accidents or injuries; and which categories of employees have access to which equipment.
- **Grievance resolution and whistleblower policy:** Describe how employees can seek resolution to grievances related to work; how employees are protected against retaliation from other employees, including management; and how employee privacy is respected during the grievance process.
- **Anti-harassment safeguards:** Describe the actions that your institution classifies as "harassment" (e.g., sexually suggestive language; physical contact; racial comments; punitive abuse of discretionary powers such as work assignments); the procedure for reporting and investigating allegations; sanctions for violations (e.g., probation; termination of employment) faced by employees who harass others; and how your institution will protect the right of privacy of both the alleged victim and the person accused.
- **Disciplinary procedures and possible sanctions:** List those actions and activities that are prohibited. Confirm that your institution will investigate cases of reported misconduct (e.g., violations of the Code of Conduct; theft; harassment of a colleague); the different levels of disciplinary procedures that employees may face; and employee rights related to appealing disciplinary action.
- **Conditions for dismissal and exit formalities:** Describe the conditions under which employees may be dismissed, employee rights (e.g., severance pay) and responsibilities (e.g., two-week notice) related to termination of employment, including procedures for dismissal that adequately protect employees, procedures for resignation that adequately protect management, and conditions and procedures for leaves of absence.

- **Freedom of association:** Describe employees' rights to form or join a trade union without interference and to bargain collectively.
- **Non-discrimination:** Describe employee rights to fair and equal treatment regardless of the employee's sex, race/ethnicity/national extraction/social origin, religion, HIV status, disability, sexual orientation, political affiliation/opinion, and participation in a trade union.

Comply with legal requirements on compulsory labor and minors

Your institution should not employ any person against his or her will and should not do business with enterprises that benefit from forced labor.[116] Pay special attention to vulnerable groups, including migrant workers, prison laborers, indigenous or tribal peoples, and workers from groups who are significantly discriminated against in the local culture.

Your institution should not employ any person under the minimum age for work established in law. In countries where the school-leaving age is less than 15, the minimum age for full-time work may be set at 14 as a transitional measure, but it should be raised to 15 as soon as the school-leaving age is raised.

For **light work**, you may engage children starting at 12 years in less-developed countries and 13 years in developed countries, per international standards. Light work is labor that does not interfere with the child's schooling, does not harm the child in any other way, and leaves sufficient time for the child to also develop socially through play. Examples of light work include undertaking relatively simple tasks in the family business before and after school and receiving money for performing errands for neighbors.

The minimum age is 18 for **hazardous work**, which is work that is likely to harm the health, safety, or morals of a child. Examples of such work include very demanding physical labor and work performed in dangerous conditions.

Developing the HR policy

Consider involving employees at different levels in the process for developing the HR policy. Engaging workers in developing the policy will enhance the quality and appropriateness of the policy, and it will build staff awareness and commitment. Consider establishing an employee committee that periodically discusses how to improve implementation of the policy.

Making employees aware of the policy

The policy should be part of induction for new employees. All new employees should be aware of the policy, and they should know to whom they can address any questions or concerns they might have. Experience has shown that employees often do not retain much of the HR information shared during induction trainings, because the material is too technical or too overwhelming to be absorbed at one time. If you break down the policy into digestible pieces, use various delivery methods (group discussions and videos, for example), and test employee knowledge at various intervals, then trainees are more likely to understand the HR policy. Some providers discuss one part of the HR policy (e.g., how to report harassment in the workplace) as part of periodic employee meetings at branches and headquarters. Reviews like this help refresh and deepen employee understanding of the HR policy and may make it easier for your institution to enforce it.

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[116] The institution should have a separate policy on the responsibility of loan officers to ensure that clients' operating practices respect employees' rights.

• Grameen Foundation's Human Capital Management Assessment is a self-assessment tool you can use to evaluate your current HR practices, identify gaps, and plan for strategic improvements. The Questionnaire begins on page 19.

• Sonata Microfinance Pvt. Ltd (India) uses a Whistleblower Policy that specifies how an employee can report cases of employee misconduct without fear of repercussion. Sonata also has an Anti Sexual Harassment Policy that covers the definition of sexual harassment, the sanctions applied to harassers, and how employees can file a complaint.

• Women's World Banking's *Gender Performance Indicators Manual* mostly describes indicators for analyzing outreach and product suitability for female clients, but it also includes indicators for assessing your employee gender diversity.

5A.2 PAY EMPLOYEES A COMPETITIVE WAGE

Your institution should pay employees at a rate that is at least the national or local sector minimum wage. However, it is often more responsible to use local market rates to determine salaries. Pay competitive salaries as compared to at least three other responsible businesses in the local market, but pay attention to instances in which wages are depressed across an entire market. This means that in markets where employees are generally underpaid throughout the entire industry, your institution should adjust wages above the market rate.

Examine your institution's wages to determine whether you pay a *living wage*. A **living wage** is sufficient to provide minimally satisfactory living conditions for the employee in the location where s/he lives. This means that, based on his/her basic pay (excluding bonus pay), an employee can afford safe housing, sufficient food, clothing, and transportation necessary to perform their workplace and personal duties. Your institution can determine the living wage using relevant collective bargaining agreements as a good indicator. When in doubt, conduct a simple study on the cost of living by interviewing employees. Remember that the living wage is not a static amount, particularly in countries with high inflation. Each year, examine whether salaries are still responsible, given changes in the cost of living.

Additionally, your institution should evaluate whether discrepancies exist between the salaries of comparable male and female employees at each level/department of the organization. Where such discrepancies exist, your institution should address the problem openly with employees and adjust wages accordingly.

Grameen Foundation's *Total Rewards Toolkit* describes a responsible approach for determining employee compensation and benefits.

5A.3 RESPOND TO EMPLOYEE GRIEVANCES THROUGH A FORMAL GRIEVANCE SYSTEM

Your institution should provide a formal way for employees to voice grievances. This mechanism could be a dedicated phone number, email address, or note box. You should have at least one channel for voicing grievances confidentially, meaning that the employee identifies him/herself but is afforded the opportunity to have their name disassociated with the complaint during the resolution phase. For example, if an employee complains to an HR representative because her manager is violating the institution's policy on overtime work, the problem would be investigated without the manager knowing the identity of the complaining employee.

Ensure that the grievance mechanism is effective for resolving problems, not just recording them. In order to make the mechanism work for employees, there should be a formal process for recording, addressing, and following up on complaints. Track the number of complaints submitted as well as the details of their resolution. Do not target "zero complaints"—as this is a sign that employees do not know about the mechanism or do not feel comfortable using it. Rather, aim to respond quickly and fairly to problems that arise.

Finally, the HR policy should protect employees from retaliation for submitting complaints, including protection for **whistleblowers**—those who disclose serious offenses such as criminal activity.

FIELD EXAMPLE 49. **FINCA PROTECTS STAFF WITH HR POLICIES**

FINCA Peru documents their HR policies in a formal manual that protect the rights and interests of employees. Highlights of the institution's HR practices include:

- **Equal employment opportunity between men and women:** FINCA Peru employs affirmative action in the recruiting, hiring, and training of staff, and it prioritizes the hiring of women.
- **Maternity leave:** New moms have a three-month leave, and once back at work, their workday is reduced by one hour for a full year to allow them to take nursing breaks.
- **Continuous training:** Employees receive training on job duties, and they can also access personal development training on topics such as how to deal with personal and family issues, stress management, etc. Recently, FINCA Peru started offering coaching sessions with external consultants.
- **Continuing education:** Employees are encouraged to continue their formal education. FINCA Peru enables them to have flexible work hours so they can attend school, and it sponsors up to 50% of tuition.
- **Interest-free loans:** Employees have access to interest-free loans to use toward housing, education, and health needs, as well as access to low interest rate loans for family businesses. Office staff participate in a communal bank through which they can save and have quick access to loans.
- **Safety risks:** FINCA Peru has formal safety regulations, to ensure that all employees feel safe, particularly those working in rural areas. For example, all transport vehicles are maintained regularly, and all employees have health and accident insurance.
- **Family-friendly environment:** Employees' families are invited to participate in outings, sports, and special celebrations. Also, employees can take leave to attend important school events and family celebrations or to care for sick family members.

Example of a grievance mechanism for employees

An example of a grievance mechanism is an email address that allows an employee to contact a designated HR representative directly. Messages sent to this email address are kept confidential and only shared with others if the sending employee agrees. The provider informs all employees that the email address should be used in the case of grievances, in addition to informal channels such as speaking directly with supervisors. An accompanying HR policy describes how the provider will not tolerate retaliation (e.g., disrespectful comments, punitive work assignment, or denial of reasonable requests for leave or training) against an employee who submits a complaint. The policy also describes how the provider will seek to resolve the problem, such as using an Ethics Committee to determine a fair resolution. Finally, the provider follows up with a small sample of employees who have used the grievance mechanism to inquire whether they were satisfied with the process.

- VisionFund AzerCredit's *Staff Grievance Procedures* is an example of a policy on grievance handling.
- *Report on Human Resource Management in Microfinance Institutions: The State of Practice* describes how several Indian providers handle staff grievances.

5A.4 ASSESS HEALTH AND SAFTEY RISKS AND INVESTIGATE ANY INCIDENTS

At least annually, your institution should assess the health and safety risks that employees face while performing their job functions. Consider risks that exist both in the office and in the field, and assess risks by different employee characteristics, including gender and disability. Male and female employees have different health and safety needs, for example. Consider forming a joint management-worker safety committee to ensure that there are representatives from all types of employees—males/females, field workers/office staff, employees with special needs, et cetera. A workplace risk assessment is one of the key tools for improving occupational safety and health conditions at work. It plays an important role in protecting workers and businesses, as well as complying with the laws in many countries. It helps everyone focus on the risks that really matter in the workplace – the ones with the potential to cause real harm.

A risk assessment should be performed at least annually. This assessment is simply a careful examination of what, in the workplace, could cause harm to people. It should identify the hazard and the required control measures. When thinking about the risk assessment, remember:

- a **hazard**[117] is anything that may cause harm, such as electricity, an open drawer, demanding and stressful work, a motorbike, etc.;
- the **risk** is the chance, high or low, that somebody could be harmed by these and other hazards, together with an indication of how serious the harm could be.

The key to risk assessments is not to overcomplicate the process. In many organizations, the risks are well known and the necessary control measures are easy to apply. A risk assessment should not take too much time nor take up a lot of staff resources.

A risk assessment can be done by anyone in the organization—you do not have to be a safety and health expert. You can consider creating a two-person team composed of someone from head office and a branch-level employee, to take into account the different risks.

The International Labour Organization (ILO) recommends a five-step process for conducting a risk assessment

1. **Identify the hazards.** What are the workplace risks that could cause harm? Table 29, plus the SPTF's online template offers examples of hazards common to microfinance service providers. It is not exhaustive. To consider other hazards to assess, you may want to:

- consult other examples of risk assessment tools (see resources at the end of this section);
- walk around the office and note items that might pose a risk;
- talk to supervisors, staff, drivers, and cleaning contractors on their concerns and opinions about health and safety issues in the workplace; and
- consult reports documenting past workplace accidents.

2. For each hazard, identify **who might be harmed and how**.

3. Note the existing **controls in place to manage hazards**, or what needs to be done to control the risk.

4. Note who is responsible for putting the suggested risk control measures into practice, and **by what date**.

5. **Share the completed risk assessment** with staff (if your institution is too big to share with all staff, share at least with senior management and middle managers).

Your institution should, at a minimum, provide employees with training to mitigate each of the risks that you identify. Training should be free of charge and available to all employees. Table 29 provides examples of health/safety risks and corresponding training topics for employees.

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[117] See the Canadian Centre for Occupation Health and Safety website for a list of types of hazards; see INRS for a list in French and INSHT in Spanish.

In addition to training, your institution should provide employees with equipment to mitigate health and safety risks. The equipment should be free of charge and equally distributed to male and female employees. It should also take into account gender differences (e.g., protective gear in women's sizing). Examples of equipment include helmets and other safety gear for motorbike drivers and soap for employee washrooms.

Your institution's HR policy should include procedures for following up on any incidents of on-the-job accidents, injuries, or diseases. The policy should include procedures for documenting an incident, reporting it to relevant people and institutions (e.g., board committee on employee issues, government), investigating the reasons for the incident, and following up with any corrective measures. Include a line-item in your budget and staff time for supporting the risk prevention and handling activities discussed above. Doing so will help ensure that your institution is not merely reacting to health and safety problems but anticipating and mitigating them. Doing so also sends a strong signal to employees that your institution prioritizes their wellbeing.

Example of incident procedure in action

A loan officer sustains injuries when his motorbike slips off the road, due to worn treads on the bike tires. The HR manager documents the accident and then submits the case to senior management. Management advises the employee to seek medical attention, which is covered by workplace insurance. Additionally, management determines that the institution will start inspecting all motorbike tires on a monthly basis and promptly replace worn tires.

Your institution should also compensate employees who miss work as a result of work-related injuries. If such compensation is not regulated by the labor laws in your country, develop a clear policy on the number of days that are paid when employees are on medical leave due

TABLE 29. EXAMPLE HEALTH AND SAFETY RISKS & TRAINING TOPICS

TYPE OF EMPLOYEE	POTENTIAL HEATH/SAFETY RISK	TRAINING TOPICS TO MITIGATE RISK FOR EMPLOYEES
Employees working in an office, such as administrative positions	• Chronic stress due to demanding work and lack of support to handle such work • Physical pain due to long hours of standing, sitting, typing, or other repetitive motions • Sickness caused by unsanitary conditions in shared spaces (kitchen, bathrooms, etc.)	• Train employees on time management and stress mitigation techniques. Inform employees on how to communicate with the HR department when they are feeling excessive work-related stress, and how to use your institution's grievance mechanism in the case of confidential complaints against managers.
Employees working in the field, such as loan officers	• Bodily injuries due to accidents when riding motorized vehicles or using public transportation or due to lack of safety equipment for driving (e.g., helmets for motorbike drivers) • Physical harm from theft due to carrying cash in the field	• Train employees on your institution's protocol for carrying cash while in the field, including theft mitigation techniques (e.g., carrying cash in a safe box, traveling during daylight hours only).

to work-induced health problems. Such compensation might be included in an employee medical insurance product. The policy should state the maximum number of paid days off for medical leave. Also, this policy should state what happens if the employee finishes the maximum number of days and is still declared not able to work again due to the injuries (long-term disability).

- The SPTF's Health and Safety Assessment Template can be used (and adapted) to conduct a workplace health and safety assessment, and for planning to address health and safety risks.
- The ILO's *Encyclopaedia of Occupational Health and Safety* is a global knowledge platform for sharing occupational safety and health (OSH) information and good practices.
- VisionFund AzerCredit's staff training on first aid is an example of how providers can proactively address risks in the workplace.
- The Health and Safety Executive's *Example risk assessment for an office-based businesses* and the European Agency for Health and Safety at Work's *Online interactive Risk Assessment* are two examples of comprehensive risk assessment methods.

FIELD EXAMPLE 50. **FUNDESER STRENGTHENS HR POLICIES**

Many Nicaraguan institutions—FUNDESER included—were accused of being out of touch with clients, so the FSP decided to look at how they could improve staff-client relations through their HR policies. Examining current HR policies, FUNDESER noticed that little emphasis was placed on cultivating employee talent and that staff incentives did not emphasize strong staff-client relationships.

Led by management and the board, FUNDSER overhauled its HR policies, putting in place a new manual that emphasized three institutional priorities:

- **Skills development.** The FSP now offers increased training and skill-building opportunities, aimed at customer service.
- **Loyalty to institutional values.** The FSP now recruits, hires, and evaluates employees based on the values outlined in the Code of Conduct.
- **Fair remuneration.** The FSP eliminated pay that was heavily based on performance incentives that promoted overselling products or abusing clients who were late on their payments. New salaries are not based on bonuses, are competitive in the market, and allow staff to negotiate their salaries.

In addition to this new manual, FUNDESER created clear job descriptions for each position, developing them with input from employees. These descriptions were aimed at helping staff understand how their work contributed to the FSP's social and financial goals. Additionally, clear descriptions allowed staff to more easily set skill-building goals and evaluate their own work performance.

FUNDESER management introduced the new policy slowly and thoroughly, conducting in-person workshops at all branch offices over two months. Though it took several more months for employees to fully understand and buy-in to the new policies, FUNDESER management believes that these policies have contributed to portfolio growth and decreased PAR.

Standard 5B

The provider communicates to all employees the terms of their employment and provides training for essential job functions.

> **Essential Practice 5B.1** Employees receive clear documentation related to their job responsibilities and performance evaluation.

> **Essential Practice 5B.2** Employees receive job-specific training and/or skill development.

5B.1 PROVIDE ALL EMPLOYEES WITH AN EMPLOYMENT CONTRACT

As discussed in the guidance for Standard 5a, all employees should understand their rights and responsibilities in the workplace. In addition to providing employees with a clear HR policy, your institution should also provide each employee with a written (signed) job contract and a written description of his/her workplace duties. Review each employee's description with him/her at the time of hiring and whenever the employee changes positions within the institution. Providing employees with clarity on his/her roles and responsibilities enables your institution to evaluate employee performance fairly.

The employment contract—typically provided on or before the first day of work—should specify the employee's:

- **Earnings (salary and/or wages):** Remuneration, in cash and in kind, that is to paid employees both for time worked and time not worked, such as annual vacation and other paid leave;
- **Benefits (social protection):** The measures (e.g., health insurance, pensions) designed to protect employees against economic and social distress caused by various contingencies (sickness, maternity, employment injury, unemployment, etc.);
- **Employment conditions:** The terms of the worker's employment with the institution, such as amount of working time, minimum wages, whether there is a probationary period before the person becomes a permanent employee, and location(s) where employee will work;
- **Job description/scope of work:** The job title and responsibilities, including reporting line (see below);

- **Work rules and possible sanctions:** List actions and activities that are prohibited. Confirm that the institution will investigate cases of reported misconduct (e.g., violations of the Code of Conduct; theft; harassment of a colleague); the different levels of disciplinary procedures that employees may face; and employee rights related to appealing disciplinary action; and
- **Performance evaluation and incentives:** The performance metrics that the institution will use to evaluate the employee's performance and an explanation of the institution's incentive/reward system (see guidance for 2c).

An employee's **job description** is the foundation for how they will understand their role at your organization. It should include the nature of the work to be performed, key responsibilities and duties, and the competencies required. To create a job description, start by talking to the person who currently holds the job, and then add to their description by answering the question—what are our longer-term needs and objectives for this position? Think about any new SPM initiatives that you have or want to instate—what skills and competencies do your employees need? What new responsibilities will they have? (see Table 15 for example SPM-related job responsibilities). Table 30 provides additional detail on which components to include in your employees' job descriptions.

TABLE 30. **ELEMENTS OF A JOB DESCRIPTION**[118]

Job Title	The name given to the position.
Role Summary	Purpose and/or objectives of the job.
Major Responsibilities	A list of the critical job responsibilities to be performed. Job descriptions often conclude with "perform other duties as required" rather than including a detailed task list.
Primary Relationships	Indicates to whom the position reports and what roles the position is responsible for managing, if any.
Decision-making Authority	A list of the extent and limits of all major areas of responsibility, and the authority invested in the position.
Competencies and Qualifications	The job description should list the competencies (knowledge, skills, and behaviors) and qualifications required or preferred to successfully carry out the job responsibilities.
Working Conditions	A list reflecting any special or unique working conditions of the job.
Employment Classification	Include job tiers and employment type (e.g., full-time, part-time, project based), where applicable.

In addition to a clear job description, each employee should understand the evaluation criteria that his/her manager will use to assess job performance. For example, FINCA (Azerbaijan) evaluates each new employee at three, six, and 12 months, and then semi-annually thereafter. The employee's supervisor completes a form that lists the criteria against which the employee will be evaluated. The employee is then asked to sign their agreement to this statement: "I have reviewed the performance requirements listed in this form and agree that they are the standards by which I will be evaluated during the next performance period." In this way, employees are clear on what the organization expects of them, and how they can achieve good performance.

- Grameen Foundation's *Performance Planning & Management Toolkit* is a multi-part tool focusing on: 1) goal setting so that every employee receives direction and communication about what they are expected to do, and 2) action plans, personal development, and ongoing discussions about organizational goals. It includes practical tools such as worksheets on setting goals and evaluating performance with different employees (e.g., field officer, branch manager) and a manager's guide to delivering feedback on employee performance.
- Grameen Foundation's *Recruitment and Selection Toolkit* discusses the importance of recruiting and selecting employees who fit with the FSP's mission and strategic goals. It includes many practical tools, including interview guides and sample job descriptions.
- FINCA (Azerbaijan) uses this Performance Evaluation Form to clarify each employee's evaluation criteria.

5B.2 PROVIDE JOB-SPECIFIC TRAINING

Your institution should equip each employee to perform his/her job functions successfully. This includes at least two types of training:

- **Orientation training:** Train each employee at the beginning of employment and whenever the employee changes positions within the institution. Employee orientation should include at least the following topics: the institution's mission, social goals, and Code of Conduct; the employee's job duties, including social performance related duties;[119] and the conditions of employment. Follow this training with an **orientation period** during which new employees receive on-the-job training and mentorship so that they master skills not easily taught in a classroom setting. Such hands-on training for staff is also beneficial to clients, because they can be negatively affected by under-trained staff.

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[118] This table is adapted from information presented in Grameen Foundation's Recruitment and Selection Toolkit, page 7.

[119] The guidance for Standard 2c provides examples of the SPM duties for a loan officer, and example social goals for which various employees are responsible.

- Ongoing skills development: Facilitate professional development opportunities that respond to employees' needs, as identified during regular performance reviews, as well as the priorities of your institution. As your goals and products change over time, consider what new skills your employees need (e.g., data collection, customer service, product sales). Additionally, when promoting employees to a higher level of responsibility or managerial authority, consider the need for job-specific training that prepares them for the new position as well as leadership and/or management training to improve the employee's ability to guide, supervise, and motivate the performance of others.

Pay particular attention to providing training opportunities for employees without bias. Check that training is equally available for all types of employees, regardless of gender, level (management/staff), location (HQ/branches), and other relevant employee characteristics. Ensure that any training opportunity that is provided to employees is accessible/inclusive to employees with disabilities, including through the provision of reasonable accommodations.

Visión Banco's case study on staff training details how the organization created its own comprehensive continuing education program for the benefit of employees and the bank.

FIELD EXAMPLE 51. **VISIONFUND INTERNATIONAL RECRUITS LOCAL LOAN OFFICERS USING OUTREACH EVENTS**

VisionFund International (VF) employs more than 7,000 people in its network (as of 2017), about half of which are loan officers (LOs). With LO turnover of around 20% a year, and annual growth targets of around 30%, VF hires hundreds of new LOs each year across its 31 MFIs. In the past, VF approached LO hiring in a traditional way—hiring one LO at a time, based on the current needs of a branch. Now, the network uses a new method: holding mass recruitment events and training "volunteer" LOs in order to create a pipeline of fully trained LOs ready to fill open positions or expand into new areas of operation as soon as they are needed.

The ideal loan officer

VF has found that employee retention starts with hiring the right people. VF hires local people, since LOs who come from the clients' own communities are best able to identify, recruit, and work with VF's target clients. Unlike many providers who place a lot of emphasis on an applicant's formal education, VF has found that higher education is not among the top attributes that make a good LO. Instead, they value the following characteristics: numeracy and literacy sufficient to complete the loan assessment and application forms; knowledge and language of the local area; dedication, tenacity, and commitment to microfinance; interpersonal and sales skills; willingness and ability to work in the field; and commitment to VF values.

Recruitment events

VF trains MFIs to hold recruitment events, the backbone of their LO hiring process. An MFI who wants to hire new LOs advertises an "assessment day," providing a specific time and a place (typically a Saturday morning at a local primary school). There are no other requirements in advance, such as an application form. The recruitment posters feature a photo of VF's "ideal" LO: a local woman who looks old enough to have grown children, wearing clothes and shoes appropriate for riding a motorcycle and walking through fields, standing next to a motorcycle and holding a helmet, with a caption along the lines of, "They offered me training, and I offered them life experience." This slogan refers to VF's belief that life experiences such as raising children, trading in the market, or being a church leader can create abilities well-suited to managing clients.

A key principle of the assessment day is that the MFI is not looking for a fixed number of recruits; the branch can take on as many recruits as the senior LOs can manage to mentor. On the assessment day itself, it is possible for hundreds of people to turn up far in advance of the clearly stated starting time. At the appointed start time, the gates are locked; any late arrivals are not admitted, because LOs must be punctual.

Once a brief introduction and welcome is delivered by the Branch Manager, all applicants participate in a fun, competitive ball game. This relaxes the applicants before the first assessment exercise, which is a numeracy test. This test comes first, because it is a critical skill for LOs, but the difficulty level is set to equate to the numeracy required of LOs and no higher. Applicants may use calculators, as LOs do in the field. Typically, 80% of applicants fail the numeracy test, which is marked immediately, and those who have not passed are thanked for attending, but asked to leave. At every stage, the MFI team is polite to all applicants: even those who fail should walk away feeling valued and respected.

Next, the MFI delivers a literacy test, which is based heavily on the MFI's loan application form. It is also marked pass or fail immediately—typically another 15% of those remaining do not pass this stage because they did not follow directions or cannot write a comprehensible paragraph. After the literacy test, the remaining applicants participate in a team game (creating something made from cooking foil) with the applicants closely observed for skills such as leadership, contribution, creativity, etc. Though they are being evaluated, no one fails this exercise.

Each applicant then delivers an individual two-minute presentation on something they know about (growing maize, for example) to a team of staff who immediately mark it pass or fail, based on the potential of the candidate to speak in public and promote the MFI to community groups and clients. The remaining applicants, typically 10-15% of those who started the day—are formally interviewed by a team of three MFI staff. This interview lasts only 15 minutes, and the questions are fixed beforehand, chosen from carefully-worded questions. At the end of the interview, the interviewing team recommends the applicant be accepted or not accepted as a

trainee. The Branch Manager has the final decision. About 10% of the original applicants are accepted as trainees.

The whole assessment day from start to finish takes about five hours, and no matter who is involved or where it takes place, VF reports that it is a very inexpensive and efficient way of recruiting trainees from the local community.

Creating a pool of LOs ready to work when needed

A new recruit's three-month training period is spent in the branch, shadowing a senior LO. The Trainee is a volunteer; the MFI pays expenses but not a salary. The Trainee has a Learning Book where s/he writes what s/he has learned, demonstrating his/her progress. The senior LO ("mentor") is guided by a Learning Book Plus, which sets out what the Trainee must be taught and must master in the course of the next three months. The Branch Manager is accountable for the effectiveness of the training, and s/he provides periodic progress reports. Once the Trainee completes the Learning Book and the Branch Manager is satisfied s/he is ready to take on her own clients, s/he then must pass the formal classroom-based training on the MFI Credit Manual. Having passed the Credit Manual training, the Trainee is offered a contract, receives a salary, and can start to create his/her own portfolio of clients.

Because new hires work on a volunteer basis for the first three months, they can be let go if they do not achieve their learning objectives. The Trainees are a pipeline of available staff that the MFI can call on when a need arises. They are well-prepared to build their own portfolios of clients as soon as their training period is complete.

Benefits for clients, staff, and the MFI

VF believes that many clients would prefer to work with an LO from their own geographic area and walk of life. However, many would-be LOs do not believe they have the skills and experience necessary to serve their communities in this capacity. Part of the VF method is to show recruits that their life skills are highly valuable, which is empowering and validating.

VF's former method for hiring LOs did not involve the Branch Manager or senior LOs at the branch level. However, the new method makes these individuals solely responsible for sourcing recruits, running the assessment day, conducting interviews, and selecting candidates. They are also responsible for training and evaluating Trainees. Without exception, VF has found that branch staff increase their professionalism during the process, and develop new leadership and managerial skills.

VF Philippines (VFP) was the first MFI to put the new method into operation. Around 85 people came to the assessment day, nine were selected as volunteer Trainees, and six qualified as LOs. Two of the six were female overseas domestic workers before joining, and the other woman worked in a call center. Two of the three men were fishermen, and the other had worked in a warehouse. The average 1-day PAR for all VFP LOs is 2.2%, and the average number of clients managed by an LO is 197. Amongst these six LOs, PAR is less than 1%, and they have on average 244 clients each.

FIELD EXAMPLE 52. **AL MAJMOUA TRAINS EMPLOYEES ON SPM TOPICS**

Several years ago, Al Majmoua (Lebanon) relied solely on field-based training of new loan officer recruits. Employees would learn their new job by simply shadowing an existing loan officer in the field. Management realized that the quality of each person's training depended on whom they shadowed, creating inconsistencies in how credit policies and customer service policies were applied.

To fix this problem, the institution implemented an employee induction program that provides all staff with ten days of training in the office before going out into the field. Classes include sessions on Al Majmoua's vision, mission, and goals, as well as sessions about gender and social awareness, the institution's Code of Conduct and Ethics, how to talk and listen to clients, and appropriate collections practices.

Once in the field, each employee receives mentoring; and at least once a year, all employees, at every level, attend a refresher course.

Standard 5C

The provider monitors employee satisfaction and turnover.

> **Essential Practice 5C.1** The provider analyzes employee satisfaction.

> **Essential Practice 5C.2** The provider monitors the rate of employee turnover and understands the reasons for employee exit.

> **Essential Practice 5C.3** The provider takes action to correct institutional problems leading to employee turnover and dissatisfaction.

5C.1 UNDERSTAND EMPLOYEE SATISFACTION

Your institution should regularly analyze employee satisfaction. Your institution may choose either to conduct time-bound employee satisfaction research (e.g., a two-week review each year), or to collect satisfaction information on a continual basis. Regardless of the method used, your institution should aim to collect employee satisfaction data on at least a representative sample of employees— covering all types of employees, including those with disabilities—at least annually.

Using a formal method, such as interviews, written surveys, and/or focus groups, ask employees to comment on satisfaction with factors such as:

- Employment terms, including contract duration and remuneration
- Workload
- Employee training
- Career advancement opportunities
- Physical resources/infrastructure/equipment
- Communication, participation, and leadership from supervisors
- Communication and teamwork from peers
- Conflict resolution practices
- Human Resources support services

To protect employees who may negatively critique the institution, give employees the option to respond anonymously to the satisfaction survey. Finally, when analyzing and reporting the results of satisfaction surveys, segment data by different employee characteristics, including gender, level (management/staff), and location (HQ/branch). Report results not only to management, but also to employees at all levels.

The SPTF's Staff *Satisfaction Survey Example Questions* provides a list of questions you can choose from (and adapt) for your staff satisfaction survey.

FIELD EXAMPLE 53. **VISIONFUND AND ESAF MONITOR EMPLOYEE SATISFACTION AND UNDERSTAND REASONS FOR STAFF EXIT**

Both VisionFund Cambodia and ESAF (India) closely monitor employee satisfaction and turnover. VisionFund Cambodia collects data in three different ways: 1) an annual employee satisfaction survey; 2) an employee exit survey; and 3) monthly monitoring of the staff turnover rate. ESAF conducts an employee satisfaction survey at all employee levels at least once every other year. Members of upper management then review all data collected in order to assess whether employees are happy with the FSP and to understand the reasons why employees leave.

Studying employee satisfaction and reasons for exit can prove beneficial not only to the work environment but also to an FSP's financial performance. For example, ESAF developed a successful new loan product—the vehicle loan for employees—after employees expressed the need for assistance in purchasing vehicles. Additionally, ESAF was able to reduce staff turnover after it increased the days off in a work week from only Sundays to also the second and fourth Saturdays of each month. ESAF made this change after learning that its employees, the majority of whom are women, were dissatisfied because they felt unable to attend to household matters adequately with only one day off per week.

TABLE 31. **TURNOVER RATE FORMULAS**

Turnover Rate	Description	Formula	What it measures	Target Ranges[120]
Annual and monthly turnover rate	• Calculation of the number of employees who have left the company in a period of time • Expressed as a % of total number of employees	$=\dfrac{\text{(No. of exit employees in a time period) x 100}}{\text{(Average no. of employees during the same time period)}}$	• Effectiveness of HR and personnel management processes • Employee satisfaction • Quality of the recruitment, selection, and on-boarding processes	• Yearly total employees: 15%-25% • Yearly loan officers: 25% - 40% • Employees between 1 and 6 months of employment: less than 10%
First year turnover rate[121]	• Calculation of employees who have left the company after less than one year. • Expressed as a % of the total number of employees that leave the company in the same period.	$=\dfrac{\text{(Number of employees who left after 12 or fewer months of employment) x 100}}{\text{(No. of total exit employees during the same time period)}}$	• Quality of the recruitment, selection, and onboarding processes (after the first year of employment, other factors play a more important role in the termination or resignation of an employee).	• Less than 20%

[120] Although there is little benchmarking information available for HR indicators, these ranges were developed based on global experience, including the experience of Accion's Training and Capacity Building program.

[121] When turnover rates before one year of employment are high, it is recommended to measure both the first year turnover rate and the monthly turnover rate, as the latter reveals a more precise time period during which employees exit in the first year.

5C.2 UNDERSTAND EMPLOYEE EXIT

Your institution's employee turnover rate is one indication of employee satisfaction. When analyzed alongside employee exit survey/interview responses, the turnover rate provides actionable information about your institution's relationship with employees. Table 31 provides a list of turnover rates that you should monitor.

Track your employee turnover rates by different types of employees, including gender, level, and location. In addition, ask all exiting employees to voluntarily share information about their reasons for leaving through a survey form, in-person interview, or other similar mechanism. Ask about their reason(s) for leaving the institution, as well as questions about their experience while employed with the institution.

In addition to exit interviews, consider "stay interviews"— conversations with employees who have long tenures with your organization. Such interviews can answer the question—*what keeps an employee satisfied and loyal?*

5C.3 CORRECT INSTITUTIONAL PROBLEMS LEADING TO EMPLOYEE TURNOVER AND DISSATISFACTION

Report to the board and senior management both the employee turnover data and qualitative information on the reasons for employee exit.[122] This group should review the information on a regular basis (at least annually, but quarterly is better for risk management purposes) and actively engage with employees to determine how the institution can improve employee satisfaction

[122] The guidance for standard 2b and standard 2c discusses management/board review of social performance data.

and retention. Special attention should be given to turnover/retention in critical roles, meaning those staff positions that are difficult to recruit or attract, involve high investment/time in training and/or have a significant impact on business results and in client satisfaction.

Additionally, management should establish a level of employee turnover that it considers "unacceptable"—a level that prompts further action, such as targeted interviews with employees about specific issues, adjustments to working conditions, or increased support services to employees. Some reasons for employee exit are out of management's direct control, but many issues can be addressed by offering additional professional development opportunities, improving HR policies, and/or improving workplace conditions. When turnover rates exceed the market or the expectations of your institution, conduct a segmented analysis by position, branch, and other relevant characteristics, to determine the causes of the problem more precisely.

Regardless of your institution's turnover rate and the results of staff satisfaction surveys, senior management should regularly check compliance between HR policies and actual working conditions. Such audits can be conducted by the HR or Risk Management departments, and they should be cross-checked with results from employee satisfaction surveys, client satisfaction surveys, turnover rates and exit/stay interview reports. When discrepancies exist between policies and real working conditions, you should develop and execute an improvement plan. Some organizations have found success in assigning oversight of the plan to an "HR Committee" at the board or senior management level, with quarterly monitoring.

FIELD EXAMPLE 54. **NRSP RESPONDS TO EMPLOYEE GRIEVANCES**

NRSP (Pakistan) responds to employee grievances using formal channels. These channels include a designated email address that is directed to the institution's General Manager. This channel allows the employee to circumvent his/her manager when this person is implicated in the complaint. Secondly, the employee has the right to contact his/her immediate supervisor or anyone else above that person—including the CEO. The policy applies to all employees (including consultants, interns, probationers, and volunteers) and board members.

To encourage employees to use these mechanisms, NRSP:

- Addresses problems quickly. Management discusses problems during weekly and monthly staff meetings, and they include the employee in the resolution, when appropriate.
- Analyzes complaints over time and makes changes to improve employee satisfaction. For example, as result of complaints about workload, NRSP studied employee workloads and found that most employees were working several extra days per month and were not being paid overtime for this work. NRSP revised its policy on overtime pay and introduced additional bonuses and incentives for taking on overtime work.
- Does not punish the employee for raising the issue. Employees feel comfortable raising issues because they do not suffer negative consequences for doing so.
- Publicizes the mechanism widely. All employees are briefed on the policy during orientation, policy modifications are discussed in monthly staff meetings, and the complaints email address is displayed in all offices.

NRSP reports that in addition to boosting employee satisfaction, the complaints mechanism helps build the FSP's reputation as a good place to work, mitigates risks such as employee fraud, workplace harassment, and employee turnover, and gives NRSP valuable ideas for operational changes that will improve the functioning of the FSP.

Dimension 6:

Balance Financial and Social Performance

Dimension 6 includes four standards:

> Standard 6A. The provider sets and monitors growth rates that promote both institutional sustainability and social goals.

> Standard 6B. Equity investors, lenders, board, and management are aligned on the provider's social goals and implement an appropriate financial structure in its mix of sources, terms, and desired returns.

> Standard 6C. The provider sets prices responsibly.

> Standard 6D. The provider compensates senior managers in a way that is appropriate to a provider with stated social goals.

Standard 6A

The provider sets and monitors growth rates that promote both institutional sustainability and social goals.

> **Essential Practice 6A.1** The provider has a policy on sustainable target growth rates that considers the provider's growth capacity, institutional sustainability, and social goals.

> **Essential Practice 6A.2** The provider monitors growth and enhances capacity as needed.

6A.1 SET SUSTAINABLE GROWTH TARGETS

Most providers target positive growth rates of their customer base and/or portfolio. Average annual growth rates are usually in the range of 5-30%, but they can reach 50% or more in markets where the market potential is still very large. Such high growth rates can be appropriate in some contexts—such as when a young provider is expanding its operations—yet they can be very dangerous in others where they can spur client over-indebtedness or weaken the internal control systems of fast-growing providers.

Regardless of why your institution pursues growth (e.g., to achieve economies of scale and reach sustainability, to meet your social goal of financial inclusion), ensure that your target growth rates are sustainable. Sustainability means growing only as quickly as you can adapt and expand your quality-control systems, such as employee training and MIS capacity, as well as your risk monitoring. A sustainable growth rate will allow you to expand while maintaining adequate portfolio quality, providing good customer service, respecting clients' rights, and giving employees manageable workloads.

Set target growth rates by branch and/or region over a three- to five-year time horizon. During this process, analyze the following factors, keeping in mind the quality of customer service, client protection, and employee satisfaction:

- **External factors:** client demand, competition, market penetration and saturation, and market infrastructure; and
- **Internal factors:** internal controls, human resource capability, MIS, and client satisfaction.

Analyze external factors

For each branch and for each product, your institution should analyze external factors, including client demand, current and future market penetration of competitors, market saturation, and market infrastructure. Careful analysis of these elements is necessary to set sustainable target growth rates. Segment[123] your market information by different types of clients and different products, because pockets of saturation can exist within an otherwise fairly unsaturated market. The institution should also assess whether an "intensive" or "extensive" growth strategy is most appropriate: an "intensive growth" strategy means adding new borrowers within existing branches or a limited geographic market, while "extensive growth" strategy focuses on opening new branches and/or entering into new markets.[124] In general, more caution is required for intensive growth, which depletes the pool of "good" borrowers faster than extensive growth.[125]

Table 32 sets out the external factors you should analyze, the data you'll need to do that analysis ("resources needed"), and what insight you gain from each analysis ("analysis"). Box 24 demonstrates how your institution can use Global Findex data to help determine your institution's potential market.

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[123] Guidance for standard 3a discusses the use of client segmentation for understanding and meeting client needs.
[124] MIX data shows that intensive growth depletes the pool of "good" borrowers faster than extensive growth, and intensive growth levels over 168% (growth rate of number of borrowers per branch) are associated with lower portfolio quality; while only extensive growth levels over 631% per year (growth rate of the number of branches per FSP) are associated with worsening portfolio quality. These data do not suggest that your institution should never pursue "intensive growth," but rather that you should consider whether the geographic diversification of your intended growth will promote positive outcomes for clients (e.g., financial inclusion) or negative outcomes (e.g., client over-indebtedness).
[125] See *Defining responsible financial performance: how to think about growth*.

TABLE 32. **ANALYZE EXTERNAL FACTORS TO INFORM YOUR GROWTH POLICY**

EXTERNAL FACTOR	ANALYSIS	RESOURCES NEEDED
Client demand (potential market)	Understand demand by client type in order to estimate the structure of portfolio (average disbursement, type of product, loan term, historical savings growth, trend in average daily savings balances).	• Market research[126] • Credit bureau information data available from central bank, national/regional network • Global Findex dataset[127] • Feedback from branches
Market penetration	Estimate the total market penetration (clients served by you and your competitors compared to the potential market) in your operational areas. Calculate the likely evolution of this penetration based on your target growth rates and that of your competitors. In the absence of other data, assume that your competitors will grow at the same pace as your institution.	• Competitors'[128] current outreach and estimated growth rates • MIX Barometer • Data from regulatory authorities, feedback from branch/regional teams
Market saturation	Gather all data that can help you identify potential problems of market saturation (cases where the offer of credit exceeds the sustainable demand for credit): incidence of multiple loans, loan amounts compared to income levels, competitors' PAR levels over time, competitors' growth rates over time.	• MIMOSA[129] • Global Findex dataset • Credit bureau information • National statistics institute (data on micro entrepreneurs) • MIX Market Cross Market Analysis[130] • Feedback from branches
Market infrastructure	Check information from the credit bureau and/or other client information exchange systems, as well as the estimated level of use of informal credit providers. Check whether all main competitors report to the credit bureau (including store credit information for example).	• Credit bureau data • Feedback from branches • Global Findex dataset indicators for informal sources of lending • MIX Market Cross-Market Analysis or MIX Market Country Pages[131]

[126] Guidance for standard 3a discusses how to conduct market research.

[127] The Global Financial Inclusion (Global Findex) Database is a World Bank project to measure how people in 148 countries—including the poor, women, and rural residents—save, borrow, make payments and manage risk. First published in April 2012, the data are updated annually.

[128] Competitor projections of growth or a national average growth projection may be difficult to find. FSP in some markets can get this information from the MIX Barometer, which collects growth forecasts at the individual institution and national levels. The projections in the MIX Barometer cover number of active borrowers, gross loan portfolio, and PAR > 30 days. In some countries microfinance financial markets are also quite dynamic (absorptions,

mergers, new microfinance financial service providers), and it is more difficult to analyze the competitor's growth forecast. In this case, it is useful to prepare three growth scenarios—conservative, normal, and optimistic—so the institution can be flexible enough to handle changes in market conditions.

[129] The Microfinance Index of Market Outreach and Saturation (MIMOSA) is an analysis of credit market capacity using the Global Findex dataset, offered by Planet Rating.

[130] Available here.

[131] Available here.

BOX 24. USING GLOBAL DATA TO CALCULATE MARKET POTENTIAL

If detailed information on your potential market size is not available, Global Findex data provide a good proxy (Global Findex). This database includes results from surveys on the use of financial services (formal and informal) conducted in over 140 countries in 2014. It can provide useful information to estimate your institution's potential market (size of market, purpose of loans, sources of loans). For example, an institution could use the Findex indicator "Loan in the past year, older adults (% age 25+)" as a proxy of the total demand for credit. This indicator identifies the % of adults who declared having taken a loan in the past year, from any source. The potential market (variable "g") could be calculated as shown below.

Indicators and equations	Calculations
Loan in the past year (%, older adults 25+), (a)	23.6%
Population in the area of intervention area (b)	1,500,000
Population using loans (c = a*b)	354,000
Demand that can be served by all financial institutions (d) ŧ	50%
Potential market (e= c*d)	177,000
Targeted market share (f)	30%
Total number of targeted clients (g=f*e)	53,100

(+) Even in the most developed economies, financial institutions only serve about 50% of the persons who declare using loans in a given year.

CGAP's Potential of the Unbanked Customers in Your Market is an Excel-based tool you can use to estimate the size of the unbanked market in your country.

Analyze internal factors

Your growth policy should also take into account your institution's internal capacity for balancing growth with service quality. Table 33 lists the internal factors you should examine, and it summarizes the insights you can gain from each analysis.

6A.2 MONITOR GROWTH AND ENHANCE CAPACITY AS NEEDED

Growth has a direct impact on your institution's ability to maintain high service quality and institutional sustainability. To maintain close control of institutional growth, your institution should monitor a list of key indicators each quarter, including:

- Internal indicators of growth, per field officer, branch, and region, and for each product and/or client segment, including the following:
- Number of loans outstanding
- Outstanding portfolio
- Average loan size
- Number of savings accounts and average balances
- New client recruitment
- Incidence of multiple borrowing (from the same FSP and from other sources)
- Change in PAR 30
- Productivity (Borrowers/Employee or Borrowers/Field staff)
- Vintage analysis[132] per branch for each product, per loan officer or period. Such analysis can highlight credit risk issues that are minimized by a global analysis. Vintage analysis is useful especially during changes in the credit methodology, incentive scheme, or operational organization.
- The evolution of the local market conditions

[132] A **vintage analysis** details the evolution of credit risk of a certain type of loan during a period (for example, loans disbursed by certain branches or loan disbursed in a given period); the purpose is to compare it with the global performance of portfolio.

Monitor these indicators quarterly, as an annual assessment does not capture periods of fluctuation, such as high growth followed by contraction. It is also important to monitor growth by branch, because sometimes problem behavior at a specific branch, such as excessive growth, is not evident in the aggregate data for the institution. Compare these indicators to your targets, analyzing any differences.

In addition to closely monitoring your own growth, watch the evolution of market conditions by analyzing market growth by client segment and/or product type on a quarterly basis. If unexpected changes in the external conditions are detected, management should act to prevent negative consequences for the institution and its clients. For example, if a new competitor enters a geographic area that already has high penetration by other providers, consider whether preventive or corrective action is necessary, such as implementing more conservative debt limits for client loans or revising growth targets.

Monitor internal capacity to handle growth

In addition to carefully tracking institutional growth, also monitor whether your institution's internal capacity is keeping pace with growth. Table 34 presents some of the most important indicators that management should monitor, as well as how to analyze these indicators, in order to address risks related to your institution's capacity to handle growth. Monitor these indicators for each branch or regional office, for each field agent, and for each product.

TABLE 33. ANALYZE INTERNAL FACTORS TO INFORM YOUR GROWTH POLICY

INTERNAL FACTOR	DIAGNOSTIC
Internal controls	Assess the extent to which your internal controls can support a larger portfolio and/or geographic area. This assessment includes delinquency management controls. Also check whether key operational procedures, including credit management policies, are sufficiently documented and updated to adjust to the evolution of the organization brought on by operational expansion.
Human resource capability	Assess the extent to which your human resources can manage higher volumes of activity. Take into account: number of employees, their training and skills, employee turnover, employee productivity, availability of qualified applicants for new positions, and your capacity to train new hires at the right pace. Pay particular attention to the capacity of your managers to manage the increased responsibilities and pressures of expanded operations: new technologies, systems, human resources, clients, products, etc.
Management information system (MIS)	Assess the extent to which your MIS can support an increase in operations. Consider its ability to process larger volumes and provide critical information for managing a larger portfolio, including the information necessary for more robust internal controls. Determine whether the system allows managers to closely monitor the portfolio for each product and find growth-related problems before they become significant.
Client satisfaction	Evaluate service quality and client satisfaction with field officers' customer service. Examine client satisfaction data,[133] complaints data, internal audit results, interviews with staff and clients, alongside data that indicate service quality such as client dormancy, PAR 1 and PAR 30, and trends in field officer-to-client ratio.

[133] Guidance for Standard 3a discusses how to collect client satisfaction data.

TABLE 34. MONITOR THE INSTITUTION'S ONGOING CAPACITY TO HANDLE GROWTH

INDICATOR	ANALYSIS
Field officer-to-client ratio and manager-to-employee ratio	Check that the ratios are not dropping to a point that puts portfolio quality or service quality at risk. Check manager workloads to ensure that managers can adequately handle growth without compromising their responsibilities to staff and clients.
Employee turnover	A spike in turnover can signal dissatisfaction with workload or other working conditions precipitated by too-high growth.
Staff performance	Consider whether new employees receive high quality orientation and job skills training, including mentoring/monitoring by more senior staff. Ask managers about any changes in employee performance during periods of growth.

Enhance internal capacity as needed

Periods of high growth often require operational adjustments to avoid problems such as client over-indebtedness, poor service quality, staff dissatisfaction, and deteriorating portfolio quality. For example, an uptick in staff hiring and training tends to expose any weaknesses in a provider's human resources management, such as poor screening of job candidates or insufficient onboarding for new staff. In this case, more robust hiring protocols and additional staff training are needed. When a provider's MIS is asked to hold, process, and analyze a more substantial data load, it is not uncommon for a provider to find that upgrades are necessary. Additionally, high-growth providers often need to adjust staff incentives to emphasize portfolio quality and client satisfaction to mitigate the risk of staff pursuing risky clients, such as clients of other providers or those who fall outside the provider's target poverty range, for example. Expect additional risks associated with growth, and stay ahead of potential problems by enhancing your institution's operations as needed.

• *Responsible Financial Performance: Growth and Profits* presents data on the financial and social performance implications of different types of growth, and it makes recommendations for responsible growth.
• *Growth, Profit & Compensation in Microfinance - How Much Is Too Much?* is an MFTransparency screencast (PowerPoint and voice recording) that discusses the difficult issue of how to define appropriate limits on growth, profit, and compensation for the microfinance industry.

FIELD EXAMPLE 55. INCOFIN DEFINES "RESPONSIBLE GROWTH"

Incofin Investment Management believes that all investors have a responsibility to assess market penetration and potential saturation before investing. When monitoring investees and potential investees, Incofin closely evaluates the level of market penetration where the FSP operates (at the national, provincial, district, and village levels), the instances of multiple borrowing and the use of Credit Bureau information, the FSP's growth target rates, the FSP's past and present loan portfolio and client growth rates, and the internal capacities of the FSP (MIS, risk management, credit underwriting policies, compliance culture, quality of field staff training, and delinquency management), to determine whether their loan portfolio growth rates are "responsible." For example, Incofin looks for growth that is broadly in line with the following rates:

• 50% to above 100% annually—Young FSPs with good systems in place in market with low penetration rates.
• 30% to 50% annually— Medium-sized FSPs in markets with low-to-medium penetration
• Up to 30% annually—More mature FSPs in markets with high penetration.

Standard 6B

Equity investors, lenders, board, and management are aligned on the provider's social goals, and implement an appropriate financial structure in its mix of sources, terms, and desired returns.

> Essential Practice 6B.1 The provider has clear policies, consistent with its social goals, on its desired level of returns and on how profits will be used.

> Essential Practice 6B.2 The provider engages with funders whose expectations for financial returns, timeframe, and exit strategies are aligned with the provider's social goals and stage of development.

> Essential Practice 6B.3 The provider protects the liabilities it has to clients.

> Essential Practice 6B.4 The provider has a transparent financial structure, as reflected in its annual audited financial statements.

6B.1 DEFINE A POLICY ON PROFITS AND THEIR USE

Management and investors must develop a shared understanding of the appropriate level of profit and the allocation of profits among investors, the institution, and clients. Doing so requires both your institution and potential investors to be fully transparent on financial and social return expectations prior to investment, and it requires the board to play an engaged and ongoing role in oversight of profit and profit allocation.[134]

In order to facilitate this clear understanding between your institution and its current and potential investors, begin by setting a policy on profits that includes:

- the prices for products and services (discussed in standard 6c),
- the desired level of profits, and
- how net profits will be allocated.

Your policy on profits should include targets or ranges for ROA, ROE, and/or margin caps. In addition to providing clarity to managers on financial goals, having these targets in place: 1) helps potential investors to determine whether your institution is pursuing a profit level that is in line with their own expectations, and 2) allows the board to monitor whether the institution is generating too much or too little profit, as compared to targets. At least once a year, your board and management should review your institution's actual level of returns and how profits are allocated to check that they are in line with your profitability targets.

In addition to setting profit targets/ranges, your institution should articulate the rationale for these. Specifically, discuss and *put into writing* why these target ranges were chosen and how they promote balance between your institution's financial and social goals. It should not be automatically assumed that high profits are inconsistent with your social goals, but you should be able to articulate how they are consistent with your social goals. For example, you may choose to seek higher

margins on loans because you are exposed to specific risks given the country or area you work in (e.g., inflation, drought, etc.) or given the target population you work with (e.g., clients in difficult-to-reach areas).

Use the benchmarks in Table 35 when setting ROA targets. The ranges are based on a three-year average ROA—use ROA adjusted for compulsory deposits[135] for each of the years.

TABLE 35. BENCHMARKS FOR ROA (THREE-YEAR AVERAGE, ADJUSTED FOR COMPULSORY SAVINGS)[136]

ROA	Interpretation
<1%	The institution may struggle to be sustainable
1-3%	Normal range
3-7.5%	Elevated range
>7.5%	High range

If your current or desired ROA falls in the high range, this does not necessarily mean you are earning excessive profits. There are many reasons why profits would fall in this range that are consistent with social goals. For example, early stage providers, those who are building up their equity, and those still dependent on subsidies or donations might show a higher ROA. Environmental factors such as high inflation, regulation that increases earnings requirements (e.g., high equity requirements), and political or other local risks that necessitate additional cushion, can also drive up the ROA.

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[134] The guidance for Standard 6c discusses board oversight of whether the institution's profitability levels are consistent with the institution's policies on returns

[135] Compulsory deposits can significantly distort financial metrics. If you require compulsory deposits, adjust your ROA calculation to exclude compulsory deposits from your loan portfolio and assets. Read more here

[136] These benchmarks are established by the Smart Campaign and are used in the methodology for Client Protection Certification, when assessing Client Protection Principle 4—Responsible Pricing.

Your institutional policy (bylaws, statutes, shareholder agreements, etc.) should be very clear on the use and allocation of profits. It should detail how much of the current year's profit is expected to be distributed in dividends and bonuses for staff and/or management, how much should be allocated to general reserves to maintain a good capital adequacy in the context of growth, and how much will be allocated to create benefits to clients, such as the examples listed above. Your institution should also clearly state whether it has a goal to lower interest rates for clients as long as profits remains above a certain threshold.

The following questions are useful to consider when setting desired profitability ratios/ranges:

- How does your pricing compare to market prices? Do profitability targets allow your institution to remain competitive relative to other players in the market?

- What is the minimum pricing to ensure full coverage of your product expenses? If you are setting a lower price (one that does not cover costs) on a product for social purposes, how sustainable is the "subsidy" from more profitable products or subsidies from other sources?

- How does each product and service contribute to your institution's financial goals? Social goals? Which products/services can be justified based on their social benefits to clients, though they are not profitable in the short- or medium-term? How would termination of a product or service impact clients?

- Can you be viable without needing large profits from the more profitable loans? If you establish a policy of targeting cost recovery and profit from the full range of products, evaluate whether the higher cost of smaller loans is within the means of those clients to pay.

- Can you set lower profitability targets that support the sustainability of the institution and attract new investors while at the same time enabling clients to retain a greater share of their income?

- How much of your institution's growth—whether scaling up or developing new programs—should be borne by new investor capital vs. financed through

retained earnings/interest rate income provided by clients? What level of profitability is needed to attract adequate investor capital?

Yield targets might be higher if excess income is used to benefit clients. Such examples include investments in: market research/product design/product testing so that products fit better with clients' needs; client monitoring; improved client protection practices (e.g., creation of a client complaints mechanism or revision of loan contracts to improve their transparency); improved staff training on customer service; or extension of services into unbanked geographic locations. If high profits mainly benefit shareholders above the levels justified by the operating context (e.g., after accounting for inflation, country risk, etc.), then your profit/profit targets are most likely inconsistent with your social goals.[137]

Growth, Profit & Compensation in Microfinance - How Much Is Too Much? is a MFTransparency screencast (PowerPoint and voice recording) that discusses the difficult issue of how to define appropriate limits on growth, profit, and compensation for the microfinance industry.

6B.2 ALIGN EXPECTATIONS UPFRONT

When your institution is seeking equity investment, seek funders[138] whose expectations for financial returns, social returns, time horizons, and exit strategies are aligned with your own. It is important that in the structuring stage of an investment agreement, the terms of the transaction explicitly recognize and seek to preserve your institution's social goals, which include your growth and profitability

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[137] According to the Smart Campaign Client Protection Certification methodology, if high profits mainly benefit shareholders above the levels justified by the operating context (e.g., after accounting for inflation, country risk, etc.), then the provider's profitability should be seen as inconsistent with appropriate pricing, and the provider should not be certified with one exception: in the event profits are in the elevated (but not high) range, are assessed to be primarily benefiting shareholders beyond levels reasonable given inflation/country risk, but the MFIs OpEx is at least 3% below its expected level, then the MFI's profits can be said to be offset by higher efficiency, and it remains eligible for certification. (Daniel Rozas, 2016)

[138] This applies to FSPs that are externally funded and not to FSPs such as cooperatives that are funded by members themselves.

targets, discussed above. If terms such as expected social outcomes and use of profits are left unarticulated in pre-investment negotiations, management will be forced to reconcile these inconsistencies once funding is already in place, which often leads to tension between the institution and funders.

As a starting point, each new equity investor should study the mission and social goals of the institution and its strategy for achieving them (see standard 1a).[139] Doing so ensures that the investor understands that the mission of your institution is not to maximize financial performance but to balance financial and social performance. A funding agreement should include an explicit articulation of your institution's approach and goals with respect to financial and social performance, which will be included in the formal documentation of the transaction. Likewise, you should perform comparable due diligence on potential investors, so that your board and management are confident that investors share your social and financial goals.

Table 36 lists the terms that should be mutually decided on by your institution and potential investors, alongside discussion questions that will help both parties determine whether the terms are aligned with your institution's social goals.

FIELD EXAMPLE 56. **EQUITAS MICRO FINANCE SETS PROFIT POLICIES AND ALIGNS MANAGEMENT AND INVESTOR EXPECTATION**

Equitas (India) targets clients who are unable to access mainstream banks, and it prioritizes "transparency to clients, employees, society, regulators, government, lenders, and owners." To ensure that its social goals—including profit expectations—are clear to management, the board, and funders, Equitas:

Established a cap for ROE: When Equitas commenced lending, the institution set a ROE cap of 25% (the target ROE for the company is around 20%) which is based on the typical ROE range of 20 to 25% for nationalized Indian banks. The cap helps ensure that even after the company tapers off growth, benefits of efficiency gains from economies of scale will be passed on to the clients through reduced rates or other services.

Established a policy on the use of profits: Equitas has a policy of allocating 5% of the company's profits to fund social programs, including medical camps, skills development, and schools for clients' children. Additionally, Equitas has approval to use up to 15% of the company's net worth to create schools. These social programs are managed by an affiliated non-profit.

Established social performance expectations: In an attempt to align return expectations, the FSP clearly discloses the following to each potential investor prior to investment: the cap on ROE, use of profits to fund various social initiatives, and the Equitas philosophy on social interventions. Because the FSP has been clear about its profit allocation policy from the onset, Equitas has been able to continue funding these programs to benefit its clients even in times of financial stress when ROE was under pressure.

- The SPI4 ALINUS is a tool that helps providers and investors speak a common language about SPM. Investors use the tool for due diligence and monitoring, and they discuss the results with investees. Also available in Spanish and French.
- *Lenders' Guidelines for Setting Covenants in Support of Responsible Finance* suggests a universal set of financial ratios and social undertakings that can form the basis of a responsible finance covenant.
- *Aligning Stakeholder Interests in NGO Transformations* focuses on one particular moment when it is important for providers to be in agreement with other stakeholders (namely investors) on key expectations such as social and financial returns.

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[139] The guidance for standard 1a discusses all of the elements of your institution's social strategy. Social investors should sign a written agreement that summarizes this strategy.

TABLE 36. ALIGNING SOCIAL AND FINANCIAL EXPECTATIONS

TERMS	QUESTIONS TO DETERMINE ALIGNMENT WITH THE INSTITUTION'S SOCIAL GOALS
Investment timeframe and exit strategy	• Is the investor's intended timeframe appropriate? If too short, it may require the FSP to grow faster than is prudent, set prices too high, or compromise on its social goals to maximize short-term profitability. • Is there a secondary market for investment in your country? If so, how strong is it? Is it all venture capital, or is there a financial market that gives you other options for further investment once the original investors leave? • To whom can the investors sell their shares? Careful and deliberate due diligence to ascertain the buyer's intentions and commitment to the FSP's mission will help the seller make a decision, as will judgments about the kind of capital and expertise the FSP most needs.[140] • At what price should the investor sell? Cashing out nearly always entails giving up say over the investee's future social performance. Some investors use a two-step process in which they first screen buyers for suitability and then make their final selection based on the most attractive price. A focus on maximizing profit, even with a secondary consideration of social performance, could unintentionally force an FSP toward a new strategy that reduces benefits to or even harms clients.[141]
Social outcomes	• Does the investor share the same social goals as the FSP? What action will the investor take if the FSP does not achieve the agreed-on social or financial targets?

	• Do the investor's terms (e.g., lending rate, desired profits, etc.) reflect the "social returns on investment" (client, community, and environmental outcomes of the investment)? • How has the investor demonstrated commitment to social performance? (e.g., history of working with other double bottom-line institutions, signing the Principles for Investors in Inclusive Finance, membership in the Financial Inclusion Equity Council, etc.)
Profit expectations	• Do the investors' profit expectations align with what the FSP believes is reasonable, given the FSP's commitment to responsible growth (standard 6a) and responsible pricing (standard 6c)? For example, what does an investor's target IRR assume with respect to ROE, and are targeted growth rates underlying the latter consistent with the FSP's social goals? • Do profit expectations take into account the social returns that the FSP expects to deliver? • Are debt and equity investors' financial return expectations aligned with the FSP's own target ranges, given their cost of capital, the particular risks of investment, and the social returns generated by the FSP? • What will the investor's profit expectations require of the FSP in terms of growth, human resources, and risk management? Can the FSP manage these requirements? • What portion of profits should go toward: reinvestment in the FSP to finance growth, reducing costs to clients, dividends for members or shareholders, bonuses for staff or management, activities designed to enhance the social outcome of the FSP, other? • What portion of the FSP's growth should be based on retained earnings? In other words, how much of future growth should be capitalized by clients and how much by investors?

[140] For more, see CGAP's *The Art of the Responsible Exit in Microfinance Equity Sales*. | [141] *ibid.*

6B.3 PROTECT THE LIABILITIES YOU HAVE TO CLIENTS

Your institution has an obligation to its clients for safeguarding the funds entrusted to it, such as savings and cash collateral. Your institution must have solid treasury risk management policies and procedures and robust internal controls in order to protect your clients' interests. The board must reinforce these prudent measures by defining and closely managing financial risks. Increasingly, some providers are using an Asset Liability Management Committee (ALCO) tasked with a more rigorous review of treasury risks such as foreign exchange, liquidity and interest rates, and other contingent liabilities that may affect the provider's financial liquidity and long-term solvency, as well as its social and financial commitments to clients.

One particular risk management responsibility is to safeguard client deposits and/or cash collateral. While most regulated providers can expect supervisory authorities to provide an additional safeguard for public deposits, your board and management should also actively ensure that your institution complies with all laws, regulations, and best practices in terms of risk management, and it should prioritize the integrity of and access to client savings at times of stress or uncertainty.

These measures for protecting client obligations should be included in investor and shareholder agreements. This policy should establish liabilities to clients as a higher priority than your institution's obligations to its other debtors and shareholders, if not mandated by local regulation.

6B.4 MAINTAIN A TRANSPARENT FINANCIAL STRUCTURE

As described above, transparency regarding social objectives and return expectations is critical to a full alignment between investors and the provider. Your institution should also be transparent on all the risks it bears, notably financial risks. Serving vulnerable clients and operating in unstable environments with unreliable or non-existent deposit insurance means that your institution has a responsibility to be transparent and closely manage risk.

In keeping with the International Financial Reporting Standards (IFRS), your institution should disclose in its financial statements all risks related to assets or liabilities (foreign exchange risk[142], interest rate risk, maturity risk, etc.), delineate contingent liabilities[143], disclose off balance sheet items[144], count them in leverage ratios, and provide all details of your shareholding structure and participations in other companies. Make public your annual audited accounts.

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[142] IFRS Website

[143] **Contingent liabilities** are possible obligations, and they present obligations that are not probable or not reliably measurable. An example of such liabilities is a restricted grant that has been disbursed but not yet earned by completing the required deliverables.

[144] **Off balance sheet items** are those that are not included on the institution's balance sheet, because the institution does not have legal claim or responsibility for them. However, these may become liabilities for the FSP. Examples include operating lease agreements and joint ventures.

Standard 6C

The provider sets prices responsibly.

> Essential Practice 6C.1 The provider is managed sustainably to provide services in the long term. (Client Protection standard 4.1.0)

> Essential Practice 6C.2 The provider's pricing policy is aligned with the interest of clients. (Client Protection standard 4.2.0)

> Essential Practice 6C.3 The provider's financial ratios do not signal pricing issues. (Client Protection standard 4.3.0)

6C.1, 6C.2, & 6C.3 SET SUSTAINABLE PRICES THAT ARE ALIGNED WITH CLIENT'S INTERESTS

As an institution targeting social goals, you have a responsibility to price your products and services responsibly. Though the financial services industry does not have a single definition for "responsible," there are objective and quantitative ways to determine whether or not your prices are responsible. A **responsible price** is one that is sustainable for the provider and is affordable for the client. This standard discusses how you can determine whether or not your prices fit that description.

Charge reasonable fees on all products

Pre-payment penalties, account closure fees, transaction fees, or other penalties should not be excessive. Pre-payment fees should be based on an evaluation of the actual costs incurred by the early repayment, and pre-payment penalties should not include interest that would be accrued between time of pre-payment and the end of the loan term. Similarly, arrears interest and penalties should not compound debt; they are calculated based on the principal amount only.

Look carefully at the fees associated with savings accounts. Clients should be encouraged to save as much and as frequently as possible, even in small amounts. Withdrawal, account opening, and minimum balance fees can quickly erode small savings, so aim to keep savings account fees low.

With regards to insurance, you should not charge clients nor receive from the insurance provider an entrance fee, exclusivity fee, or initiation fee. These fees mimic a bribe or kickback for access to the financial provider client base, which can have a negative impact on the market (and ultimately clients) by driving prices up and/or locking a provider into long-term arrangements with an insurer.

Finally, monitor the fees that agents or other third-party providers may be charging to your clients—for example, a transaction fee charged by an agent at the point of sale. Make sure that third-party fees are reasonable when compared to other similar actors in your market.

Set Responsible Prices on Insurance and Payments Products

If you have mandatory insurance fees, or offer optional insurance policies, the price should cover at least the premiums passed to insurance companies and the actual cost of providing the product. Sustainability is vital for insurance. Many clients are unfamiliar with or untrusting of insurance, and a client may lose trust in insurance products if they are discontinued or undergo drastic changes repeatedly or unexpectedly. If your insurance product is not sustainable, and you have made a decision to subsidize the product in order to offer this benefit to clients, be clear on a long-term plan for sustainable continuity of coverage.

It is also important to adjust insurance pricing based on actual claims experience. When insurance is first offered in a market, or to a new client segment, pricing is based on predicted claims/payouts. However, with time (e.g., after 2-3 years), the price should be adjusted to reflect the reality of client claims. If claims are fewer/less expensive than anticipated, these savings should be passed to clients in the form of a lower price, expansion of benefits, or other advantages. Alternatively, if payouts are higher than expected, the price should increase in order to ensure the long-term sustainability of the product.

As you track insurance claims for pricing purposes, also check your claims ratio.[145] A claims ratio below 30% is a significant red flag, signaling that the insurance product does not create value for clients.[146] If your claims ratio is at or below 30%, you should understand why. A low claims ratio may be justified if the product is very new, if the costs of distribution and/or servicing claims

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[145] **Claims ratio** = claims paid to clients / total (unsubsidized) premium collected by insurer
[146] A Finmark Trust discussion paper, *How low can we go?*, argues that it is very unlikely that a product with a lower claims ratio could make clients better off than a situation without insurance.

is unusually and unavoidably high, or other exceptional circumstances. It is your responsibility to make sure clients receive value from the products and services they buy from you.

Finally, with regards to payments services, check that transaction costs should be comparable to those charged by peers.[147]

The Smart Campaign's tool, Smart Microinsurance outlines key client protection considerations for FSPs who offer insurance.

Calculate Interest Earned on a Daily Basis

Calculate interest earned on savings deposits on a daily basis. This daily balance method should replace other methods such as paying interest on, for example, the lowest available balance between the tenth and last day of the month. Paying clients based on their day-end balance yields better returns on savings for clients, and it is important for motivating low-income savers to continue to put away money, as even a small daily increase is rewarded

Set Responsible Prices on Credit Products

Analysis for responsible pricing is based on the assumption that a provider whose costs are well-managed (operations are efficient and credit losses are limited) and has fair profits (that benefit clients) will have fair pricing, as reflected by its income.

Figure 3 depicts this assumption (for providers who derive their main revenue from loans), and it sets out the components of pricing that you can use to assess whether you have priced your products responsibly. The pricing analysis for this standard focuses on the three components over which providers have the most control: operational efficiency, loan losses expenses, and profits.

FIGURE 3. **COMPONENTS OF RESPONSIBLE PRICING**[148]

Start by considering your institution's operational self-sufficiency (OSS).[149] Your institution should either be currently covering costs (OSS greater than or equal to 100%) or rapidly approaching break-even, and your financial results should allow you to maintain your capital base. Sustainability is essential for the longevity of your institution. Clients must be able to depend on service continuity, so sustainability is as important to client protection as it is to your financial performance.

When assessing your sustainability trends, it is best to consider the last three years, including the most recent data you have available. If your OSS is not already at or above 100%, the trend should be upward, showing that you will reach sustainability in the next one to two years. Figure 4 shows a trend approaching sustainability (a) and a trend that signals a worrisome sustainability trend (b).

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[147] Remittance providers can compare their pricing with the market by using the World Bank database on remittance prices.

[148] This graphic and further discussion on the components of pricing can be found in the Smart Campaign publication (author Daniel Rosas) *Assessing Price Fairness in Microfinance*.
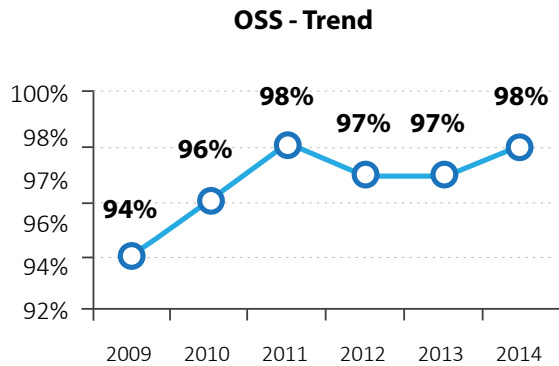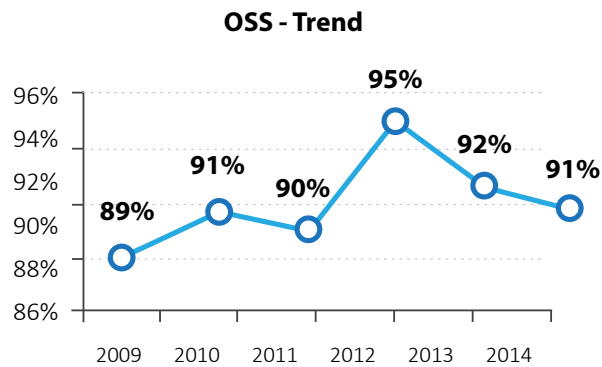[149] **OSS** = Operating Revenue/ (Financial Expense + Loan-loss Provision Expense + Operating Expense).

FIGURE 4. **SUSTAINABILITY TRENDS**

a. Acceptable OSS trend

OSS - Trend

b. Unacceptable OSS trend

OSS - Trend

Use a formal pricing policy

Your institution should have a formal (internal) pricing policy that balances the interests of your institution with those of the client. The pricing policy should take into account:

- Cost of providing the product—the cost of funding, operations, and loan losses;
- Affordability for the client (discussed below);
- Desired profit, including returns to capital (see 6b.1); and
- Social goals for the product, such as reaching remote locations or providing access to very poor people.

Your institution is likely taking on costs that a more conventional company would avoid—for example, design and pilot costs for innovative "pro-poor" products and costs involved in targeting clients that are harder to reach. While in many cases these efforts will eventually yield a reasonable financial return from better product design, stronger competitive position, or enhanced client loyalty and lower client acquisition costs, there may be a period before they do so. In this regard, your institution must decide which of the "investments" in future profitability should be funded by the client through higher prices and which should be absorbed by your institution (or investors) through lower retained earnings or dividends.

Compare financial ratios with peers

First and foremost, you should know whether the price of *each of your products* is higher, lower, or similar to other known prices. Keep in mind that most loan products have a range of prices affected by factors such as the loan term and repayment frequency. When you compare prices with competitors, it is important to compare similar products (type, size, term, etc.) and to compare prices that have been calculated in the same way. In other words, when assessing the price of a loan product, first try to clarify what components were included in the calculation (e.g., fees, cash collateral), what interest rate

method was used (flat or declining), and what annualization process (nominal or compounding) was used in the conversion. Doing so will enable you to compare like products and make a more accurate comparison of your prices to those of your competitors.

When analyzing your prices, keep in mind that portfolio yield (PY) is an average of all products. Calculating the APR for each product is preferable, as it is more precise and can isolate problematic prices better than PY. Consider an individual client's perspective: it does not matter to him/her that your institution's average price for all credit products is on par with competitors if the one product s/he uses is priced too high. Therefore, the analysis discussed below should be done at the product level first and foremost, and at the portfolio level secondarily.[150]

The Smart Campaign's Pricing Diagnostic Tool[151] is an Excel-based assessment tool that can be used to evaluate your prices. The Smart Campaign's pricing assessment methodology uses a "red flag" approach to evaluate responsible pricing: if performance exceeds certain benchmarks, it signals that further analysis is needed. The methodology uses the following benchmarks:

- If your Annualized Percentage Rate (APR)[152] for each of your main products[153] is 15%+ higher than your peer average,[154] this is a warning sign. If such is the case, you should be able to justify why your APR is high for your market. See Figure 5 for an example of an APR that is outside the acceptable range.
- If PY is higher than the "usually observed rate for peers"[155] by 0.5 standard deviation or more, this is a warning sign. If such is the case, you should be able to justify why your PY is high for your market; See Figure 6 for an example of a PY that is higher than the peer rate.
- Operating Efficiency Ratio (OER) should be less than the "maximum expected for the institution."[156]
- Loan Loss Expense Ratio (LLER) should be below 5%.[157]
- Return on Assets (ROA) should not exceed 7.5% at the very upper limit, with limited exceptions (see 6b.1, including benchmarking Table 35 for a discussion of ROA).
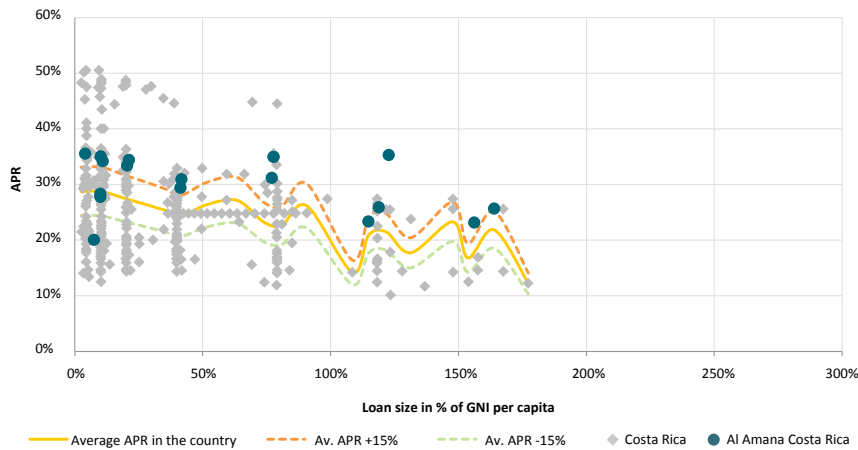
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[150] Product-level pricing from peers is not always readily available. In such cases, PY comparisons are appropriate. It is important to continue working as a sector to make pricing on individual products publicly available.
[151] The Smart Diagnostic Tool is not publicly available. However, if you would like to use the tool to assess your prices, please contact the Smart Campaign to request the tool: comments@smartcampaign.org.
To calculate your APR, use the MFTransparency *Calculating Transparent Pricing Tool – v3.0* . Available in English, French, and Spanish.

[152] "Main products" are those that make up 20% or more of your loan portfolio.
[153] You will only be able to use this benchmark if the prices for your competitor's individual products are available.
[154] The "usually observed rate" is determined by the Smart Diagnostic Tool and generated automatically. It is a rate determined by the MIX Market based on global Portfolio Yield averages. It does not use country or regional averages as in some countries and regions, entire markets have irresponsibly high prices. MIX will update the rate on an annual basis.
[155] The "maximum expected OER" is used by the Smart Diagnostic Tool and generated automatically. It is a limit created by a multi-factor model that takes into account the FSP's operating context, since those operating in poorer, more rural locations, with higher costs of funds will have higher operating expenses and cannot easily be compared with FSPs that do not face similar challenges. This model estimates what the given OER should be for any provider considering the following 5 variables: 1. GNI per Capita, 2. Rural Population Density, 3. Assets, 4. Average Outstanding Loan Balance (Average Loan Size), 5. Deposits to Loans Ratio. These variables where chosen because of their explanatory power and statistical relevance, but also because of their theoretical influence over the operational costs of a financial provider (for example, it is obvious that operating costs will be higher for an FSP operating in a country with a low rural population density, where the target population is more scattered and dispersed in marginalized communities of difficult access). The statistical model used is a multivariate regression model that considers the 5 variables previously described. It has an explanatory power of 40% of the observed variance (R-square), and was programmed using data from 285 different MFIs in 45 different countries obtained from MIX Market for the past 8 years (2,124 observations).
[156] An LLER of 0% is also a red flag.

FIGURE 5. **APR GRAPH GENERATED BY THE SMART CAMPAIGN DIAGNOSTIC TOOL**

The Smart Diagnostic Tool uses pricing information from your institution and your peers to generate the graph above. This graph shows that many of Al Amana Costa Rica's products are priced above the "Av. APR +15%" benchmark. This is a red flag for irresponsible pricing. In this scenario, the provider should examine why prices are substantially higher than the peer average.

FIGURE 6. **PY GRAPH GENERATED BY THE SMART CAMPAIGN DIAGNOSTIC TOOL**

This figure shows a fictional FSP ("Al Amana, Costa Rica") with a PY above the usually observed rate for peers, which is denoted by the green line.
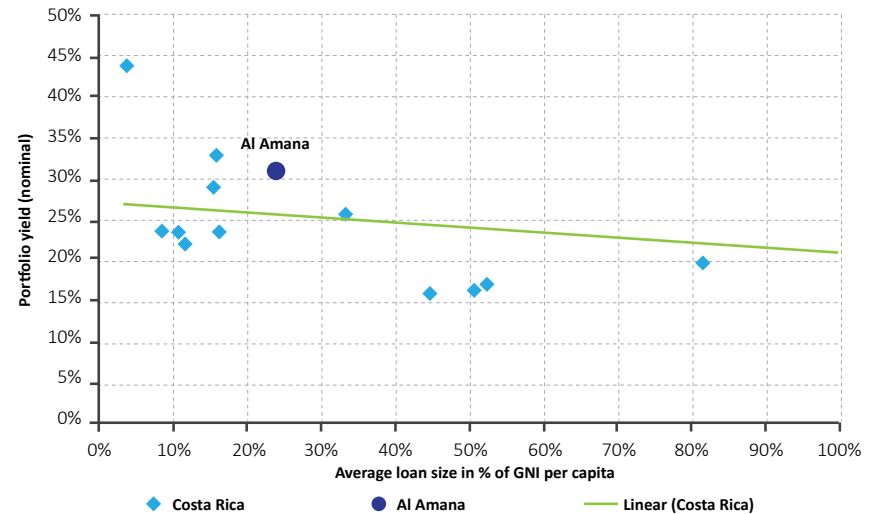
Data: Costa Rica 2014, Al Amana 2014

The pricing diagnostic described above is not designed to give a definite answer to the question: *Are my institution's prices responsible or irresponsible?* Instead, it is intended to identify any areas that need further exploration. For example, if your OER is higher than the expected maximum, you should examine why that is the case. Do you have explanatory factors not captured by the model? Some of these might include operating in a low-security

environment that requires significant spending on non-standard security costs; serving particularly difficult-to-reach clients; serving an exceptionally under-privileged population that requires add-on services (youth, disabled, etc.); or offering non-financial programs that are useful to clients. However, if these—or similar—factors are not present, then it is likely that you need to improve your efficiency so that it is not passed on to clients through your prices. As you consider how to improve the efficiency of your processes, remember that any new measures should take client and employee well-being into account. Aim for an appropriate balance between efficiency and your social goals such as customer service and strong client protection.

Consider whether prices are affordable for clients

When determining appropriate prices for your products, use the quantitative price comparison discussed above in conjunction with your other pricing considerations, including affordability for clients. The following qualitative data will help you assess the affordability of your prices:

- **Indicators of client stress.** Understand whether clients are under undue financial stress as they make their loan payments. Do clients forgo necessities (meals, healthcare, etc.) to afford loan payments? Or make undesired changes to their lifestyle (take children out of school, sell off household items, reduce participation in community activities, etc.)? Are repayments actually degrading their economic activities (selling off productive assets, depleting savings, etc.)? While these unacceptable sacrifices can indicate other problems unrelated to the cost of credit (e.g., too many debts, family crisis, poor business skills), they should be a red flag. Combine your analysis of client stress/financial health with the data below to understand whether the cost of your products is contributing to the problem.

- **Client feedback[157] on prices and satisfaction with products.** Gather client feedback on current prices. Ask whether clients are able to build assets and cope with cash flow uncertainties. Check your prices against how satisfied clients are with the products/services that you offer. Seek client feedback on loan sizes, interest paid on savings, prices, and fees, and whether they are satisfied with the products and customer service that they receive, given the cost of the product. Higher prices may be justified by high client satisfaction with your unique product/service features (e.g., convenience, timeliness), as many clients are willing to pay more for better products and client service. Likewise, low satisfaction is a signal that clients do not find products/services valuable and may only be willing to pay for them due to lack of options or confusion on the real cost.

- *The Microfinance Transparent Pricing Supervision Handbook*, though geared toward policymakers, is useful for anyone who wants to understand the components of price and how a true price should be disclosed. Also available in French.
- *Assessing Price Fairness in Microfinance* is a paper explaining the Smart Campaign's methodology for assessing fairness in pricing. It provides additional details for the guidance provided in Dimension 6 of this guide.
- *Beyond Financial Inclusion: Financial Health as a Global Framework* lists six indicators of financial health in the developing world.
- *Over-indebtedness of Microfinance Borrowers in Ghana* lists common types of "unacceptable sacrifices" made by struggling borrowers. Though discussed in the context of over-indebtedness, they could be applied to clients struggling to pay too-high prices as well. Also available in Spanish.

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[157] The guidance for standard 3a discusses how to gather client feedback.

Use declining balance calculations

The way you calculate interest on loans also affects the APR charged to your clients. Calculate interest rates using a declining balance, rather than a flat calculation. Using the flat method, the borrower pays interest on the full loan amount, even though the amount they have over the loan term decreases as they repay the loan. Stating nominal interest rates using the flat calculation appears much cheaper than declining balance rates, but they are in fact nearly twice as expensive as stated.

Many providers are afraid to use a declining interest rate, because their prices may look higher than competitors who quote a flat rate. That is because any nominal interest rates do not take into account additional fees (processing fees, compulsory savings, etc.), and so they appear lower than rates presented as Effective Interest Rate (EIR) or Annualized Percentage Rate (APR)—formulas that are all-inclusive. If you find yourself in this position, do not be afraid to be a first mover and set the standard for your market. Advertise your fair pricing calculation, and position your institution as the leader in treating clients fairly. Make sure that staff understand the interest rate calculation and are able to describe it clearly to clients, as well as discuss the advantages of a declining balance rate. Additionally, you might consider lobbying your regulator to establish policies on interest rate calculations and disclosures. For clients to truly make meaningful comparisons between products, the sector as a whole needs to shift to these transparent, all-inclusive pricing formulas.

The MFTransparency Consumer Pricing Education Package is a kit of materials that your institution can use to educate clients on loan pricing, including how to easily understand flat vs. declining interest. The package is made up of a trainer's manual, adaptation guide and supplementary materials, an educational video depicting fictional borrowers, and a kit of images to use during trainings. The image[158] below is an example of a training tool used to discuss the concept of flat vs. declining interest rates with clients. Providers from many countries have used illustrations, stories, and simple example calculations to increase clients' awareness of how interest rates are calculated.
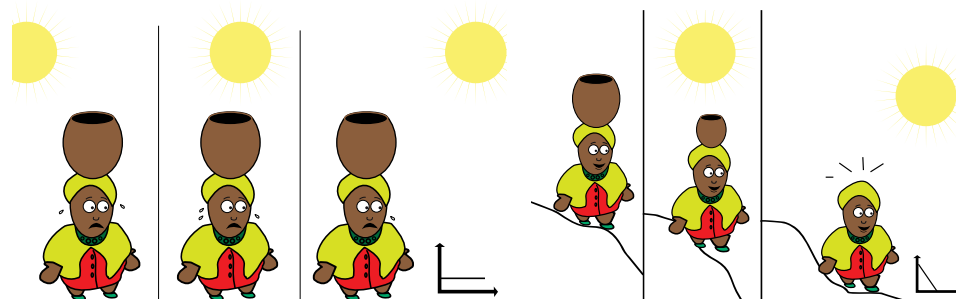
The Smart Campaign case study *Transparent and Responsible Pricing at Mi-Bospo* discusses how the Bosnian institution sets responsible prices. Also available in French.

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158 © 2012 MicroFinance Transparency. Used with permission.

FIELD EXAMPLE 58. **EQUITAS MICRO FINANCE USES A FORMAL PRICING PROCEDURE**

When Equitas (India) began operating in 2007, the company surveyed the market and found that MFIs were charging interest rates ranging from 32% to 55%, when calculated using an all-inclusive declining balance method. However, it was clear that clients did not know they were paying these rates, as prices were generally quoted on a flat rate basis, with other charges shown separately.

Equitas decided to be one of the first lenders in India to quote the EIR, even though it would appear to clients that Equitas was charging higher rates than competitors. Furthermore, Equitas set its interest rate as if it were already operating full scale (at a 6% operating cost rather than the actual 21% costs at launch), with the cost of start-up and growth born by Equitas' investors. Thus, Equitas' first loan was at a rate of 26.25% (an all-inclusive declining balance rate).

FIELD EXAMPLE 59. **TRIPLE JUMP USES AN "INTEREST TRAFFIC LIGHT" FOR POTENTIAL INVESTEES TO ASSESS INVESTEES PRICING AND PROFITABILITY**

In 2013, Triple Jump (TJ) introduced a new version of the "TJ Interest Traffic Light", a tool it developed to evaluate whether interest rates and associated profitability are justifiable, in light of the FSP's social mission and operating environment.

The first part of the analysis examines: 1) the FSP's level of interest rates (APRs); 2) how they compare to peers' rates; and 3) the FSP's level of profitability. If one or more of these criteria exceed defined thresholds, a deeper analysis is warranted, and the FSP is asked to provide the following information:

- Non-revenue generating components of APR such as VAT taxes, third-party insurance fees, mandatory deposits;
- Loan sizes;
- The added value for clients—the APR is compared to typical return on investments of clients in order to assess the extent to which it makes economic sense for them to borrow at the given APR;
- Costs in the operating environment, in particular: loan officers' salaries, population density, infrastructure constraints, borrowing costs, and inflation;
- Use of profits and dividend distribution; and
- Capital adequacy requirements.

Based on these factors, the traffic light tool generates a score, which corresponds to the following colors:

- Green: the FSP is eligible for investment without additional conditions.
- Yellow: the FSP is eligible for investment under the condition that it formally commits to reducing its interest rates within a 12-18 month period. Loan terms are reduced to a maximum of 24 months, and TJ may contact other lenders to initiate a joint effort in ensuring the FSP fulfills its commitment.
- Red: the FSP is not eligible for investment.

These ratings are treated as recommendations to the investment committee who discusses the results of the traffic light and its underlying components. This structured approach to assess responsible pricing and balanced returns allows TJ to look at these complex issues in a systematic, consistent, and transparent way.

Standard 6D

The provider compensates senior managers in a way that is appropriate to a provider with stated social goals.

> Essential Practice 6D.1 The provider ensures that compensation of the CEO/Managing Director and other senior staff is in line with the provider's social goals.

> Essential Practice 6D.2 Upon request, the provider transparently discloses compensation to regulators, auditors, raters, donors, lenders, and investors.

> Essential Practice 6D.3 The provider calculates the difference between the average compensation of its top-level executives and its field employees, and analyzes whether this spread is consistent with the provider's mission.

6D.1 ALIGN CEO COMPENSATION AND INCENTIVES TO SOCIAL GOALS

CEO compensation levels will vary widely across different providers, but all providers should ensure that compensation—defined as salary, benefits, bonuses, stock options, and cash value of perquisites—is set by independent board directors and not by the CEO him/herself. Indeed, the board should meet separately from the CEO to discuss matters of compensation.

Your institution's board must play a critical oversight role in evaluating the performance of the CEO and other top-level executives and in determining their compensation. Such oversight motivates managers to achieve specific social and financial targets, and it ensures that compensation reflects such performance.

Decisions on CEO compensation must take into account the results of the evaluation of the CEO's performance, including social performance goals.[159] While your institution should pursue and incentivize sustainability, the CEO's performance expectations and incentives should not over-emphasize pursuit of profits, as this is likely to shift the focus of the organization away from what is best for clients, toward what is most likely to produce high profits.

The board, including independent (non-management) members, should annually[160] review the compensation of the CEO and other senior managers to ensure that it is comparable to institutions with similar double bottom-line goals. If there are large differences, the board should examine the reasons for the differences, to determine whether the discrepancy is justified (e.g., high salary required to attract someone with a rare talent that is critical to the institution at the time). This measure will provide a reality check to the institution, and it may prompt an upward or downward revision of the salary scale, so that it is more in-line with industry standards for double bottom-line institutions.

The board should evaluate the CEO/Managing Director based on the social performance of your institution, taking the evaluation criteria directly from the social targets established in the social strategy.[161] Similarly, the CEO/Managing Director should evaluate senior managers based on how well they fill their social performance responsibilities. Social performance evaluations should also be a part of any performance-based incentives offered to the CEO/Director and other senior managers. These staff should not be eligible for financial incentives if they demonstrate poor performance against their social targets—even if they achieve positive financial performance.

> ### FIELD EXAMPLE 60. **CASHPOR INCLUDES SPM IN MANAGING DIRECTOR'S INCENTIVES**[162]

Cashpor (India) measures and benchmarks its outreach to poor households (those living below US $1.88/day at purchasing power parity (PPP)), and it tracks changes in poverty likelihood score over time, using the Progress out of Poverty Index (PPI). Cashpor's social data show that after five loan cycles (which roughly corresponds to five years) about half the clients still borrowing from Cashpor are above the poverty line, but just under half are still below. Based on this realistic benchmark, the board holds the managing director accountable both for reaching poverty outreach targets (91% of clients must be below US $1.88 (PPP) when they join Cashpor) and for ensuring that 50% are above their entry level PPI score after five loan cycles. These targets are part of the managing director's performance incentive, and it is his/her responsibility to review the data and manage Cashpor's operations toward achievement of this social goal.

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159 Guidance for standard 2a discusses how to evaluate CEO performance based on social performance criteria.
160 In *The Practice of Corporate Governance in Microfinance Institutions*, the Council of Microfinance Equity Funds (CMEF) provides the guideline that the board should "evaluate management performance and compensation at least annually."

161 Guidance for standard 2b discusses how to evaluate the CEO based on social performance criteria.
162 Adapted from: *Making the Case for Outcomes Management*, page 8.

6D.2 DISCLOSE MANAGEMENT COMPENSATION UPON REQUEST

In keeping with the IFRS, your institution should transparently disclose the compensation (defined as salary, benefits, bonuses, stock options, and cash value of perquisites) of any employee to external stakeholders who request this information. These stakeholders include regulators, auditors, donors, raters, lenders, and investors. Such disclosure holds your institution accountable for establishing compensation levels that are on par with industry norms and that reflect your institution's social goals.

6D.3 CHECK FIELD EMPLOYEE COMPENSATION AGAINST SOCIAL GOALS

The board is responsible for evaluating the performance of the institution's top-level executives. Additionally, the board should evaluate the compensation of these managers relative to the compensation of its field staff, and determine whether the spread between the two reflects the institution's commitment to its social goals. For example, an institution might find that the average salary of the five highest paid managers is 15 times that of the five lowest paid field officers.[163] The board would discuss this finding, asking questions including: *Is this salary spread consistent with our commitment to responsible treatment of employees? Do management salaries create positive or negative incentives to achieve the social goals of the institution? Do management salaries reflect a management focus on profit that might undercut social goals?*

A provider committed to the responsible treatment of employees might find that a substantial spread between higher and lower paid employees does not appropriately reflect institutional values. The board should then discuss a proper course of action, such as reworking the pay structure for lower-paying jobs, reevaluating the salaries of top executives, and/or placing more emphasis on incentives for executives to achieve social performance targets.

Growth, Profit & Compensation in Microfinance - How Much Is Too Much? is a MFTransparency screencast (PowerPoint and voice recording) that discusses the difficult issue of how to define appropriate limits on growth, profit, and compensation for the microfinance industry.

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[163] While there are no commonly agreed upon benchmarks for Management-to-Worker ratios, experience shows that a ratio over 1:20 should raise concerns and prompt further discussion, using the questions listed above.

ACKNOWLEDGEMENTS

For more information, please visit:

www.sptf.info