



The Universal Standards for Social Performance Management **Implementation Guide**

Social Performance Task Force
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PREFACE

- The Social Performance Task Force
- Oikocredit
- CGAP
- ADA
- Acknowledgements
- Acronymns used in this document

THE SOCIAL PERFORMANCE TASK FORCE

The Social Performance Task Force (SPTF) is a global non-profit organization consisting of over 1,700 members from every region and multiple microfinance stakeholder groups: practitioners, donors, investors (development finance institutions and microfinance investment vehicles), microfinance associations (global, regional, and national), technical assistance providers, rating agencies, academics and researchers, and others. The SPTF's mission is to engage with microfinance stakeholders to develop, disseminate, and promote standards and good practices for social performance management (SPM) and reporting. SPTF focuses on promoting the SPTF Universal Standards for Social Performance Management ("the Universal Standards"), with the vision that SPM become standard business practice and is considered fundamental to achieving client-centered microfinance. The SPTF receives its core funding from the Ford Foundation and Swiss Agency for Development and Cooperation.

OIKOCREDIT

The SPTF appreciates Oikocredit's technical and financial contribution to this Guide.

Oikocredit finances and invests in microfinance institutions, cooperatives, and small to medium enterprises in low-income countries in support of sustainable development. With operations in almost 70 countries, Oikocredit is one of the world's largest sources of private capital for microfinance. Social performance, including measuring and demonstrating social return on investment, is a priority. A worldwide cooperative with 52,000 investors, Oikocredit currently has assets totaling € 779 million (US\$ 1,073 million), with € 591 million (US\$ 813 million) invested in over 800 partner organizations. Oikocredit's focus is on microfinance, agriculture and renewable energy. For more information visit www.oikocredit.coop.

CGAP

The SPTF appreciates CGAP's technical and financial contribution to this Guide.

CGAP (the Consultative Group to Assist the Poor) is a global partnership of 34 leading development organizations that seek to advance financial inclusion. CGAP develops innovative solutions through practical research and active engagement with financial service providers, policy makers, and funders to enable approaches at scale. Housed at the World Bank, CGAP combines a pragmatic approach to responsible market development with an evidence-based advocacy platform to increase access to the financial services the poor need to improve their lives. CGAP has been engaged in the governance of the SPTF from its beginning and contributed actively to the development of the standards for SPM. CGAP has fed in insights from its work on client protection and behavioral research, human-centered product design, and client centrality. www.cgap.org

ADA

The SPTF appreciates ADA's financial contribution to producing this Guide in French and Spanish.

ADA is dedicated to building and catalyzing financial inclusion for people excluded from conventional banking channels 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 and action research. ADA has expertise in youth financial inclusion, access to green energy through microfinance, microinsurance, and reinvested savings through remittances for migrants. 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 social performance management 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; www.microfact.org

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The Resources Annex refers to this *Imp-Act* Guide, as well as other *Imp-Act* materials for further guidance on implementing specific standards.

ACRONYMNS USED IN THIS DOCUMENT

APR	Annual Percentage Rate
APY	Annual Percentage Yield
CGAP	Consultative Group to Assist the Poor
EIR	Effective Interest Rate
FI	Financial Institution
HR	Human Resources
IRR	Internal Rate of Return
IT or ITC	Information Technology (and Communications)
MFI	Microfinance Institution
MIS	Management Information System(s)
OER	Operating Expense Ratio
PAR	Portfolio at Risk
PPI	Progress out of Poverty Index
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

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INTRODUCTION

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SOCIAL PERFORMANCE MANAGEMENT

After decades of growth and experimentation, the microfinance industry has learned that in order to achieve financial inclusion and contribute to positive changes in the lives of clients, financial service providers 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.

Responsible finance means delivering financial services in a way that is transparent, fair, safe, and likely to generate benefits for poor clients. There are two key dimensions for implementing responsible finance: client protection and social performance management (SPM). Client protection is the responsibility of *all* financial institutions (FIs), while SPM is essential for all *double bottom-line* institutions—those with both financial and social goals.

These FIs 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. This effort constitutes social performance management.

Though this effort 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 FI can understand how it is affecting clients and which products and services that clients value. With this information, the FI 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 FI grows and changes, its social purpose is retained.
- **Reporting to investors/donors.** Using client data, the FI 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 FI 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 FIs avoid potential regulatory restrictions, such as interest rate caps. FIs with strong SPM practices can influence regulation of the social aspects of microfinance.

The list above does not mention “proving impact”—or demonstrating attribution between the intervention of service delivery by the FI and the resulting changes in clients' lives. Impact evaluations attempt to demonstrate the outcomes of microfinance, while SPM focuses on the management practices that lead an institution toward positive social results for their clients, whether these can be “proven” or not.²

¹ 1) 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.

2) Financial Results of Microfinance Institutions: Social performance matters, 2012. http://www.microfinanzarating.com/images/stories/Social_performance_matters_MicroFinanza_Rating_University_St_Andrews_May_2012.pdf

3) Microfinance Synergies and Trade-offs: Social vs. Financial Performance Outcomes in 2008: <http://www.themix.org/publications/microbanking-bulletin/2010/08/microfinance-synergies-and-trade-offs-social-vs-financial>

² For more on the difference between SPM and impact evaluations, see CGAP's Brief Measuring Changes in Client Lives through Microfinance: Contributions of Different Approaches: <http://www.cgap.org/publications/measuring-changes-client-lives-through-microfinance>

THE SPTF UNIVERSAL STANDARDS FOR SOCIAL PERFORMANCE MANAGEMENT

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 manual³ in order to clarify and standardize SPM. Developed through broad consultation, the Universal Standards both reflect current practice and push practitioners toward better performance.

FIs 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, donors, networks, technical assistance (TA) providers, consultants, and regulators—can use the Universal Standards to understand SPM, assess the performance of FIs, 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 institution should do to manage social performance. For each of these standards, there are several “Essential Practices,” which detail how to achieve the standard.



Figure 1. The six dimensions of the Universal Standards

³ The Universal Standards manual lists 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>

WHO SHOULD USE THE GUIDE

After the introduction of the Universal Standards in 2012, the industry asked the SPTF for guidance on how to put the Universal Standards into practice. The *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 Guide is designed primarily for financial service providers who seek to achieve social goals. These providers range from credit-only nongovernment 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 will also be 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 FIs 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.

USING THE GUIDE

We suggest that all 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 the social performance action plan that you identified in Chapter 1, by assisting you to identify 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 institutions are implementing them in practice. This chapter is organized into six parts, reflecting the six dimensions of the Universal Standards ([see Figure 1](#)).

The **Resources Annex** includes a list of existing industry resources that correspond with each of the standards. Practitioners can refer to the resources to aid the implementation of one or more specific standards.

GETTING STARTED WITH IMPLEMENTATION

There is no chronological order to the Universal Standards—there are many possible starting points for improving practice. Most FIs will use one of three starting points—1) a fundamental review of the mission and setting social goals, 2) a comprehensive review of all SPM practices found in the Universal Standards, or 3) a focused response to a pressing SPM issue. Each approach is described below.

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).

1. REVIEWING THE FI'S MISSION AND 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 begin with a familiar concept—the mission—and to 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. REVIEWING ALL SPM PRACTICES

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. ADDRESSING AN OPERATIONAL CHALLENGE

Some institutions 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.

CHAPTER 1:

How to Use the Universal Standards to Improve Practice

- ▶ Step 1. Introduce the Universal Standards at your institution
- ▶ Step 2. Assemble a team to use the Universal Standards to improve practice
- ▶ Step 3. Evaluate the institution's current practices against the Universal Standards
- ▶ Step 4. Create an action plan using the Guide
- ▶ Step 5. Regularly review progress

HOW TO USE THIS CHAPTER

This chapter presents five steps you can take to use the Universal Standards to improve practice. Use the information in this chapter to guide the implementation process at your institution.

Though there is no formula for using the Universal Standards to improve practice, these five steps provide a practical approach for financial institution (FI) managers:



STEP

1

INTRODUCE THE UNIVERSAL STANDARDS

OBJECTIVE FOR THIS STEP

Upon completion of this step, senior managers and the board⁴ should be clear on what the Universal Standards are, how they can be used to identify institutional priorities for SPM, and how they can improve practice. Managers should feel prepared to use the Universal Standards to evaluate the institution's current practices ([Step 2](#)).

HOW TO COMPLETE THIS STEP

When introducing the Universal Standards to management and the board,⁵ you may need to begin with a general explanation of SPM. During this introduction, focus on how managing social performance will benefit clients and the 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 evaluate our current SPM practices and identify our SPM priorities?
- How can we use the Universal Standards to address specific challenges at our institution?

BOX 1. MAKING THE CASE FOR SPM

Managing social performance allows an institution to understand how it is affecting clients and how to provide products and services that clients value. SPM allows the institution 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 institution (e.g., client loyalty/retention) and the client (e.g., appropriate products). Finally, management of social goals also allows the institution 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.

During the introduction, do not try to review the entire list of standards; rather, choose one or two that are most relevant to your institution. You might discuss a particular standard that the institution *already* follows and one that is *not currently* practiced. This 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) and discuss a few Essential Practices related to the challenge (e.g., Essential Practices [3a.1](#); [4b.1](#); and [4b.2](#)—which provide guidance on evaluating client satisfaction, needs, and product preferences). Show how the Universal Standards and this Guide can help address the FI's challenge.

⁴ Though some institutions do not have boards, this Guide will use "board" to refer to the institution's governing body.

⁵ SPTF has prepared many different types of communications materials about the Universal Standards. Find message manuals for MFIs, networks, and investors here: <http://sptf.info/spmstandards/communication-materials>

STEP

2

ASSEMBLE A 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, evaluate the institution's practices, identify priorities, and create an action plan for improving SPM practices.

HOW TO COMPLETE THIS STEP

You may consider identifying 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. 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.

Assemble a group of staff who collectively represent every area of the institution's operations and who have the knowledge and authority to evaluate the institution's current practices and create an action plan for improving practice. Ensure that the people in this group can collectively discuss and evaluate *all* aspects of the business and are influential enough to convince others to prioritize SPM. Also, check that no one 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
- CEO/Managing Director
- Head of Operations
- Finance Director
- Research & Product Development Director
- SP Officer or Manager of Non-financial Services
- Human Resources Director and/or Training Manager
- Director of Marketing
- Information and Communications Technology (ICT) Director
- Internal Auditor/Compliance/Risk Management Director
- Field staff (e.g., Branch Managers)

As SPM becomes part of your organization's normal business operations, the need for a 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.”

STEP

3

EVALUATE THE 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 the institution is currently implementing and which are not yet practiced.

HOW TO COMPLETE THIS STEP

An evaluation of the institution's current SPM practices will reveal areas of weaker practice that the institution can address. Regardless where you start with your Universal Standards implementation efforts, it is best to evaluate 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, we recommend you use the CERISE Social Performance Indicators 4 (SPI4).⁶ This social audit tool addresses each of the Universal Standards Essential Practices, 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 2). The SPI4 also includes a user guide that provides additional guidance on reviewing your practices.

A REVIEW SPECIFIC TO AN ORGANIZATIONAL CHALLENGE

As mentioned in the Introduction to the Guide (see *Getting Started with Implementation*), some organizations will begin SPM implementation with a pressing challenge they wish to address. In this case, you can start by reviewing only those Essential Practices that relate to the challenge. A quick review of the Universal Standards will reveal those Essential Practices that are most relevant to your organizational challenge.

Table 1 also provides suggestions for Essential Practices that are relevant to common challenges.

⁶ Download the SPI4 and user guide here: <http://cerise-spi4.squarespace.com/download-the-tool-1>. CERISE is beta testing the SPI4 tool for the first half of 2014, and they expect to release the final version by the third quarter of 2014. FIs are encouraged to use the SPI4 during the beta testing, as it will still be very useful for evaluating your SPM practices.

TABLE 1. COMMON ORGANIZATIONAL CHALLENGES AND RELEVANT ESSENTIAL PRACTICES TO REVIEW

ORGANIZATIONAL CHALLENGE	RELEVANT ESSENTIAL PRACTICES
Attracting investors committed to SPM	6b.1 to 6b.5
Setting responsible growth policies	2b.1 ; 2b.4 ; 6a.1 to 6a.3
Rewarding staff SPM performance	2c.2 ; 5b.1 to 5b.3 ; 6d.2
Handling client complaints	4e.1 to 4e.4
Designing appropriate products to reduce exit	3a.3 ; 3b.1 to 3b.4

BOX 2. THE SPI4

The SPI4 generates graphical overviews of an institution's practices for each dimension of the Universal Standards.

Universal Standards Score by dimension

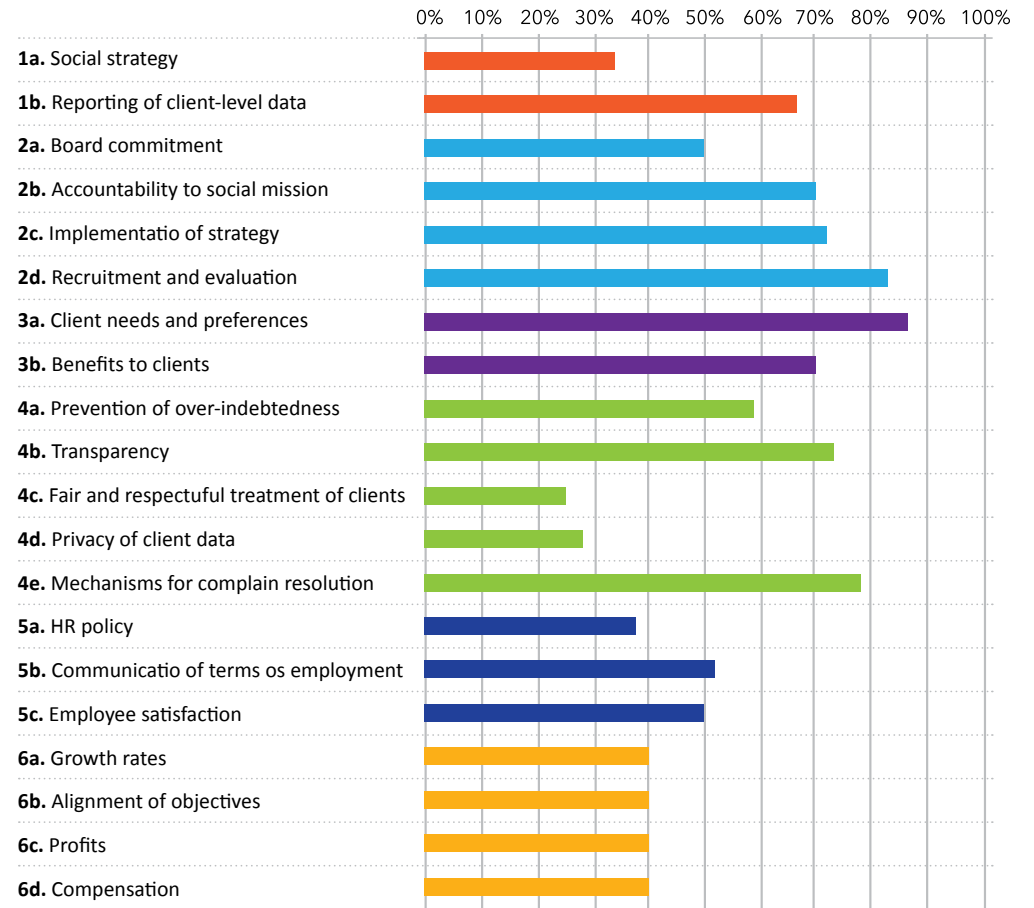
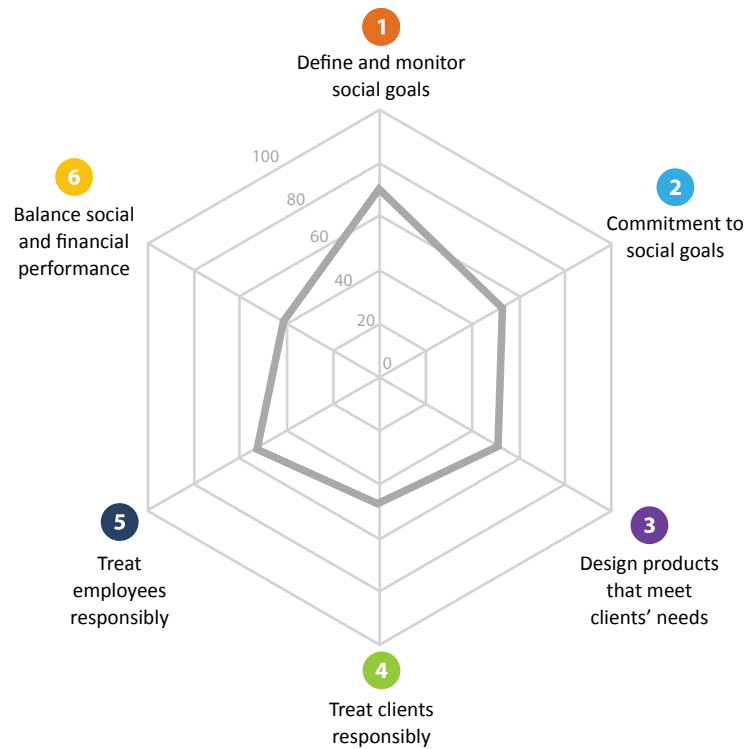


TABLE 2. THREE DIFFERENT APPROACHES TO EVALUATING SPM PRACTICES

APPROACH	PROS	CONS
STAFF LEADS A SELF-ASSESSMENT	<ul style="list-style-type: none"> 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). 	<ul style="list-style-type: none"> Staff may have questions that they do not know how to answer, in the absence of an SPM expert. Not all sections are relevant for all staff (e.g., HR may not know about the board's activities and so cannot assess its performance).
EXTERNAL FACILITATOR SUPPORTS A SELF-ASSESSMENT	<ul style="list-style-type: none"> Facilitator can answer questions about SPM posed by staff. Facilitator can ask tough questions (and identify gaps) that would be difficult for the institution's staff to perceive on their own. 	<ul style="list-style-type: none"> More costly than only using own staff.⁷ 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).
EXTERNAL FACILITATOR/AUDITOR CONDUCTS AN ASSESSMENT	<ul style="list-style-type: none"> In addition to providing external expertise, the facilitator interprets the institution's performance compared to other institutions. A more objective assessment, which lends the results increased credibility outside the institution. 	<ul style="list-style-type: none"> Most costly option. More time-consuming as external facilitator verifies practices (experience suggests 3 to 7 days of on-site work). Staff may not feel as much ownership over the process, which may negatively affect staff buy-in.

CHOOSING HOW TO CONDUCT THE EVALUATION

Whether you are conducting a comprehensive evaluation or evaluating select Essential Practices, you must still decide whether your SPM team will do it alone, whether you will hire an external facilitator to guide the team through the evaluation, or whether you will hire an external facilitator to perform the evaluation independently. Table 2 presents “pros” and “cons” of each of these options.

⁷ In some countries, national networks are prepared to lead external assessments and provide capacity building. In such cases, the costs would be less than hiring a consultant.

TABLE 3. RELEVANT TEAM MEMBERS TO REVIEW EACH DIMENSION OF THE UNIVERSAL STANDARDS

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 3 suggests which team members should be involved in the review of each Dimension.

	Dimensions					
	1	2	3	4	5	6
Board member	■	■				■
CEO/MD	■	■				■
Operations	■	■		■		■
Finance	■	■				■
R&D	■		■	■		
HR/Training				■	■	
ICT	■	■		■		
Audit/Risk	■	■		■		■
Field staff			■	■	■	

Dimension 1—Define and Monitor Social Goals

Dimension 2—Ensure Board, Management, and Employee Commitment to Social Goals

Dimension 3—Design Products, Services, Delivery Models, and Channels that Meet Clients’ Needs and Preferences

Dimension 4—Treat Clients Responsibly

Dimension 5—Treat Employees Responsibly

Dimension 6—Balance Social and Financial Performance

FIELD EXAMPLE 1. VISIONFUND EVALUATED ITS PRACTICES

A group of 10 employees from [VisionFund Cambodia](#) reviewed their SPM practices using a Universal Standards survey tool developed by VisionFund International. These staff included loan officers, branch managers, senior managers, and staff from the Human Resources, IT, and Finance departments. Participants took the survey independently and anonymously to reduce biases such as “group think” or fear of critiquing poor practices.

Each person only analyzed the Essential Practices relevant to their job duties. When asked whether or not the institution currently implemented a given practice, respondents could answer:

- Already implemented
- To be implemented within 1 year
- To be implemented within 2 years
- Not realistic/no plans to implement
- I don’t understand the practice

The survey also asked the respondents to indicate which of their responses were supported by consultation with relevant staff or confirmed through data.

VisionFund analyzed the results of the surveys and identified those Essential Practices with the greatest variation in response between staff and the ones considered most difficult to complete (e.g., to complete > 2 years, not realistic). VisionFund then facilitated a one-day workshop with the 10 respondents to discuss the status of the “difficult” practices, including what steps were necessary to improve them.

VisionFund identified three important lessons for the SPM evaluation process:

- Only require staff to evaluate the practices relevant to their job duties.
- Include a “don’t know” option. Without this option, staff may feel pressured to respond with “already completed,” even if they are unsure about a practice.
- Presence of the CEO/General Manager may limit candid discussion.

STEP

4

CREATE AN ACTION PLAN USING THE GUIDE

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 current practice. Your institution should prioritize the gaps that the institution will address, consult the guidance provided in [Chapter 3](#) of this Guide and the resources in the [Resources Annex](#), and then create an action plan for how your institution will improve practice, starting with its highest priority areas.

USE THE GUIDE AS A “ROADMAP”

Chapters 2 and 3 of this Implementation Guide provide practical guidance for improving practice, and the Resources Annex highlights the industry resources you can consult during action planning and implementation. After selecting the specific Essential Practices that your institution wants to implement, refer to these Chapters and the Annex, and adapt the guidance to your institution. Your action plan should detail which practices you will implement, the steps necessary for implementation, and the ultimate goal of implementation.

FIELD EXAMPLE 2. ASKI FOLLOWS AN ACTION PLAN

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 has 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 technical assistance is required.
- Forming an SPM committee composed of key members of the institution’s management team. The committee will review ASKI’s progress against the action plan every month and present 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 will update the status of each in the action plan. ASKI intends to complete all tasks within one year.

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. Use existing staff to implement the plan, as this is more affordable and makes it easier to integrate SPM into ongoing activities. However, if you do not currently have the internal capacity, you can contract external specialists to assist. In this case, ensure that one or two mid-level or senior-level employees are actively involved, so that the consultant's SPM expertise can be institutionalized and maintained beyond the contract period.

ASSIGN A BUDGET TO THE ACTION PLAN

SPM is aimed at improving value for your clients and will also have positive benefits for the financial performance of your organization in the long run. It should therefore be seen as an investment and not a cost.

Some implementation steps will require staff time but little or no monetary resources (e.g., updating policy documents). Others may require dedicated funds. Include a budget for SPM activities within your institution's operational budget to ensure that other institutional 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.

Consider the following factors when defining the priorities for your action plan:

1. How an action will benefit clients
2. How an action will benefit the institution (direct performance benefits, such as improved staff morale; and longer-term benefits resulting from benefits for clients, such as improved client retention)
3. Time and resources required (human and financial)
4. Level of complexity of an action
5. Ease of measuring the progress of an action
6. Likelihood of success

ANALYZE EACH POTENTIAL ACTIVITY

Once you have a list of possible activities, it is useful to analyze each of them in terms of their value for clients and the institution (1 and 2, above) as well as how easy/difficult it will be for your institution to implement them (3 to 6, above). Figure 2 demonstrates one method for this analysis.

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.

When you decide to select an activity that requires high effort, ensure that the benefit to clients and the 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.

FIGURE 2. ANALYZE POSSIBLE ACTIVITIES BY THEIR VALUE AND EASE OF IMPLEMENTATION

<p>High level of effort</p> <p>↑</p> <p>Low level of effort</p>	Low value high effort	Medium value high effort	High value high effort
	Low value medium effort	Medium value medium effort	High value medium effort
	Low value low effort	Medium value low effort	High value easy
	<p>Low value for client or the institution → High value for client or the institution</p>		

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 during the process of defining or revising the business plan of the institution. Over time, it will become more natural for the institution to systematically integrate the client focus (and SPM) into any exercise of business plans. See Dimension 2 for more guidance.

FIELD EXAMPLE 3. FINCA DEVELOPS AN ACTION PLAN

In 2013, [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 operation, including financial service officers and other client-facing personnel. The action items identified ranged from the practical (pay for staff airtime spent talking on the phone, addressing clients' questions) to the 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 inputs, regardless of level of seniority.
- MFI managers championed the planning and implementation processes to other staff.
- MFIs 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.
- MFIs were able to secure technical assistance and guidance from staff across the FINCA network, leveraging expertise, materials, and trouble-shooting.

STEP

5

REGULARLY REVIEW PROGRESS

OBJECTIVE FOR THIS STEP

Step 5 is an ongoing process, the objective of which is to understand and monitor the current state of your institution with respect to its stated goals. 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 overall institutional plans, you should decide on a timeline for a regular review process (e.g., every 6 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. Additionally, integrate your SPM work into existing staff performance job descriptions and evaluations and into your overall strategic plan, to ensure that it is not seen as an “extra project” ([standard 2c](#)).

FIELD EXAMPLE 4. FUNDACION GENESIS EMPRESARIAL REVIEWS PROGRESS

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 Standards 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)
- 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 institution to evaluate which practices are strengthening, which are weakening, and which the institution can focus on for the coming year. The updates will be shared with management and the board.

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 to identify 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 most 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 FI's, and it discusses how data can help managers address these issues, demonstrating: 1) which data is required, 2) which managers should be involved, 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. Rather than being a “nice to have,” social performance data is essential for any double bottom-line business. In order to effectively discuss and solve the issues listed below, your institution will need the social performance data relevant to each issue.

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

USING SOCIAL PERFORMANCE DATA TO ADDRESS KEY MANAGEMENT ISSUES

ISSUE 1

Achieving sustainability/profitability responsibly

Your institution wants to set growth and profitability targets that allow the institution to achieve sustainability in a way that also promotes client wellbeing. 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?

Management should understand whether or not the institution is meeting its social goals. Each institution 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 institutions focus on health, education, empowerment, or job creation, among many other possibilities.

⁸ These indicators particularly apply to institutions that have the social goal of reaching poor people and contributing to poverty reduction over time.

⁹ Such indicators are available through the International Center for Research on Women (<http://www.icrw.org/publications/understanding-and-measuring-womens-economic-empowerment>).

¹⁰ These indicators apply to institutions that have the social goal of women's empowerment.

SOCIAL PERFORMANCE DATA NEEDED	EXAMPLE MANAGEMENT ACTIONS	REFERENCE
<ul style="list-style-type: none"> • 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)⁸ • 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 indicators⁹ for female clients (upon entry and over time)¹⁰ 	<p>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.</p>	<p>Standard 1a Standard 1b Standard 2a Standard 2b</p>
<p>Which managers need this data</p> <ul style="list-style-type: none"> • 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?

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

SOCIAL PERFORMANCE DATA NEEDED	EXAMPLE MANAGEMENT ACTIONS	REFERENCE
<ul style="list-style-type: none">• Understand 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	<p>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.</p>	Standard 6a
	<p>Which managers need this data</p> <ul style="list-style-type: none">• 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?

Management should understand the level of profitability that will allow the institution to achieve its financial goals while also serving the wellbeing of clients. Additionally, the management 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).

¹¹Find out if MFTransparency has published pricing data for your country, here: <http://www.mftransparency.org/microfinance-pricing/>

SOCIAL PERFORMANCE DATA NEEDED	EXAMPLE MANAGEMENT ACTIONS	REFERENCE
<ul style="list-style-type: none"> • Profitability ratios • Where your price is on MFTransparency pricing curve for your country¹¹ • 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 	<p>This information will inform decisions on what level of profitability is appropriate for the institution, which investors and stakeholders to work with (those aligned with the institution's profitability priorities), and how the institution will allocate profits among many competing priorities.</p>	<p>Standard 6c</p>
	<p>Which managers need this data</p> <ul style="list-style-type: none"> • Executive management/board • Finance • Internal Audit/Risk Management • Legal 	

QUESTION 1D

WHAT ARE RESPONSIBLE
COMPENSATION LEVELS FOR
EXECUTIVES?

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

SOCIAL PERFORMANCE DATA NEEDED	EXAMPLE MANAGEMENT ACTIONS	REFERENCE
<ul style="list-style-type: none">• The average compensation of top executives• The average compensation of loan officers (or comparable field employee)	<p>This information will inform decisions about how to compensate employees at all levels, and particularly executive compensation. Management can use this information to compare the salaries of the highest-paid and the lowest-paid field loan officer and decide how to compensate employees fairly and in ways that create positive incentives to achieve the institution’s social goals.</p>	Standard 6d
	<p>Which managers need this data</p> <ul style="list-style-type: none">• 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?

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

SOCIAL PERFORMANCE DATA NEEDED	EXAMPLE MANAGEMENT ACTIONS	REFERENCE
<ul style="list-style-type: none"> • 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 target clients in each of the segments listed above, by product (e.g., % rural women using voluntary savings product) 	<p>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 the institution.</p>	<p>Standard 1a Standard 3a Standard 3b</p>
<p>Which managers need this data</p> <ul style="list-style-type: none"> • Executive management/board • Product Management • Product Research and Development • Human Resources (if staff need to be trained on targeting) 		

QUESTION 2B

HOW CAN WE REDUCE BARRIERS TO ACCESS?

Management 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, communication difficulties, et cetera, 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
<p>Market research data on:</p> <ul style="list-style-type: none">• Barriers to accessing your products faced by target clients• 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	<p>This information helps management to identify whether certain segments within the 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.</p>	<p>Standard 1a Standard 3b</p>
	<p>Which managers need this data</p> <ul style="list-style-type: none">• Executive management/board• Product Management• Product Research and Development	

QUESTION 2C

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

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

SOCIAL PERFORMANCE DATA NEEDED	EXAMPLE MANAGEMENT ACTIONS	REFERENCE
<p>Market research data on:</p> <ul style="list-style-type: none"> • 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) • Needs/preferences of your target clients for: <ul style="list-style-type: none"> • financial and non-financial products • specific product terms and conditions • alternative delivery channels and mechanisms • 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 	<p>This information will inform decisions about how to best 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 and delivery models. 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).</p>	<p>Standard 3a Standard 3b</p>
<p>Which managers need this data</p> <ul style="list-style-type: none"> • Executive management/board • Product Research and Development • Product Management 		

QUESTION 2D

ARE WE RETAINING OUR CLIENTS?

Management should understand who exits/becomes dormant,¹² when they exit/become dormant (e.g., loan cycle, savings amount), and why. Additionally, management should determine whether or not client retention is in line with the institution's targets.

¹² 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 has not made a savings deposit in many months but has not closed their savings account).

SOCIAL PERFORMANCE DATA NEEDED	EXAMPLE MANAGEMENT ACTIONS	REFERENCE
<ul style="list-style-type: none"> 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 	<p>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.</p>	Standard 3a
	<p>Which managers need this data</p> <ul style="list-style-type: none"> Executive management/board Product Research and Development Product Management Internal Audit/Risk Management 	

QUESTION 2E

ARE CLIENTS SATISFIED?

Management should understand client satisfaction on overall experience, suitability/value of products and services, value, convenience/reliability of services. Additionally, management 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
<ul style="list-style-type: none"> • 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 loan officer; 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 the institution 	<p>This information will inform decisions about how to prioritize operational and product improvements such as employee training, loan terms, and customer service. Combined with client exit data, management can use this information to improve client satisfaction.</p>	Standard 3a
	<ul style="list-style-type: none"> • Which managers 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 managers 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?

Management 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
<ul style="list-style-type: none"> • 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 • Incentives paid to field staff • Audit reports from client visits • Reports on multiple borrowings and penetration rates 	<p>This information will 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 before it becomes apparent.</p>	Standard 4a
	<ul style="list-style-type: none"> • Which managers need this data • Executive management/board • Product Management • Internal Audit/Risk Management • ITC • Legal 	

QUESTION 3B

ARE WE COMMUNICATING TRANSPARENTLY WITH CLIENTS?

Management should understand whether or not clients understand the terms, conditions, and prices of your 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 can include use of pictures, plays, multiple meetings, and informal quizzes to see if clients have understood.

SOCIAL PERFORMANCE DATA NEEDED	EXAMPLE MANAGEMENT ACTIONS	REFERENCE
<ul style="list-style-type: none">• Audit reports from client visits• Results of client satisfaction surveys/interviews/focus groups• Complaints/questions from clients about product terms and conditions	<p>This information will inform management on clients' level of understanding of the terms, conditions, and prices of products and services.</p>	Standard 4b
	<p>Which managers need this data</p> <ul style="list-style-type: none">• Executive management/board• Product Management• Internal Audit/Risk Management• Customer Service• Legal	

QUESTION 3C

ARE PRODUCTS AND SERVICES PRICED RESPONSIBLY?

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

SOCIAL PERFORMANCE DATA NEEDED	EXAMPLE MANAGEMENT ACTIONS	REFERENCE
<ul style="list-style-type: none">• 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)• Percentage of financial income from fees, pre-payment penalties, and trends on these percentages• Cost analysis of different products	<p>This information will inform decisions on how to set interest rates and fee structure for different products.</p> <div>Which managers need this data<ul style="list-style-type: none">• Executive management/board• Internal Audit/Risk Management• Finance• Legal</div>	Standard 6c

QUESTION 3D

ARE WE TREATING CLIENTS FAIRLY AND WITH RESPECT?

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

SOCIAL PERFORMANCE DATA NEEDED	EXAMPLE MANAGEMENT ACTIONS	REFERENCE
<ul style="list-style-type: none">• 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	<p>This information will inform management whether employees are following institutional policies on ethics and professional conduct, and may inform decisions to scale up employee training, revise collections procedures, or adjust incentive structures.</p>	Standard 4c
	<p>Which managers need this data</p> <ul style="list-style-type: none">• Executive management/board• Internal Audit/Risk Management• Customer Service• Product Management• Legal• Human Resources	

QUESTION 3E

ARE WE MAINTAINING THE PRIVACY OF CLIENT DATA?

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

SOCIAL PERFORMANCE DATA NEEDED	EXAMPLE MANAGEMENT ACTIONS	REFERENCE
<ul style="list-style-type: none">• 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	<p>This information will inform decisions on whether systems need tighter security, whether employees need more training on the institution's privacy policy, and whether clients understand and are satisfied with the way the institution uses their personal and financial information.</p>	Standard 4d
	<p>Which managers need this data</p> <ul style="list-style-type: none">• Executive management/board• Product Management• Legal• Internal Audit/Risk Management• Customer Service• Human Resources (employee training)	

QUESTION 3F

ARE WE RESPONDING TO CLIENT COMPLAINTS?

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

SOCIAL PERFORMANCE DATA NEEDED	EXAMPLE MANAGEMENT ACTIONS	REFERENCE
<ul style="list-style-type: none">• 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)	<p>This information will inform decisions on how to improve operations, products, and communication. It will also inform management on the effectiveness of the complaints mechanism and how to modify that system to encourage its use by clients.</p> <p>Which managers need this data</p> <ul style="list-style-type: none">• Executive management/board• Product Management• Customer Service• Legal• Internal Audit/Risk Management• Human Resource• Product Research and Development	<p>Standard 4e</p>

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 managers 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 EMPLOYEE RIGHTS?

Management 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
<ul style="list-style-type: none"> • 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 	<p>This information will inform decisions about how to prioritize training and growth opportunities for employees (i.e., which employees, which topics, and when), and how to update HR policies to better clarify your expectations of employees and protect their rights.</p>	Standard 5a Standard 5b
	<p>Which managers need this data</p> <ul style="list-style-type: none"> • Executive management/board • Human Resources • Internal Audit/Risk Management • Legal 	

QUESTION 4B

HOW DO WE RETAIN EMPLOYEES?

Management should understand employee satisfaction with working conditions, salaries, management, and other workplace issues. Additionally, management 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
<ul style="list-style-type: none">• 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 employee grievance system, including complaints and rate/type of resolution	<p>This information will inform decisions about how to improve the workplace to better retain existing employees and attract new ones.</p> <p>Which managers need this data</p> <ul style="list-style-type: none">• Executive management/board• Human Resources• Internal Audit/Risk Management• Legal	<p>Standard 5c</p>

QUESTION 4C

DO EMPLOYEE INCENTIVES BALANCE SOCIAL AND FINANCIAL GOALS?

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

SOCIAL PERFORMANCE DATA NEEDED	EXAMPLE MANAGEMENT ACTIONS	REFERENCE
<ul style="list-style-type: none">• Data listed for question “How do we retain employees?”• Reports on staff conduct from internal audit, internal controls, or compliance departments• Data on sanctions applied to staff for violations of the Code of Conduct and other staff rules• Report demonstrating the weights assigned to the different elements of staff evaluations (e.g., PAR, customer service, new clients)• Report demonstrating average proportion of incentives in total loan officer remuneration	<p>This information will inform decisions about how to improve the 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.</p>	<p>Standard 5b Standard 2c</p>
<p>Which managers need this data</p> <ul style="list-style-type: none">• 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, Delivery Models, and 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]

Chapter 3 presents practical, how-to guidance for each of the 19 standards found in the Universal Standards. Refer to the Resources Annex for additional guidance.

“Field examples” also appear throughout this chapter. These highlight how an actual institution is currently implementing one of the standards.

Use the information found in this chapter as a “roadmap” for improving practice.

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

Create an action plan for improving practice >> Guide implementation of 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, Delivery Models, and 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 institution has a strategy to achieve its social goals.
- > **Standard 1B.** The institution collects, reports, and ensures the accuracy of client-level data that are specific to the institution's social goals.

Standard 1A

The institution has a strategy to achieve its social goals.

The institution has each of the following, which are described in the strategy:

- > **Essential Practice 1A.1** The institution's strategy includes a formal mission statement, which includes increasing access to financial services for vulnerable or excluded target groups and creating benefits for these clients.
- > **Essential Practice 1A.2** The institution's strategy defines the specific characteristics of its target clients.
- > **Essential Practice 1A.3** The institution's strategy defines its social goals.
- > **Essential Practice 1A.4** The institution's strategy defines measurable social targets for client-level outputs¹³ and outcomes.¹⁴
- > **Essential Practice 1A.5** The institution's strategy defines social indicators to measure progress toward social goals.
- > **Essential Practice 1A.6** The institution's strategy articulates how its products, services, delivery models, and channels will achieve its social goals.

¹³ The term "output" refers to an action taken by the institution to improve client well being (e.g., trainings provided, loans made)

¹⁴ The term "outcome" refers to a change in the well being of the client, community, or environment (e.g., improvement in business skills, increase in household assets)."

Achieving a social mission requires purposeful management, guided by a formal strategic plan. This 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.

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.

Your mission is also the foundation for monitoring performance. A good mission statement will be short 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?
- What changes do you hope to influence?

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

BOX 3.

EXAMPLE MISSION STATEMENT

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

To provide competitive credit and savings products that empower smallholder farmers and rural enterprises to create sustainable agri-businesses and improve their livelihoods.

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. It should also be explained at all levels of the institution and integrated into new employee initiation.

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, et cetera. If you significantly change the social purpose of your institution, you should revise your mission statement to reflect your new focus.

1A.2 DEFINE YOUR TARGET CLIENTS

Your strategy should define the characteristics of the people you want to reach. As part of this process, your strategy should identify the needs of your target clients and clarify how addressing these needs will fulfill your institution's social mission. 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. (See Field Example 5).

Define target clients in concrete terms. 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.

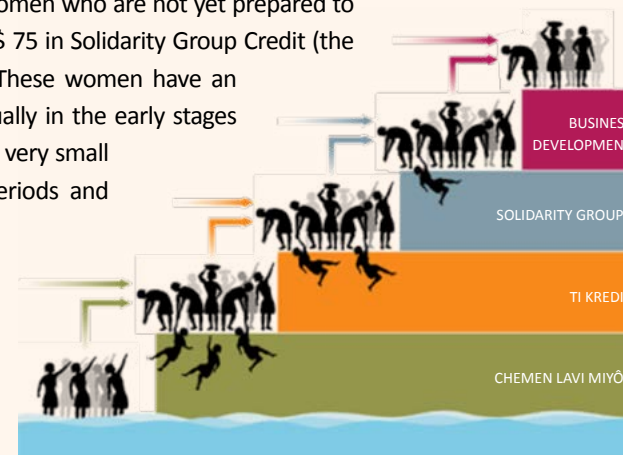
Be clear on segments of clients who should not receive products/ services (e.g., salaried employees). It is helpful to acknowledge any assumptions you make so that these can be reviewed in the future. For example, you may originally include semi-urban people as target clients, but later review might 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.

FIELD EXAMPLE 5. FONKOZE, HAITI DEFINES TARGET CLIENTS

Since its inception in 1994, [Fonkoze](#) has worked to reach Haiti's poor. As the institution 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 below 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, Fonkoze describes *Ti Kredi* (the second step on the staircase) clients as low-income women who successfully graduate from *Chemen Lavi Miyò* (the first step on the staircase), as well as women who are not yet prepared to manage a loan as large as US\$ 75 in Solidarity Group Credit (the third step on the staircase). These women 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. By more accurately placing clients into programs that fit their needs, Fonkoze has been able to serve clients better.



1A.3 DEFINE YOUR SOCIAL GOALS

Your social goals describe what positive changes you expect to happen to 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 *whom* you will serve (target clients) and *how* you will serve them (products, services, delivery channels, and mechanisms). Your institution’s outcome goals describe how clients will benefit from your products and services. Table 4 provides two examples for each type of goal.

When developing your outcome goals, it is helpful to focus on the key areas that financial services add value:

- Increasing access for excluded people
- Increasing income through investment in economic opportunities such as business or agriculture
- Improving ability to meet anticipated day-to-day and life-cycle financial needs
- Reducing vulnerability to shocks such as illness

Your institution’s social and financial goals should be developed alongside one another because your social goals will affect your financial goals, and vice versa (See **Box 4**).

¹⁵ MIX, Microfinance Synergies and Trade-offs: Social versus Financial Performance Outcomes in 2008: <http://www.themix.org/sites/default/files/MIX%20Data%20Brief%207%20-%202016-11-10.pdf>

¹⁶ 2012, Hoepner, A.G.F., Liu, H.F., Moauro, A., Perez-Rocha, B. & Spaggiari, L., Financial Results of Microfinance Institutions: Social Performance Matters: <http://www.microfinancegateway.org/library/financial-results-microfinance-institutions-social-performance-matters>

TABLE 4. TWO TYPES OF SOCIAL GOALS

OUTPUT GOAL	RELATED OUTCOME GOAL
Provide crop insurance to smallholder rural farmers	Reduce the vulnerability of rural farmers to shocks
Provide health training to female clients	Clients will improve health and sanitation practices

BOX 4. THE RELATIONSHIP BETWEEN SOCIAL AND FINANCIAL PERFORMANCE

A 2008 Mix Market study¹⁵ highlights the relationship between social and financial performance. Key findings include:

- Training staff on SPM and treating staff responsibly equate with higher staff productivity and better portfolio quality, but lower efficiency.
- Serving the very poor (vs. the less poor) lowers efficiency, but does not reduce productivity, even after considering the effect of different loan sizes.

Similarly, 2013 analysis undertaken by the European Microfinance Platform with Saint Andrew’s University find both synergies and trade-offs between client protection, and operating costs and credit risk.¹⁶ Good practices in handling client complaints, ethical staff behavior, and privacy were positively related to higher profitability, measured by ROE and ROA. However, efforts to prevent client over-indebtedness and offer pricing transparency correlated with higher operating expenses.

Institutions should develop integrated social and financial goals, so that trade-offs between the two will not derail social performance efforts.

1A.4 DEFINE SOCIAL TARGETS

Develop one or more targets for each of your social goals by quantifying your goals and establishing a completion timeframe. Table 5 builds on the example provided in [Table 4](#), and 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.).

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.

TABLE 5. EXAMPLES OF SOCIAL GOALS AND THEIR RELATED TARGETS

GOALS (OUTPUT AND OUTCOME GOALS FROM EXAMPLE IN TABLE 4)	RELATED TARGETS
Provide crop insurance to smallholder rural farmers	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> The number of rural farmer clients reporting financial distress from an unexpected crop loss will decrease by 50% in year 1 and by 75% in year 2 (based on a pre- and post-test).
Provide health training to female clients	<ul style="list-style-type: none"> 4,000 female clients will complete all six sections of the health training this year.
Female clients will improve health and sanitation practices	<ul style="list-style-type: none"> Verbal tests administered 6 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.

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

AREA	WHAT EXACTLY DO WE WANT TO ACCOMPLISH?
Specific	<ul style="list-style-type: none"> To whom does this target apply? Which employee? Which clients? Is our target described with action verbs? Are any actions too vague?
Measurable	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> Can we meet this target with the resources that we have? Do we need to re-prioritize our activities to meet this target?
Relevant	<ul style="list-style-type: none"> How does this target support our mission? Is it directly related to one or more of our social goals?
Time-bound	<ul style="list-style-type: none"> When do we want to meet this target?

FIELD EXAMPLE 6. EMFIL SETS SOCIAL TARGETS

In 2011, [EMFIL](#) India organized an SPM workshop for senior management during which they clarified the institution's social goals and social targets. Managers realized that without targets, the institution had little motivation to achieve its social goals. EMFIL's funders were also placing pressure on the institution to measure their social achievements. For these reasons, the institution drafted a set of specific social targets, which were reviewed in 2013, and now include:

- 25% of total clients should be in "backward districts" (as classified by the Planning Commission of India)
- 30% of clients at entry should be from "backward communities" (Scheduled Castes)
- 5-10% of the clients at entry should be from tribal communities (depending upon the density of tribal population in different areas)
- At least 5% of clients at entry should be people with disability
- At least 5% of all clients should be from women-headed households
- 25% clients have access to pension within five years of joining
- 10% clients have increased access to insurance (outside of EMFIL) by the 5th year.
- 10% clients have increased access to improved water and sanitation facilities by the 5th year.
- 25% clients have accessed EMFIL's business development services by the 5th year

1A.5 DEFINE SOCIAL INDICATORS

Use indicators to measure your progress toward each of your social goals. The indicators you choose should be directly relevant to your social goals and should be useful for internal decision-making. To choose relevant and useful indicators, examine your social goals and ask:

- “What information do we need to collect, in order to evaluate our progress toward meeting our goals?”
- “What information do senior managers need in order to make better decisions about products, services, and operations?” (See [Chapter 2](#) for additional guidance on using social data for decision-making)

Building on the example goals set out in [Table 5](#), Table 7 demonstrates indicators that are directly linked to a social goal and are useful for decision-making.

TABLE 7. 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	<ul style="list-style-type: none"> • % clients living in rural/semi-urban/urban areas • % 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 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).
Female clients will improve health and sanitation practices	<ul style="list-style-type: none"> • 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).

Regardless of how your specific social goals are articulated, you should have measureable indicators, as shown in Table 8.

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](#)).

¹⁷ Guidance for [standard 3a](#) discusses how to gather and analyze client satisfaction data and market research.

TABLE 8. EXAMPLES OF MEASURABLE INDICATORS

INDICATOR QUESTION	EXAMPLE INDICATORS
Are we reaching the target clients?	<ul style="list-style-type: none"> • female/male • youth/adult • urban/rural • business type • poverty level of incoming clients • business assets of incoming clients
Are clients satisfied with the products/services and delivery channels?	<ul style="list-style-type: none"> • client satisfaction indicators • market research¹⁷
Are clients' lives improving?	<ul style="list-style-type: none"> • change in poverty level or food security of clients over time • change in value of business assets at the start of each loan cycle



TABLE 9. HOW PRODUCTS/SERVICES SERVE THE INSTITUTION’S SOCIAL GOALS

1A.6 ARTICULATE HOW YOUR INSTITUTION WILL USE PRODUCTS AND SERVICES TO ACHIEVE ITS 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 clear benefits for clients. Table 9 shows an example of how an institution can articulate the relationship between its products/services and its social goals.

PRODUCT/SERVICE/ DELIVERY MODEL	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 clients from selling productive assets to pay for unexpected expenses. This product serves the institution’s 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 the institution’s social goal of increasing clients’ capacity to manage 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 the institution to reach poorer clients than is possible with individual loans.
Mobile banking	This delivery channel allows clients to repay their loans without visiting a bank branch, saving time and money. It allows the institution to reach more rural clients.

For some institutions, the process of articulating this relationship will raise questions about whether products/services/delivery models should be modified to better support the institution's social goals. For example, the institution might realize that one or more of its social goals will be difficult to achieve given the current product offerings. In such a case, the institution should modify its product offerings, based on market information, so that products and services are designed to achieve the desired social outcomes. The guidance for Dimension 3 discusses product design.

FIELD EXAMPLE 7. TUJIJENGE, TANZANIA INTEGRATES SPM INTO ITS STRATEGIC PLAN

[Tujijenge](#) is an MFI serving around 9,000 microentrepreneurs. In 2012, 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 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 microentrepreneurs, including product terms such as smaller group loans and loan size limits.
- Improve customer retention through improved complaints management and customer satisfaction.
- Build staff capacity to understand and explain products and services offered. Build staff capacity in sales and promotional activities.
- Strengthen person-to-person marketing to deepen outreach.
- 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.

Standard 1B

The institution collects, reports, and ensures the accuracy of client-level data that are specific to the institution's social goals.

- > **Essential Practice 1B.1** The institution collects data for each of its social goals and the MIX social performance data.
- > **Essential Practice 1B.2** The institution has protocols for the collection, quality control, analysis, and reporting of social performance data.
- > **Essential Practice 1B.3** The institution ensures the quality of the data collected by validating its data and training its employees on data collection and entry.
- > **Essential Practice 1B.4** The institution's data management system disaggregates client data by gender and other client characteristics.
- > **Essential Practice 1B.5** If the institution states poverty reduction as one of its social goals, and it monitors the poverty levels of its clients using a poverty assessment tool.
- > **Essential Practice 1B.6** The institution discloses social performance data, including the MIX Social Performance data.

1B.1 COLLECT DATA USING AT LEAST ONE INDICATOR FOR EACH SOCIAL GOAL

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, as well as the data required for reporting the MIX Social Performance data, if this information is not already being collected (see below).

After deciding on your social indicators, determine *how your institution will collect data* for the indicators. Before beginning data collection, your institution should answer these five questions:

- **What resources are available for data collection?**

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

- **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 management information system (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. Table 11 provides additional examples of common social data

needs, alongside sources for this data which may already exist in your institution.

- **When are data needed?**

Determine when managers need information by considering what decisions managers need to make ([see standard 2c](#)¹⁸). 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?

- **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 the 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 (e.g., geographic location) and other data on a sample basis (e.g., access to healthcare).

- **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. Consider how staff can collect additional data during routine points of contact with clients, such as loan intake, loan utilization checks, and branch visits.

¹⁸ Guidance for [standard 2c](#) discusses how managers use social performance information.

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

Collect MIX Social Performance data¹⁹

Though all institutions are encouraged to both collect and *report* social data to the MIX, it may not be possible in some cases, as the MIX report is not available in all global languages.²⁰ However, regardless of your institution's ability to report to the MIX, you should at least collect the data required by the MIX Social Performance report, so that you can report it externally (to investors, networks, and other industry stakeholders). It is important that all institutions throughout the industry collect the same data, so that the industry can create social performance benchmarks and compare performance across institutions and regions. See MIX Market's page on how to report data to MIX: <http://mixmarket.org/contribute-data>.²¹

¹⁹ In order to develop global benchmarks, all institutions should collect the required MIX Social Performance data, regardless of whether they report these to the MIX. This data is used for global benchmarking and analysis. All social performance information is featured directly alongside the financial information of individual FIs on their profile page on the MIX Market, allowing your institution to make its social performance data public.

²⁰ The MIX report is available in English, Spanish, French, Russian, and Arabic (coming soon).

²¹ MIX has created a desk-review methodology to ensure quality check of the social performance information that for reporting FIs. The review assesses data quality in relation to the indicators developed by the [SPTF](#) to date, and it will be updated to include any new indicators in the future. Every FI reporting social performance to MIX should follow the criteria outlined in the desk-review methodology: www.mixmarket.org/sites/default/files/mix_sp_desk_review_methodology_final_en.pdf

TABLE 10. DECISIONS ON COLLECTING SOCIAL INDICATORS

SOCIAL INDICATORS	WHAT RESOURCES ARE REQUIRED?	WHEN ARE DATA NEEDED?	WILL COLLECTION BURDEN CLIENTS?
<p>% of clients living in rural areas</p> <p>% of clients with dirt floors/ cement floors</p>	<p>Time—Loan officers must visit clients in their homes. Data is gathered during the regular loan utilization check, and it does not take much additional time.</p> <p>Materials—Must update the loan utilization forms.</p> <p>Training—Employees need training on how to categorize geographic areas and flooring types.</p>	<p>Collection—Data will be collected on an ongoing basis and aggregated quarterly</p> <p>Use—Managers will review data on client outreach each quarter</p>	<p>Collection of these indicators will add only five minutes to the regular client visit and are not sensitive in nature.</p>

TABLE 11. USE EXISTING SOURCES OF DATA WHEN POSSIBLE

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

1B.2 DEFINE SOCIAL PERFORMANCE DATA PROTOCOLS

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

- **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.
- **Where the data will be stored.** The ideal place to store social performance data is in the institution's management information system (MIS), as this will allow data analysis across financial indicators (e.g., poverty score by loan size) and will make data analysis richer and more manageable. However, many FIs 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,"²² 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 in addition to the board and MIX Market. Ask these stakeholders how often and in what format they prefer to receive the data (e.g., a quarterly dashboard of indicators, narrative progress report, analysis of a specific problem, annual report of all indicators collected). 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.

²² 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.

1B.3 TRAIN EMPLOYEES ON SOCIAL DATA COLLECTION

When introducing social performance indicators, train relevant employees on quality data collection methods, including how to ask questions in a consistent way (e.g., one field officer might interpret the same question differently than her peers), and in a way that will not bias client responses. Also, train employees to explain the purpose of data collection to clients. Such an explanation is particularly important when the institution makes a record of clients' personal possessions, visits their homes for data collection, or asks sensitive questions (e.g., "Do you sleep on a mattress or a floor mat?"). 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.²³

Beyond training on data collection skills, it is important for employees to understand the institution's motivation for collecting this information. Provide employees with clear explanations of the purpose of the data collection, explaining why quality data collection is important. Show how data are used and how they inform decision-making. In addition, explain how employees will be evaluated on the quality of their data collection²⁴ and consider incentivizing quality data

collection. These measures will facilitate employee buy-in, and by extension, more accurate data collection.

Validate social data through internal controls

Regularly and consistently validate social data, just as you 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.

²³ Guidance for [standard 2c](#) discusses employee recruitment.

²⁴ Guidance for [standard 2c](#) discusses employee evaluation.

**FIELD EXAMPLE 8. MICROLOAN FOUNDATION,
MALAWI USES A DATA PROTOCOL**

In line with its social goals, [MicroLoan Foundation](#) 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 institution 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 institution's social goals and how poverty data would allow the institution to understand whether these goals were being met. Then, the institution 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 institution has integrated PPI® data accuracy and compliance with spot checks into its staff incentives scheme.

1B.4 DISAGGREGATE CLIENT DATA BY GENDER AND OTHER KEY CLIENT CHARACTERISTICS

Disaggregating client data²⁵ 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,²⁶ based on factors such as cultural context and household dynamics.

Most institutions perform some level of client data segmentation, but many do not fully utilize the information they have available. Consider furthering segmenting client information with additional variables. For example, instead of simply segmenting the portfolio by business type, further segment it by repayment (on-time/late), loan type, and loan

amount in order to understand which businesses are failing and which are succeeding with the product.

If the 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 the 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.

²⁵ Guidance for [standard 3a](#) discusses the use of client segmentation for understanding and meeting client needs.

²⁶ The SPTF Gender Working Group provides the following guidance: FIs 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. FIs 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.

1B.5 MONITOR CLIENT POVERTY LEVELS

If your institution states poverty reduction²⁷ as a social goal, you should collect data on the poverty level of clients when they join your program (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, national poverty line). An institution 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:

1. [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® is an absolute poverty measurement tool.
2. [The USAID Poverty Assessment Tools \(PATs\)](#)
Short, 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. The PAT is an absolute poverty measurement tool.
3. [The FINCA Client Assessment Tool \(FCAT\)](#)
An assessment tool available to FINCA subsidiaries and partners, which measures internationally comparable variables of clients' economic and social well-being.
4. [Food security index](#)
Freedom from Hunger adapts to the local context a food security survey instrument originally designed by the US Department of Agriculture.

²⁷ [Truelift](#), as part of the pro-poor principles for deepening financial inclusion, recommends a benchmark poverty line that corresponds approximately to the bottom two quintiles of the country's population, with a practical target that at least 40% of new clients are living below this line. This is seen as a practical and manageable target for microfinance in many low-medium developing countries. In more developed regions, an alternative practical target could be that at least 20% of new clients are in the bottom quintile of the population.

5. [Housing Index](#)

An index created internally by the institution, which uses the structure of an individual house to differentiate between the economic levels of households and identify those who are poor.

6. [Means test](#)

A simplified household survey, usually created internally by the institution, to determine poverty levels of households in a community.

7. [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

Consider your goals in poverty measurement, such as: increasing outreach to poorer communities, placing clients into the correct programs, understanding which products/services attract and retain poor clients, or tracking change over time. Also, consider how often you will collect the information, and how quickly you want to relay information to managers. Learn about the available poverty measurement tools and discuss the options with your SPM team.²⁸

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.

²⁸ [Chapter 1, Step 2](#) provides guidance on selecting an SPM team.

**1B.6 PUBLICLY DISCLOSE SOCIAL PERFORMANCE DATA,
INCLUDING MIX SOCIAL PERFORMANCE DATA**

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 the institution's social data.

In addition to publicly disclosing the MIX Social Performance 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.

To reduce the time required to report social performance, MIX has taken significant measures to integrate the collection of social performance data into the same annual process for collection of financial and operational data. Typically, your institution will provide "results" indicators (e.g., number of women borrowers, number of businesses created) on an annual basis and only update "process" indicators (e.g., mission statement, governance structure) when necessary. MIX has also partnered with CERISE to harmonize its Social Performance Indicators (SPI) 4 tool (described in [Chapter 1](#)) with MIX's Social Performance data. FIs using the SPI4 tool can automatically generate the MIX SP report after completing the SPI4. This report can then be used to complete the MIX SP profile and results indicators for publication on MIX website.



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 institution accountable to its mission and social goals.
- > **Standard 2B.** Senior management oversees implementation of the institution's strategy for achieving its social goals.
- > **Standard 2C.** Employees are recruited, evaluated, and recognized based on both social and financial performance criteria.

Standard 2A

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

- > **Essential Practice 2A.1** The institution provides board members with an orientation on the social mission and goals and the board's responsibilities related to the social performance management of the institution.
- > **Essential Practice 2A.2** The board reviews social performance data, including: mission compliance, performance results, human resource policy, social performance related risks, client protection practices, growth, and profit allocation.
- > **Essential Practice 2A.3** The board uses social performance data to provide strategic direction, taking into account both social and financial goals.
- > **Essential Practice 2A.4** The board incorporates social performance management criteria into its performance evaluation of the CEO/Managing Director.
- > **Essential Practice 2A.5** The board has a documented strategy to prevent institutional mission drift during changes in ownership structure and/or legal form.

2A.1 ORIENT THE BOARD TO YOUR SOCIAL MISSION

In order for your board to manage the institution's social performance, each board member must understand the institution's social goals, and how s/he can contribute to meeting them. A board orientation to SPM should include a comprehensive look at the institution's social strategy,²⁹ as well as updates on local initiatives (e.g., regulation; national Codes of Conduct), and international initiatives such as the Smart Campaign³⁰ and SPTF).

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

- Ensuring that client focus is integrated into the institution's strategic and business plans
- Reviewing and discussing social performance reports provided by the institution to ensure:
 - The institution reaches target clients³¹
 - The institution's products and services are appropriate to client's needs³²
- Suggesting modifications to the institution's products and operations based on review of social performance information

- Reviewing Human Resources policies to evaluate social responsibility to employees
- Reviewing and updating the institution's social mission, goals, and targets, as necessary

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 the 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 the institution's history, mission, social goals, and related topics. Board members should visit clients and understand the institution's field operations, so that the institution's social goals "come alive" to the board.

If you find that your board resists their 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.

²⁹ Guidance on [standard 1a](#) discusses the social strategy.

³⁰ For more information, visit the Smart Campaign website: www.smartcampaign.org.

³¹ Guidance on [standard 1a](#) discusses the importance of defining target clients.

³² Guidance on [standard 3a](#) and [3b](#) discusses how to understand client needs and preferences and design appropriate products and services.

FIELD EXAMPLE 9. NWFT, PHILIPPINES ORIENTS THE BOARD ON SPM

In 2012, [Negros Women For Tomorrow Foundation](#) (NWTF) hired an external consultant to orient the board on SPM. The consultant used two overhead projectors for the orientation meeting. One projector showed NWTF'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 NWTF 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 NWTF's "80-50-30" social performance target: the institution targets 80% of new clients living below poverty line upon entry, 50% of clients making progress out of poverty after three years in the program, and 30% of clients moving about the poverty line after five years in the program.

FIELD EXAMPLE 10. CHAMROEUN MICROFINANCE, CAMBODIA CREATES A BOARD SPM COMMITTEE

In 2012, [Chamroeun](#) created a board committee for SPM. The primary function of the SPM Committee is to assist the board in protecting the institution's social mission while the institution pursues financial sustainability. The committee formalizes the board's responsibility for overseeing the achievement of Chamroeun's social goals.

The SPM Committee Terms of Reference lists the following responsibilities for its members:

- **Create an SPM strategy:** The Committee is tasked with reviewing the mission when necessary and ensuring that the institution enables clear understanding and consensus on the mission at all levels. The committee also ensures that Chamroeun translates the mission into a strategy that has clear targets and indicators.
- **Monitor social performance:** The Committee monitors the achievement of the institution's social goals and compliance with stated values by reviewing, analyzing, and discussing social performance data.
- **Promote good practices:** The Committee advises the institution on good practices to further enhance Chamroeun's social performance. It provides Chamroeun with updated information on global SPM initiatives.

See the Terms of Reference for Chamroeun's SPM Committee here:

http://www.entrepreneursdumonde.org/pratiques/index.php?option=com_docman&task=cat_view&gid=375&lang=en

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 creates a gap between the institution'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

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.³³

Report contents

Report social data that is important to your board.³⁴ 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 clients³⁵
- Social indicators that measure progress toward social targets³⁶

- Client retention³⁷/feedback data or satisfaction surveys/exit survey data
- Client protection risks and practices³⁸
- Employee retention and satisfaction/effectiveness of HR policies³⁹
- Growth targets vs. actual growth and data/discussion on “responsible growth”⁴⁰
- Profit allocation and data/discussion on “responsible prices and profits”⁴¹

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.

³³ Guidance for [standard 2a](#) discusses board SPM responsibilities

³⁴ [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.

³⁵ Guidance for [standard 1a](#) discusses defining your target clients. Guidance for [standard 1b](#) discusses disaggregating client data based on target client characteristics.

³⁶ Guidance for [standard 1b](#) discusses social indicators that measure progress toward social targets and measuring progress toward poverty reduction goals.

³⁷ Guidance for [standard 3a](#) discusses measuring client satisfaction and client retention.

³⁸ Guidance for [standards 4a to 4d](#) discusses client protection risks and practices.

³⁹ Guidance for [standard 5c](#) discusses employee satisfaction and employee retention.

Guidance for [standard 5a](#) discusses Human Resources policies.

⁴⁰ Guidance for [standard 6a](#) discusses responsible growth.

⁴¹ Guidance for [standard 6b](#) and [standard 6c](#) discusses responsible prices and profits.

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—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 the institution might improve the SPM report to make it more useful for the board.

Report frequency

Provide a 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. Eventually, provide an integrated report, with social performance alongside financial performance, for each board meeting.

2A.3 PUT SPM ON THE BOARD AGENDA

To ensure that boards use social performance information to provide oversight for the institution's strategy, each board meeting agenda should include time for review of the SPM report. Additionally, the board should establish a set time (e.g., annually), to review the 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 not, 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.⁴² 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.

⁴² Some institutions 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 institutions have found that having a designated SPM committee helps social performance issues to achieve equal status to financial performance issues.

Highlight the risk management implications of SPM

Many aspects of SPM need to be integrated into the risk management strategy: a failure to deliver positive outcomes for clients will lead to poor performance as clients struggle to repay their loans and leave the organization; failure to protect clients will have similar negative impacts and will lead to reputational damage. 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 institution, as the recruitment investment is not recovered.

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.

2A.4 EVALUATE THE CEO ON SOCIAL PERFORMANCE

Board evaluations of the CEO/Director should be based on the financial performance and the social performance of the institution. The board should take the evaluation criteria directly from the social targets established in the social strategy.⁴³ Example evaluation criteria include:

- Institution meets client outreach targets (client characteristics, not just numbers)
- Institution meets client retention 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
- Institution responds to issues highlighted in market research report by modifying a product or service

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).

⁴³ Guidance for [standard 1a](#) discusses how to set social targets.

2A.5 PREVENT INSTITUTIONAL MISSION DRIFT

Your board should safeguard the institution's social mission at all times, but particularly during periods of major change that make the 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:⁴⁴

- whether the investor has already made a commitment to, or is likely to commit to the institution's social goals
- whether the investor brings experience and/or resources for social performance
- whether the investor demonstrates an understanding of and commitment to the institution's areas of emphasis, such as women's issues

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

interests between the institution and new investors seem to align, your institution should include performance expectations in shareholder agreements.

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 or not the institution already understands the needs of the new group, and if so, whether the institution is well-placed to

⁴⁴ The guidance for [standard 6b](#) discusses how to align investor and FI expectations on social and financial performance.

serve those particular needs. Alternatively, does the 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.

FIELD EXAMPLE 11. JUHUDI KILIMO, KENYA REPORTS SPM TO THE BOARD

[Juhudi Kilimo](#) provides the board with an SPM board report each quarter. The contents were decided on by management and the board, and the report is used to track data that are relevant for board decisions. Board reports typically include some or all of the following data:

- A “social picture” of clients, which demonstrates their housing and family situations (flooring material, roofing material, habitable rooms, source of lighting, number of children in school, number of employees)
- Progress out of Poverty® scores, segmented by new/existing clients
- Client monthly income and expenses (percentage in each income/expense range)
- Type of assets financed (dairy cows, poultry, farm equipment, irrigation systems, farm inputs, transportation assets, and other)
- Client drop-out rate, segmented by male/female
- Client satisfaction survey results
- Employee satisfaction survey results
- Results of any other social performance surveys/studies/audits
- Related financial performance data: total groups, new groups, total clients, active borrowers, client monthly growth rate, new male/female clients, PAR

Standard 2B

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

- > **Essential Practice 2B.1** Senior management integrates the institution's social performance goals into business planning.
- > **Essential Practice 2B.2** The institutional culture raises awareness and concern about fair and responsible treatment of clients. (Client Protection standard 5.1)
- > **Essential Practice 2B.3** Senior management analyzes social performance data to compare the institution's actual performance against its stated social targets.
- > **Essential Practice 2B.4** Senior management analyzes and addresses social performance-related risks.
- > **Essential Practice 2B.5** The CEO/Managing Director holds senior managers accountable for making progress toward the institution's social goals.

2B.1 INTEGRATE SOCIAL GOALS INTO BUSINESS PLANNING

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 the institution's social performance goals into strategic planning
- 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](#),⁴⁵ the 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 institution'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 the institution's ability to achieve its social targets, as well as its public reputation
- Require the institution to collect additional social performance data
- Require adjustments to the institution's stated social goals

Social performance check—how does this decision affect clients?

In addition to management and the board considering the effect of strategic decisions on clients, 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.

⁴⁵ [Standard 1a](#)—The institution has a strategy to achieve its social goals.

2B.2 CREATE AN INSTITUTIONAL CULTURE THAT IS RESPECTFUL TOWARD CLIENTS

Among other benefits, an institutional Code of Ethics helps employees practice fair and respectful treatment of clients by defining clear standards of ethical behavior that they must uphold. A written Code does not ensure ethical conduct, but it is a first step toward formalizing an ethical organizational culture.

Establishing high standards of ethical employee behavior is a two-part process. First, define standards of behavior, ideally by involving employees at all levels of the organization. The document that summarizes these standards should be approved by the board and signed by all employees. The Code should be reviewed regularly, and updated as needed.

Once the Code is in place, bring it to life by integrating it into institutional policies and procedures. For example, Human Resources procedures like hiring, training, performance evaluations, and incentive systems should incorporate elements of the Code. Similarly, Risk Management—for example, internal audit, internal controls or compliance departments—has a role in verifying that the Code is upheld in practice.

2B.3 COMPARE THE INSTITUTION'S ACTUAL PERFORMANCE AGAINST SOCIAL TARGETS

An institution 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.⁴⁶ Anecdotal evidence and impressions can be misleading and even grossly inaccurate. Therefore, managers should use social data regularly to track progress on social targets. 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 targets⁴⁷
- 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
- The institution to demonstrate progress to external stakeholders, improving its credibility in the marketplace
- All non-management employees to see how the institution is progressing (or not) toward its social targets, building awareness about what the institution wants to achieve

⁴⁶ [Standard 1a](#) discusses setting social targets.

⁴⁷ Guidance for [standard 2b](#) discusses board evaluation of the CEO/Director.

2B.4 MONITOR SOCIAL PERFORMANCE RISKS

Risk management systems within many institutions 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. Internal audit and/or risk management should integrate social performance criteria into their regular activities. In addition, the institution can use external assessment of social performance risks such as social ratings, audits, or client protection certification. Table 12 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.

TABLE 12. SOCIAL PERFORMANCE RISKS TO MONITOR

RISK	EXAMPLES OF MONITORING
Client over-indebtedness	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • Interview clients to assess their knowledge of product/service terms and conditions
Employee dissatisfaction/exit	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • Conduct periodic or ongoing client satisfaction surveys • Monitor client exit by branch
Selection of clients outside target group (e.g., wealthier clients)	<ul style="list-style-type: none"> • Check reports of client business types • Monitor poverty levels of incoming clients

2B.5 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,⁴⁸ senior managers should be *particularly* accountable to the institution's social goals. Senior managers set the tone for other employees, and their level of commitment to the institution's social goals will determine the institution's overall ability to achieve these goals.

Table 13 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.

⁴⁸ Guidance on [standard 2c](#) discusses how to evaluate employees on social performance.

TABLE 13. 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	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> Survey a 10% 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	<ul style="list-style-type: none"> The institution will target low-income women The institution will prevent client over-indebtedness 	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> The institution will respond to employee grievances through a formal mechanism Employees will receive skill development and training 	<ul style="list-style-type: none"> 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

Standard 2C

Employees are recruited, evaluated, and recognized based on both social and financial performance criteria.

- > **Essential Practice 2C.1** Employee job candidates are screened and hired for their commitment to the institution's social goals and their ability to carry out social performance related job responsibilities.
- > **Essential Practice 2C.2** The institution provides training and evaluates employees on both social performance and financial performance responsibilities related to their position.
- > **Essential Practice 2C.3** The institution implements policies to promote ethics and prevent fraud. (Client Protection standard 5.4)
- > **Essential Practice 2C.4** The institution incentivizes quality loans. (Client Protection standard 2.2)

TABLE 14. EXAMPLES OF EMPLOYEE POSITIONS AND RELATED SPM DUTIES

2C.1 CONSIDER SOCIAL PERFORMANCE WHEN HIRING EMPLOYEES

Your institution's Human Resources function should prioritize recruitment of employees who fit the institution's culture and values. Perform background/reference checks on potential employees to identify previous work experience that indicates alignment with your institution's social goals (e.g., work with similar target clients, customer service responsibilities) and identifies any previous instances of misconduct. Verify the employee's commitment to work with your target clients (e.g., a loan officer can speak the local language and is willing to travel to remote rural areas).

Identify social performance-related responsibilities for each position, and when hiring new employees, screen candidates for their ability to carry out those responsibilities. Table 14 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.

POSITION	SPM DUTIES
Loan officer	<ul style="list-style-type: none"> Recruit clients who fit with the institution's target criteria Undertake a loan appraisal for all loans Understand and help resolve repayment problems for good clients who have willingness but not capacity to repay a loan Collect information on clients' living conditions Respond to client complaints
Internal auditor	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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

2C.2 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 the institution's social goals. Table 15 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 strategy⁴⁹ and their social performance responsibilities.

⁴⁹ Guidance for [standard 1a](#) discusses the institution's social strategy.

TABLE 15. EXAMPLE OF EMPLOYEE RESPONSIBILITIES

LOAN OFFICER RESPONSIBILITIES	EVALUATION CRITERIA
Recruit clients who fit with the institution's target criteria	<ul style="list-style-type: none"> Percentage of target clients (e.g., youth; women) in loan officer's portfolio
Collect information on clients' living conditions	<ul style="list-style-type: none"> Number of client surveys conducted Accuracy of client data collection
Respond to client complaints	<ul style="list-style-type: none"> Number of client complaints received Number of client complaints resolved
Maintain high portfolio quality	<ul style="list-style-type: none"> PAR > 30 Client retention, by loan cycle
Treat clients respectfully	<ul style="list-style-type: none"> % renewed loans Client complaints registered against employee Client satisfaction with employee

FIELD EXAMPLE 12. FINCA MICROFINANCE BANK LTD., PAKISTAN EVALUATES EMPLOYEES ON CUSTOMER CARE

2C.3 PROMOTE ETHICS AND PREVENT FRAUD

Promote a strong ethical culture by evaluating employees on ethical conduct and customer service. Additionally, define clear sanctions for violations of the Code, and take violations seriously. Institutional policy should specify different levels of sanctions, depending on the severity of violations.

Additionally, use client visits by risk management personnel (internal audit, internal control, compliance) and/or a robust complaints handling mechanism to monitor staff behavior.

Finally, discourage theft and fraud by paying appropriate salaries levels. Loan officers in particular should have a base pay—i.e., before any incentives—that at least covers their basic needs. Very low salaries can increase the temptation to engage in fraudulent or unethical behavior in order to make ends meet.

In 2010, FINCA MFB (a subsidiary in FINCA's network) 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 institution's Customer Care Standards.

In order to develop the Customer Care Standards, the institution 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 leading 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 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 Key Performance Indicators 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.

2C.4 INCENTIVIZE QUALITY LOANS⁵⁰

Poor portfolio quality is not just a financial performance issue—it can also signal problems with the quality of service you deliver to clients. Incentivizing quality loans requires regular monitoring of PAR, rescheduled loans, and write-offs. Maintain reasonable portfolio quality over time—defined as $PAR \leq 30 + \text{write-off} > 360 < 10\%$ (including the restructured portfolio) for the last 24 months. If PAR trends show a decline in portfolio quality, take action to correct the problem. For example, if $PAR > 10\%$, bonuses may be offered to loan officers to decrease PAR to below that threshold.

You can encourage quality loans by having incentives that value portfolio quality (i.e., PAR and write offs) at least as highly as other factors, such as loan disbursement volume or growth in the number of clients. While your institution should incentivize low PAR, very stringent PAR targets, especially zero tolerance for PAR, can increase the risk of aggressive recovery tactics and are not recommended. Incentives for portfolio quality therefore need to be balanced with other factors such as client numbers, exit, or satisfaction.

For incentives that take into account productivity targets, these should be reasonable compared to industry (or regional) benchmarks, as excessively high targets can incite aggressive

sales.⁵¹ It is also important that the variable proportion of a loan officer's salary (i.e., the portion coming from incentives) be reasonable (not more than 50%), so that loan officers are not incited to earn their incentive at any cost, which could increase the risk of aggressive sales and/or recovery tactics.

Your portfolio targets should also be appropriate to the context. For example, officers working in areas of the country with high penetration rates should not have the same client growth targets as loan officers in less saturated areas. When setting targets, take into account loan officer performance by region/branch as well as market conditions (among other elements like financial projections) to make sure targets are reasonable and do not encourage over-selling in the local context.

Some institutions chose to reward staff based on how well they comply with institutional processes, as determined by internal audit checks. These can be very useful in achieving the quality and consistency of delivery necessary to achieve your social goals.⁵²

⁵¹ Aggressive techniques may include requiring all group members to renew a loan (with no option for one of the members to opt out).

The following productivity levels are suggested as a general guideline, but users may decide to use other benchmarks that are more specific to countries, regions, or lending methodology:

* Individual lending (loans per Loan Officer): Green Zone below 200; Yellow Zone 200-300; Red Zone > 300

* Solidarity group lending: Green Zone below 350; Yellow Zone 350-500; Red Zone > 500

* Average proportion of incentives in total Loan Officer remuneration does not exceed 50%

⁵² See [standard 5b](#) for additional guidance on employee evaluation and incentives of this type.

⁵⁰ A "quality loan" is appropriate to client needs and does not over-indebt the client.

FIELD EXAMPLE 13. NIRDHAN UTTAHAN BANK LTD., NEPAL INCENTIVIZES QUALITY LOANS

[Nirdhan](#) once used the typical Grameen mono-product that is common in South Asia. However, when the bank expanded operations from the southern plains area of Nepal where population density is fairly high and weather fairly good, it had to make significant changes and innovations to develop a group-lending model for the mountainous regions in Nepal, which are sparsely populated and have formidable weather conditions. Given these differences, the groups in these two areas have different delivery channels.

With funding from Plan International, Nirdhan developed an innovative model of service delivery to its group clients in mountain areas. The “self-reliant group model” began in 2003 to address the scattered populations. This model includes capacity building, monitoring and auditing, bank supervision and motivation of the client. The bank conducts wholesale lending with the group, which is more costly for the bank in the beginning since it must train the group’s leaders to keep the books. But after one or two years, the groups are less expensive for the bank to run than the Grameen-style groups, because the group is entirely self-reliant.

Nirdhan lends to the group, and the group lends to the clients at a 6% margin, which is used to pay the group’s expenses; and if there is leftover, the group members may receive a dividend at the end of the year, which is divided evenly among members. Alternatively, they can invest this money and not receive a dividend—it is their choice.

The self-reliant group model was originally piloted in five branches, and by 2012 had expanded to 30 branches. The rest of the bank’s national expansion will involve use of the self-reliant group model. The pilot branches took six or seven years to break even, however the product has been refined over time and now branches only take three years to break even because there have been improvements in efficiency. In 4 or 5 branches, using the self-reliant group model, clients have used their margin money to fund the purchase of a computer and accounting software or a part-time staff person in order to facilitate tracking the accounting for their group. The self-reliant group model has also proved more stable despite the high level of political instability in the country, because the clients’ own businesses would be negatively impacted if they went on strike, and so they do not strike against the bank. By 2015 the bank plans to increase the use of this model to 50% of its portfolio.



Dimension 3:

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

Dimension 3 includes two standards:

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

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

Standard 3A

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

> **Essential Practice 3A.1** The institution seeks client feedback for product design and delivery.
(Client Protection standard 1.2)

> **Essential Practice 3A.2** The institution analyzes client satisfaction by client characteristic.

> **Essential Practice 3A.3** The institution monitors the client retention rate by client characteristic and understands the reasons clients exit the institution.



3A.1 COLLECT MARKET RESEARCH

In addition to data collected to understand whether your institution is meeting its social goals,⁵³ your institution may need to perform additional market research to gain a deeper understanding of target client needs and preferences.

Typical market research starts with an FI'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 understanding the financial lives of your target clients, and then designing products to satisfy those needs. For example, in order to understand the needs and preferences of clients living in rural areas, you will need to collect information such as agricultural business types, monthly profit generated from these businesses, variations in seasonal income flows, and client demand for various agricultural loan options. In doing so, you will develop a picture of the challenges and opportunities your clients face throughout the year, and you can then make strategic decisions about how to design or re-design your products to benefit clients.

⁵³ The guidance for [standard 1b](#) discusses social goals.

Specifically, market research should examine:

- Characteristics of your target clients (e.g., business type, female/male, income)
- Behaviors of your targets which 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
- How product modifications or additions to existing products could better address the above opportunities and constraints

Your institution can use multiple sources for client data,⁵⁴ including client interviews, surveys, field observations, and data mining of the management information system (MIS). Market research may involve *additional* data collection techniques, such as focus groups, participatory rapid appraisal, and observations of client behaviors. Field employees and management can also share insights on clients through employee interviews and focus groups.

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

- Allow for segmentation by the characteristics of the target population
- Cover a representative sample of clients and non-clients⁵⁵ who belong to the target population (i.e., sample composition is similar to the target population and of reasonable size⁵⁶)
- Use neutral parties to collect and analyze the data (e.g., avoid involving employees who might conceal negative responses from clients)

Segment client data

Your institution should segment⁵⁷ all client data—this includes indicators that monitor your social goals and the market research information listed at right. Segmentation allows you to make decisions that enhance the value of your products and services for clients. Segment market research data for all products your institution offers, not just credit.

Table 16 presents three examples of **products and delivery channels**, along with **segmented data** on those products, and the **analysis** that the data allow. **Product design decisions** based on the analysis will be discussed further in [standard 3b](#).

⁵⁴ Guidance for [standard 1b](#) discusses some forms of social data.

⁵⁵ “Non-clients” refers to people in the institution’s target group who are not currently accessing the institution’s products/services.

⁵⁶ 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: <http://www.edarural.com/sites/default/files/EDA%20Technical%20Note%201%20-%20Sampling.pdf>

⁵⁷ Guidance for [standard 1b](#) discusses how to segment client information using your institution’s management information system (MIS).

TABLE 16. CLIENT DATA FOR IMPROVED PRODUCT DECISIONS

PRODUCT OR DELIVERY CHANNEL	DATA COLLECTED ON PRODUCT OR DELIVERY CHANNEL (SEGMENTED BY CLIENT CHARACTERISTICS)	ANALYSIS OF THE DATA TO UNDERSTAND CLIENT NEEDS
<p>Delivery channel options:</p> <p>1) Branchless banking or</p> <p>2) Traditional (branch) banking</p>	<ul style="list-style-type: none"> Client distances from branch offices, by region Client mobile phone ownership, by client income or poverty level Client survey responses on delivery channel options preferences 	<p>Segmented client data show:</p> <ul style="list-style-type: none"> Clients in the eastern province live an average of 2km from their local branch office, and clients in the western province live an average of 10km away. Over 85% of clients living in both the east and west own mobile phones. Of these, 70% are “poor.” <p>Additional market research data show:</p> <ul style="list-style-type: none"> Clients in both regions prefer the convenience of mobile banking. Clients in the west spend three times more on transportation to branches than clients in the east.
<p>Product:</p> <p>Agricultural insurance</p>	<ul style="list-style-type: none"> Claims, by region Asset value, by business type (e.g., farming corn, raising livestock) Interview responses on product term preferences, by business type Survey responses on household needs, by business type 	<p>Segmented client data show:</p> <ul style="list-style-type: none"> 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. <p>Additional market research data show:</p> <ul style="list-style-type: none"> Farmers want to insure their crops as well as their farming inputs. Livestock owners already have access to government insurance for their assets.
<p>Product:</p> <p>Voluntary savings</p>	<ul style="list-style-type: none"> Deposit size, by client age Deposit frequency, by client age Interview responses on product term preferences, by business type and age Survey responses on household needs, by business type and age 	<p>Segmented client data show that younger clients (21-35 years) make larger, less frequent deposits.</p> <p>Additional market research data show:</p> <ul style="list-style-type: none"> Income flows are variable for younger clients Younger clients save primarily for housing and weddings

Identifying barriers to access

Barriers to access are factors that prevent people in your target population from becoming clients. 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 members of your target population who are not currently clients, and should seek to identify whether your product/service design unintentionally prevents these people from accessing your institution's products and services.

BOX 5. 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, early experience shows that the process is highly responsive to clients' real lives and may lead to products that are better suited to clients' needs.⁵⁸

⁵⁸ See CGAP Brief for additional information: <http://www.cgap.org/sites/default/files/Brief-Designing-Customer-Centric-Branchless-Banking-Offerings-Dec-2013.pdf>



3A.2 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 recorded and shared with management).

Regardless of the method you choose, the client satisfaction data you collect should investigate your institution's ability to meet client needs, such as: reducing risks 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:⁵⁹

- 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 loan officer
- Satisfaction with the adequateness of savings/loan/insurance services (amounts, costs, schedule flexibility) and with non-financial services
- Suggestions for product improvement
- Level of trust in the institution

The results of client satisfaction surveys allow your institution to determine whether products are used as expected. If there is a gap between design and actual use, you are at risk of client exit, repayment problems, and/or not meeting social goals. Based on this gap analysis, you can potentially redesign the products to better fit the needs of your clients and protect your institution from the financial consequences of low client satisfaction.

⁵⁹ Client complaints are another important source of client satisfaction information; this data source is discussed in the guidance for [standard 4e](#).

3A.3 UNDERSTAND CLIENT EXIT AND INACTIVITY

Though some clients do leave for positive reasons (e.g., “graduating” to a larger financial institution), client exit is a useful proxy indicator of client satisfaction with products and services. It also indicates whether or not clients are facing problems that cause them to leave the institution or to become inactive. Increasing levels of exit can represent a significant risk, reflecting client dissatisfaction, client stress, inappropriate products or effective competition from other local providers. Exit is often a lead indicator for an impending decline in portfolio quality.

One of the best ways to understand the reasons for client exit and dormancy is to survey clients who have exited your institution or are dormant—a term referring to clients who are not currently taking a loan or depositing savings. Choose survey questions that will provide management with information they can use to understand the reasons behind client exit and take corrective action. Box 6 provides sample client exit survey questions.

Some institutions chose to conduct exit surveys on a regular basis. Other institutions 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).

Measure client retention

Your institution should track client retention on a regular basis (at least annually) and by different segments (at least: client characteristics, products, branches/areas). Choose a retention formula⁶⁰ and use it consistently over time.

BOX 6. 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?

⁶⁰ 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). <http://www.themix.org/social-performance>

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.⁶¹ 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).

⁶¹ Guidance for [standard 2b](#) and [standard 2c](#) discusses management/board review of social performance data.

FIELD EXAMPLE 14. UJJIVAN, INDIA COLLECTS SATISFACTION DATA FACE-TO-FACE

In the past, [Ujjivan](#) found it challenging to collect accurate client satisfaction data. Customers declined to fill out client satisfaction surveys or use the customer help line. If they were unhappy, clients would simply leave the institution. 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, it holds a customer meeting 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, Ujjivan also initiated a new program for the management team to participate in a customer or staff connection on a regular basis. All top management must attend a customer-centric meeting three to four times per year and mid management meeting three to six times per quarter. Managers complete a meeting checklist that captures client feedback on products, process, 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 institution to get more accurate, straightforward feedback from clients.

Standard 3B

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

- > **Essential Practice 3B.1** The institution designs products that are appropriate to client needs and do no harm. (Client Protection standard 1.1)
- > **Essential Practice 3B.2** The institution uses its understanding of client needs and preferences to reduce the barriers to financial inclusion faced by target clients.
- > **Essential Practice 3B.3** The institution offers timely access to products and services that allow clients to reduce their risk and cope with common emergencies.
- > **Essential Practice 3B.4** The institution creates benefits for clients by enabling them to invest in economic opportunities and address anticipated household needs.
- > **Essential Practice 3B.5** The institution does not use aggressive sales techniques. (Client Protection standard 1.3)

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 DO NO HARM AND REDUCE BARRIERS TO ACCESS FOR CLIENTS

The starting point for the product design/modification process is your understanding of the barriers to accessing financial services that affect your clients.⁶² Your products and services should be designed to mitigate these challenges for clients. Additionally, the design should not create unintended negative consequences for clients.

Specifically, the following product/service features should match the needs of target clients so that you can ensure both maximum access for your clients, as well as maximum value:

- **Size:** Maximum and minimum loan sizes and savings requirements should match target clients' income, business type, savings habits, etc.
- **Cost:** Costs should be affordable to clients.⁶³
- **Guarantee/collateral requirements:** Collateral requirements should match target clients' access to physical collateral and/or guarantors. An institution policy should describe acceptable pledges of collateral and provide clear guidelines for how collateral is registered and valued. Take cultural and gender considerations into account, such as whether to require a client's husband to sign on the loan.
- **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.

- **Fees:** Administrative fees, minimum savings deposits, membership fees, and other fees can act as barriers for inclusion for potential clients. Consider clients' ability to pay fees.
- **Loan/saving/insurance product use requirements:** Requirements for product use should match your target clients' business activities.
- **Insurance cost and coverage:** Premiums, deductibles, and coverage should match target client ability to pay for insurance, and needs for insurance coverage (e.g., women may need maternity coverage and options for paying the premium over the length of their pregnancy).
- **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).
- **Delivery models:** Delivery models should be adapted to cultural and/or social barriers such as language, literacy levels, gender roles, etc. (e.g., asking clients to set savings goals and sending "reminder-to-save" text messages to these clients).

⁶² Guidance for [standard 3a](#) discusses how to understand the barriers to access for target clients.

⁶³ Guidance for [standard 6c](#) discusses setting prices that are affordable to clients.



All of the above product/service features should take into account the financial capability⁶⁴ of target clients, as this has significant implications for product design. You should empower your clients to choose and use the services. Additionally, you should consider all of the above in light of client behaviors that influence the use of financial services. These are examples of how such behaviors influence product uptake:

- In group-based financial institutions, poorer people are often excluded by other group members, or 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.

As discussed in the guidance for [standard 3a](#), your institution should base product/service/delivery channel decisions on market research. Table 17 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.

⁶⁴ "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)

TABLE 17. DELIVERY CHANNEL DECISION BASED ON CLIENT NEEDS

DELIVERY CHANNEL OPTIONS	DATA COLLECTED ON DELIVERY CHANNEL	ANALYSIS OF THE DATA, TO UNDERSTAND CLIENT NEEDS	DELIVERY CHANNEL DECISION BASED ON CLIENT NEEDS
1) Branchless banking or 2) Traditional (branch) banking	<ul style="list-style-type: none">• Average client distances from branch offices by region• Percent client mobile phone ownership by income• Client survey responses on preferences for delivery channels	<p>Segmented client data show:</p> <ul style="list-style-type: none">• Clients living in the east live within 2km of their local branch office, and clients in the west live within 10km.• Over 85% of clients living in both the east and west own mobile phones. <p>Additional market research data show:</p> <ul style="list-style-type: none">• Clients in both regions prefer the convenience of mobile banking.• Clients in the west spend three times more on transportation to branches than clients in the east.	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 15. **VISIONFUND, UGANDA REDUCES THE BARRIERS TO FINANCIAL INCLUSION THROUGH PRODUCT TERM CHANGES**

[VisionFund Uganda](#) works to provide “sustainable, gender-sensitive microfinance.” Though the MFI 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. increasing group loans and decreasing individual lending, and
2. requiring clients to present land title deeds as collateral.

These product features created barriers to women clients, as Ugandan women do not generally hold land titles, and men generally discourage their wives from joining groups. The organization 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 16. **KAWOSA, TANZANIA REACHES TARGET CLIENTS BY INTRODUCING A NEW PRODUCT**

KAWOSA, a savings and credit cooperative in northern Tanzania with just five staff and 1,200 members, identified that the majority of people in the communities it served were excluded from the cooperative because of prohibitively high membership share and savings requirements. As KAWOSA wanted to target poorer clients, they decided to change their by-laws to be able to offer small loans (US\$ 30 per person) to groups of poor women to invest in start-up businesses without paying membership fees or savings. Eligible women are selected according to four poverty indicators (struggling for food, bad housing conditions, no animals, not accessing education and health services). A focus group with members of one vulnerable group indicates that they are amongst the poorest in the community, which means that the new loan product is effective in reaching KAWOSA’s target clients.

There has been huge demand for these groups, with almost 2,700 vulnerable group members joining in the period from January – November 2013 (this compares with a growth of around 200 full members during the same period in 2012). To date, PAR is zero for these loans. Members report using the loans productively, and there is demand for further loans. Repayments include compulsory savings that build to meet the normal eligibility requirements, so that all members can become full members of the cooperative. Within the cooperative there is huge excitement about the achievement and the possibility of the cooperative extending outreach to more poor women.

**3B.3 PROVIDE PRODUCTS THAT ALLOW CLIENTS TO MANAGE RISKS AND COPE WITH EMERGENCIES**

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. The 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
- Insurance, including but not limited to coverage for credit, life, health, assets, and agriculture
- Payments/remittances services that allow clients to quickly receive funds from other people
- 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)

Table 18 uses one of the product examples found in [standard 3a](#), to show how an institution can use its analysis of client data to make product decisions. The example demonstrates a product decision that helps clients to manage their risks and cope with common emergencies.

TABLE 18. **PRODUCT DECISION BASED ON CLIENT NEEDS**

PRODUCT (OR PRODUCT IDEA)	DATA COLLECTED ON PRODUCT	ANALYSIS OF THE DATA, TO UNDERSTAND CLIENT NEEDS	PRODUCT DECISIONS BASED ON CLIENT NEEDS
Agricultural Insurance	<ul style="list-style-type: none">• 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	<p>Segmented client data show:</p> <ul style="list-style-type: none">• 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. <p>Additional market research data show:</p> <ul style="list-style-type: none">• Farmers want to insure their crops as well as their farming inputs.• Livestock owners already have access to government insurance for their assets.	<p>The institution 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.</p>



FIELD EXAMPLE 17. MUSOMA, TANZANIA USES SAVINGS TO HELP CLIENTS REDUCE RISK AND MANAGE ANTICIPATED NEEDS

MUSOMA, a savings and credit cooperative in northern Tanzania with 6,000 members, identified poor uptake of voluntary savings amongst its members and the potential for savings to address members' needs to cope with unexpected and anticipated financial needs. Increasing savings would also provide the SACCO with additional capital and reduce the liquidity problems being faced. MUSOMA thus took the following steps:

- Developed and distributed leaflets for sensitization on voluntary savings, targeting both current members and non-members, and trained credit committee members to sensitize other members;
- Reviewed interest paid on savings and increased this from 1 percent to 5 percent;
- Reviewed procedures to make 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 members).

**3B.4 ENABLE CLIENT 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.

Your institution should consider how it can offer products that provide such benefits. These products can include:

- Loan products to invest in economic opportunities, such as start-up business loans, established businesses, or agriculture
- Alternative forms of collateral to facilitate productive loans (e.g., leasing machinery for a business)
- Savings products that address life cycle needs such as youth savings, educational savings, housing savings, wedding savings, funeral savings, and pension savings
- Home improvement loans or housing loans

Table 19 uses one of the product examples found in [standard 3a](#), to show how an institution 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 19. **PRODUCT DECISION BASED ON CLIENT NEEDS**

PRODUCT (OR PRODUCT IDEA)	DATA COLLECTED ON PRODUCT	ANALYSIS OF THE DATA, TO UNDERSTAND CLIENT NEEDS	PRODUCT DECISIONS BASED ON CLIENT NEEDS
Voluntary savings	<ul style="list-style-type: none">• 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: <ul style="list-style-type: none">• Income flows are variable for younger clients• Younger clients save for weddings and mortgage payments	The institution 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.



3B.5 DO NOT USE AGGRESSIVE SALES TECHNIQUES

The final element in the product design/modification process is to train your employees on how to sell the new products. Employees need to be able to talk about the product in ways clients understand and that highlights how it will be useful for the client. Employees should also be reminded regularly of the client's right to refuse a product—their primary objective should be to bring value to the client.

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 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.

FIELD EXAMPLE 18. ASSOCIATION BASE FANDIMA (ABF), BURKINA FASO DEVELOPS A FLEXIBLE GROUP LENDING METHODOLOGY

A 2012 social audit by CERISE revealed that [ABF](#) 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's new product—Taan Yama—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
- 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 has also been 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 Responsibly⁶⁵

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 processes 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.

Standard 4A

Prevention of Over-indebtedness Client Protection Principle 2

Providers will take adequate care in all phases of their credit processes 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).

⁶⁵ The Universal Standards contains all 30 of the Smart Campaign's client protection standards. These 30 standards describe adequate practice for each of the seven Client Protection Principles, and they are included in the Universal Standards as Essential Practices. Dimension 4 contains most of the client protection standards (21 of 30). The remaining nine standards are relevant to Dimensions 2, 3, and 6, and are located in those sections. To view all of the client protection standards in one place, please visit the Smart Campaign's website: <http://www.smartcampaign.org/certification/certification-standards>

- > **Essential Practice 4A.1** The institution conducts appropriate client repayment capacity analysis before disbursing a loan. (Client Protection standard 2.1)
- > **Essential Practice 4A.2** The institution uses credit bureau and competitor data, when feasible in the local context. (Client Protection standard 2.3)
- > **Essential Practice 4A.3** Senior management and the Board are aware of and concerned about the risk of over-indebtedness. (Client Protection standard 2.4)
- > **Essential Practice 4A.4** The institution's internal audit department monitors that policies to prevent over-indebtedness are applied. (Client Protection standard 2.5)
- > **Essential Practice 4A.5** The institution avoids dangerous commercial practices. (Client Protection standard 2.6)

4A.1 ANALYZE CLIENT REPAYMENT CAPACITY

Your institution should have policies that support thorough repayment capacity analysis. Policies should describe how to conduct a client visit, how to collect and evaluate financial and non-financial data, how to do a cash flow analysis, and how to crosscheck data for accuracy.

Your credit staff should assess client repayment capacity for every loan cycle. The assessment should take into account business and household income/expenses and liabilities from all sources. All household members should be included in the debt assessment (e.g., a spouse's loans outstanding), and indirect debt should be counted (e.g., guarantees made for another person's loan). Apply conservative criteria to volatile income sources like remittances.

Your institution may decide that a simplified assessment is adequate for repeat loans, very small loans, short cycle (2-3 month) loans, and/or emergency loans. Nevertheless, a simplified repayment capacity should still include essential analysis (business and household income/expenses, liabilities from all sources) in order to take into account any changes that may have occurred to the client's situation during the period of the previous loan. Require client visits (either by the loan officer or delegated to

group/village members) for all non-consumption loans and loans based on informal revenues. If capacity analysis is delegated to group leaders, spot-check these analyses for accuracy and consistency.

Additionally, do not rely solely on guarantees (cash deposits, assets, joint liability, co-signers, or salaries) as a substitute for good repayment capacity analysis. For group loans, train members on the prudent self-selection of members and approval of loan amounts as well as on the joint solidarity concept.

Once a repayment capacity policy is in place, train staff on implementation, and ensure they can apply it correctly in the field. To verify that staff apply the policy uniformly, credit committees should review loan applications, and internal audit/risk management should spot-check loan applications as part of routine monitoring.

FIELD EXAMPLE 19. MUSOMA, TANZANIA INTRODUCES A REPAYMENT CAPACITY POLICY

MUSOMA, a savings and credit cooperative with 6,000 members, was concerned that some members were repaying their loans by selling assets. The institution conducted field research to understand the problem, and took the following concrete 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. Local leaders now verify repayment capacity, in addition to the loan officer. MUSOMA's Credit Committee now looks at the financial capability of members and offers advice.
- Members were trained to train their fellow members on entrepreneurship skills, in order to strengthen businesses and ultimately, repayment capacity.
- MUSOMA now provides financial education to members on 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 institution has seen a reduction the incidence of member over-indebtedness. Members also report benefits through the financial education and business skills training. At the same time PAR > 30 is down to 8% from 14%, court cases on non-repayment from 12 to 1. Additionally, the loan-to-savings ratio was reduced from 5:1 to 3:1. 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. For group lending, the institution should check the credit bureau for each member in the group. If one of the members does not pass the check, other members should be informed of this verbally or in writing.

If there is not a credit bureau available to your institution, your policies and practices should still require credit staff to consult with local competitors whenever possible, 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. This 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 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

While credit staff carry out repayment analysis in the field, management should monitor the 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.

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. Management and board should develop a definition of over-indebtedness for the 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 loans⁶⁶ may reflect rising over-indebtedness.

Your institutions 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.

Such 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 FI growth and penetration rates. Under these conditions, your institution's credit approval policy should explicitly address borrower debt thresholds.⁶⁷

⁶⁶ "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.

⁶⁷ Debt thresholds can be known by different terms (debt coverage ratio, debt service ratio, repayment capacity ratio, etc.) and 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).

4A.4 MONITOR OVER-INDEBTEDNESS PRACTICES VIA INTERNAL AUDIT

A 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.

4A.5 MONITOR OVER-INDEBTEDNESS PRACTICES VIA INTERNAL AUDIT

Certain business practices are strongly linked with higher levels of client over-indebtedness. Your institution should have policies that restrict the use of such practices and specify the instances in which these practices are acceptable. These practices include:

- **Parallel loans:** Enforce a policy that describes the cases in which parallel loans (loans contracted in addition to the one already outstanding) are acceptable and how they are managed. Parallel loans increase the household's debt burden and may lead to using one loan to repay another.
- **Renewal after early repayment:** Enforce prudent limits to allow for renewal in the case of early repayment. This means having procedures in place to ensure that clients are not using borrowed money in order pay loans early and take a larger loan. This practice increases the risk of over-indebtedness. It also gives the impression that the client's credit history is good, when in fact s/he is borrowing elsewhere to pay off loans.
- **Rescheduling/refinancing/forgiving loans:** Enforce procedures to work out solutions for rescheduling, refinancing, or forgiving loans on an exceptional basis for late clients who are willing but unable to repay, prior to seizing assets. Procedures should list cases of specific distress under which clients can be granted a longer loan term with lower payments or debt relief. These instances may include client illness, the death of a household member, or natural disaster leading to destruction of a productive asset. A clearly defined rescheduling policy should require several levels of approval, to ensure it is being applied transparently.

FIELD EXAMPLE 20. BELITA, TANZANIA INTRODUCES A RESTRUCTURING POLICY

BELITA had a reliable client whose business burnt down, and who was unable to repay her loan. In line with its “zero-tolerance” policy for late repayments, BELITA pressured the client to repay, but without success. Following SPM training as part of Oikocredit’s SPM mentoring program, BELITA’s chief executive met the client, offered to restructure her repayments, and offered a small additional loan to restart her business. The client cried tears of relief. She had been planning to sell her family’s farmland to repay the loan, which would have pushed her further into poverty.

A few months later, the client repaid the loan, successfully restarted her business, and took another loan. She became an ambassador for BELITA, promoting it to her friends and the community. The MFI has now introduced a carefully managed rescheduling policy for good clients facing a calamity, so that they no longer need to sell assets in times of unavoidable distress.

FIELD EXAMPLE 21. UJJIVAN FINANCIAL SERVICES PVT. LTD. EDUCATES CLIENTS ON THE DANGERS OF OVER-INDEBTEDNESS

Facing a growing incidence of multiple borrowing and ghost borrowing (clients taking out loans for other people, in return for a commission), **Ujjivan** 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 educates them on the importance of building a positive credit history.

Within its first year, Ujjivan showed the film to more than 1 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 represents a notable contribution toward avoiding the types of issues that have plagued Indian microfinance in recent years.

http://centerforfinancialinclusionblog.files.wordpress.com/2011/11/111116_smart-campaign_implementing-client-protection-principles-in-mf-state-of-the-practice-2011_final.pdf

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.

- > **Essential Practice 4B.1** The institution fully discloses cost and non-cost information. (Client protection standard 3.1)
- > **Essential Practice 4B.2** The institution communicates proactively with clients in a way that clients can easily understand. (Client protection standard 3.2)
- > **Essential Practice 4B.3** The institution uses a variety of disclosure mechanisms. (Client protection standard 3.3)
- > **Essential Practice 4B.4** The institution leaves adequate time for client review and discloses information at multiple times. (Client protection standard 3.4)
- > **Essential Practice 4B.5** The institution provides accurate and timely account information. (Client protection standard 3.5)

4B.1 FULLY DISCLOSE COST AND NON-COST INFORMATION

Microfinance clients often have low levels of literacy and are unfamiliar with the terms and conditions of formal financial products. That is why clear and complete communication on cost and non-cost information is so important. Your client should know the full breakdown of product costs and the total amount s/he will pay, *prior* to signing any contracts.

For **credit products**, provide clients with an **amortization schedule** that defines the following:

- amount, number, and due dates of installment payments
- interest rates, fees and conditions for early repayment, late payments, and default
- information on linked products (e.g., credit life insurance premium, compulsory savings) if applicable

Inform clients of any **possible changes** to the product,⁶⁸ and if/how they can accept or refuse these changes. Prior to sale, present clients with the **total cost of the loan** in written form. Means of payment (ATM cards, for example) documentation should show total annual cost to access the service.

Use accurate pricing mechanisms that are transparent for clients, such as reducing balance interest rates, Annual Percentage Rate (APR)⁶⁹ quotes, and clear communication about any mandatory products like insurance or deposits. In countries where MFTransparency⁷⁰ conducts pricing analysis, participate by disclosing requested information.

For **savings products**, you should provide clients with documentation that specifies the following:

- eligibility criteria
- interest rates⁷¹
- withdrawal limits
- minimum and maximum balances
- how savings might be used in the case of credit default (if applicable)
- all fees⁷²
- opening and closing procedures⁷³

For **insurance products**, make sure your documentation includes the following:

⁶⁸ Such as changes to interest rates in the case of variable rate loans or currency exchange rates in indexed loans.

⁶⁹ 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 (see the following footnote).

⁷⁰ Industry initiative that analyzes interest rates using standardized formulae in a selection of countries. Country-by-country analysis is published on www.mfttransparency.org

⁷¹ Interest rate information should include the percentage interest rate; how it is calculated (on the basis of the original deposit or compounded for interest accruals) and how often; the annual percentage yield; whether the interest rate can be changed and, if so, how often.

⁷² 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 (for example, if certain services are free when balance is maintained above a minimum), these conditions should also be made clear.

⁷³ The account closing procedure, including any additional fees and the time required to liquidate final account balances, should be made clear.



- eligibility criteria
- costs and how premiums are collected
- specific events covered by product
- amount of loss covered
- length and term of coverage
- premium due dates
- all exclusions
- any expiry conditions
- waiting periods, if applicable
- how to file a claim
- contact information for making a claim
- reimbursement conditions
- whether and how insurance is regulated by a third party

For **payment products**, documentation should include:

- amount to be paid by the sender in the sender's currency
- amount to be received in the recipient's currency
- all fees, taxes, estimated exchange rate, possible changes
- conditions for collecting money
- cancellation conditions
- linked products (e.g., compulsory insurance)

4B.2 COMMUNICATE IN A WAY THAT CLIENTS CAN EASILY UNDERSTAND

Communicating proactively means making sure clients can understand the terms of the contract and their rights and obligations. The following are steps you can take to promote clear communication:

- Provide all product information in the local language—for example, brochures, pamphlets, and the schedule of charges.
- Write product contracts in simple language. If you are required by law to use technical language, then provide a summary of key conditions.
- Avoid pricing methods that are confusing to clients—i.e., they make the cost look lower than it really is. For example, interest rates should be calculated on a declining balance instead of flat, which costs more to the client. It should be clear that cash collateral⁷⁴ and up-front fees increase the cost of the loan.⁷⁵
- Train staff on how to communicate with clients, and verify that clients truly understand the contract terms and conditions.

⁷⁴ Also known as a “financial guarantee” or “security deposit.”

⁷⁵ Other examples of confusing pricing: deducting the first payment from the principle, without clearly communicating this to clients (i.e., there is a difference between the loan amount as per the contract and the amount of money given to the client). Also, variable rate loans, such as indexed loans: institutions that use variable pricing must explain the different cost scenarios to clients, including a pessimistic scenario, for example, in the case of loans indexed to foreign currency.

4B.3 USE A VARIETY OF DISCLOSURE MECHANISMS

By using various communication channels, you can increase the likelihood of clients understanding your products. Use at least one verbal channel 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, and television. For group-based products, ensure that clients who join after the group has formed also receive the information.

4B.4 PROVIDE ADEQUATE TIME FOR CLIENT REVIEW PRIOR TO SALE

Clients need time to review product information, to compare options, and to ask questions before making a decision. To do this, they need relevant product information *prior to signing*. In practice, this means providing product documentation—including an amortization table for loans—that clients can take home and review before the sale. Also inform clients of what happens if they are late or default (like collateral seizing procedures). If your institution offers group lending, clients should understand the concept of paying for other group members in case of late payment or default. Finally, guarantors should also know their responsibilities prior to signing.

Employees should be trained to discuss terms and conditions with clients on several occasions during the product application process. Field staff may want provide a phone number to clients, so they are available to answer questions.

4B.5 PROVIDE ACCURATE AND TIMELY ACCOUNT INFORMATION

Just as clients need relevant information prior to signing to make an informed decision, they have the right to receive accurate and timely account updates once the contract is signed. Provide clients with a hard copy of all documents they have signed. Documents should be completely filled out, with no blank spaces. If the law requires you to keep the original copy of the contract, make sure clients receive a copy or at least a fact summary of what they have signed. For group loans, provide clients with their own contract and/or passbook, with a summary of contract terms and their signature, even if the contract is with the group.

In addition, provide clients with clear and accurate account information (e.g., statements, receipts, balance inquiries, etc.) on a regular basis, and receipts for all transactions.

**FIELD EXAMPLE 22. GATSBY MICRO FINANCE LTD., UGANDA
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 structure. Loan repayment schedules often fail to include interest rates, fees, commissions, and other pricing components.

In this market, one MFI, [Gatsby](#), has developed a repayment schedule that truly 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, as well as the date the schedule has been generated.

One major benefit to Gatsby is that in a market where a loan officer appropriation of client repayments is common, clients now have a clear document that lays out exactly what they have paid and what they owe. Similarly, sharing a wealth of loan pricing information allows clients to understand their loan better. Such transparency allows Gatsby to build greater trust with its clients—an important advantage over its competitors.

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.

- > **Essential Practice 4C.1** The institution has defined in specific detail what it considers to be appropriate debt collection practices. (Client protection standard 5.2)
- > **Essential Practice 4C.2** The institution's HR policies on recruitment and training are aligned around fair and responsible treatment of clients. (Client protection standard 5.3)
- > **Essential Practice 4C.3** In selection and treatment of clients, the institution does not discriminate inappropriately against certain categories of clients. (Client protection standard 5.5)
- > **Essential Practice 4C.4** In-house and third-party collections staff are expected to follow the same practices as the institution's employees. (Client protection standard 5.6)
- > **Essential Practice 4C.5** The institution informs clients of their rights. (Client protection standard 5.7)

4C.1 DEFINE “APPROPRIATE” DEBT COLLECTION PRACTICES

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). 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 (e.g., after how many days you will take action and what those actions are). For group loans, you should also describe actions that group members themselves can and cannot take, and ensure that this is communicated to new group members when they join.

The expectations you set for your employees are also important in creating an institutional culture that treats clients with fairness and respect. While you should expect and strive for on-time recovery, do not endorse a “zero tolerance” policy for PAR. This is an unrealistic target, and it increases the risk of unethical behavior to ensure collections. Additionally, your policies should specify that employees do 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.

Other elements of appropriate debt collections include a collateral policy that guarantees a fair price for confiscated assets. Confiscation procedures should be respectful of clients’ rights. For example, unless authorized by a court order, collateral seizure should only occur after receiving the client’s consent. If you store collateral on your premises, make sure you have procedures to keep it safe.

FIELD EXAMPLE 23. FINCOMÚN, MEXICO INTRODUCES A “COLLECTIONS WITH DIGNITY” POLICY

FinComún’s “Collections with Dignity” policy was successful in reducing the client default rate by 7% over one year and in improving the institution’s reputation among clients.

“Collections with Dignity” deemphasizes collections alone and 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 Code 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: <http://smartcampaign.org/tools-a-resources/48>

4C.2 ALIGN STAFF RECRUITMENT AND TRAINING TO THE CODE OF ETHICS

Recruit staff in line with your Code of Ethics. For example, recruitment procedures should include a background check and interview questions should address ethical behavior. All recruitment should occur without prejudice based on ethnicity, gender, disability, political affiliation, sexual orientation, or religion. The guidance for [standard 2c.1](#) discusses additional recruitment procedures that take SPM into account.

It is equally important that new staff are trained on your Code of Ethics, institutional values, or ethical guidelines. 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). Collections procedures and practices—what is appropriate, what is not—should also be covered in the initial training of all staff involved in collections.

4C.3 DO NOT DISCRIMINATE AGAINST CERTAIN CATEGORIES OF CLIENTS

Implement a non-discrimination policy that prohibits client discrimination on the basis of ethnicity, gender, sexual orientation, religious belief, political opinions, and disability. 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. You should review key policies for discrimination, with careful attention to rescheduling, to ensure it is done in a consistent and fair way throughout the institution (e.g., rescheduling should not depend on non-financial factors such as the client’s ethnicity). Also, ensure your institution’s Code of Ethics has specific guidance on how to treat clients and potential clients fairly.

4C.4 EXPECT IN-HOUSE AND THIRD-PARTY COLLECTIONS STAFF TO FOLLOW APPROPRIATE PRACTICES

It is not uncommon for institutions to use third-party agents to help in loan collections. In these relationships, the institution 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, by signing a code of conduct, for example, or agreeing to ethical guidelines laid out in the contract. In addition, internal audit should verify a sample of clients delegated to third-party agents, to ensure compliance.

4C.5 INFORM CLIENTS OF THEIR RIGHTS

Clients need to know their rights in order to recognize and react when they are not treated with fairness and respect. This means informing them of the main aspects of your Code of Conduct and what is not acceptable behavior by your staff. They 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, a brochures or other documentation).

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.

> **Essential Practice 4D.1** The institution has a privacy policy and appropriate technology systems. (Client Protection standard 6.1)

> **Essential Practice 4D.2** The institution informs clients about when and how their data is shared and gets their consent. (Client Protection standard 6.2)

4D.1 IMPLEMENT A PRIVACY POLICY AND APPROPRIATE TECHNOLOGY SYSTEMS

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.⁷⁶ The policy should cover current employees, but also staff 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.

Whether computerized or not, your information systems should ensure the security and privacy of client data. For example, keep client files in a secure place, with limited access. Restrict employees from taking home client files or copies of the databases. Protect IT systems using passwords with different levels of access depending on the employee's position. Additionally, back up your systems daily, with back-ups stored securely off-site.

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 if their information will be shared with a credit bureau, or others, such as insurance companies or collections agents.

⁷⁶ 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.

4D.2 OBTAIN CLIENT CONSENT BEFORE SHARING DATA

Your employees should know how to talk to clients about your institution's privacy policy. This means training employees on the policy during induction and having them sign a document that attests to their understanding of the policy (for example, in the letter of engagement, the employment contract, or Code of Conduct).

Inform clients about how their information is used and kept safe, including for example:

- Any regulations on collecting, sharing, and using information
- How the institution will share information with third-party providers, such as credit bureaus, collections agencies, insurance agents, marketing companies, etc.
- How information might be shared within the institution for purposes of cross-selling

Make sure clients understand your policies by reading aloud the data privacy clause in the contract. If your institution shares information with third-party providers, obtain written consent from the client. This consent may be part of the product contract. Written consent should also be required if you intend to use client information or photos for promotions, marketing, or other public information (annual reports, websites, etc.).

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 codes. For group loans, talk to group leaders about their role in keeping group information safe, such as individual saving account balances, dates of loan disbursement, and information on repayment problems, et cetera. Additionally, it is the clients' responsibility to inform the institution if their personal data changes (address, phone number, marital status, etc.).

FIELD EXAMPLE 24. CAJA MORELIA VALLADOLID, MEXICO PROTECTS CLIENT DATA

Upon transformation from a cooperative to a regulated financial institution, [Caja Morelia](#) was required to meet Mexican federal data management and reporting requirements. This period of transformation provided the institution 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 institution'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 has access to 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 institution has the right to bring criminal charges for violations of these agreements.

Read more on this example from the Smart Campaign: <http://smartcampaign.org/tools-a-resources/248>

Standard 4E

Mechanisms for Complaint Resolution Client Protection Principle 7

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 institution's clients are aware of how to submit complaints. (Client Protection standard 7.1)
- > **Essential Practice 4E.2** The institution's employees are trained to handle complaints. (Client Protection standard 7.2)
- > **Essential Practice 4E.3** The institution's complaints resolution system is active and effective. (Client Protection standard 7.3)
- > **Essential Practice 4E.4** The institution uses client feedback to improve practices and products. (Client Protection standard 7.4)

Define a complaints resolution mechanism. Your institution should have complaints system that allows clients to raise issues, make complaints, ask questions, and receive a timely response.

4E.1 INFORM CLIENTS ON HOW TO MAKE COMPLAINTS

Inform client of their right to complain, anonymously if necessary, and without incurring negative consequences. 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, the loan contract/key facts summary, on the amortization table, in loan passbooks, et cetera.

BOX 7. SUGGESTION BOXES ALONE ARE INEFFECTIVE

Illiterate clients cannot use a suggestion box, 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.

4E.2 TRAIN EMPLOYEES TO HANDLE COMPLAINTS

Provide training to your new employees on how the complaints mechanism works. Loan officers in particular need to know their role in the process and the importance of advising clients of their right to complain. Clients should 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. Put in place sanctions for employees who willfully fail to report a complaint.

4E.3 MAKE COMPLAINTS RESOLUTION A PRIORITY

The foundation for an effective mechanism is a specific policy for your complaints system that includes the following elements:

- **Designated personnel:** Assign at least one person to oversee complaints resolution, at least on a part-time basis. The person responsible for handling complaints should be independent from operations staff.
- **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. Such a system allows your institution to follow the case through to resolution, and to analyze complaints in aggregate.

- **Defined timelines:** Respond quickly to client complaints, within no more than a month of submission for serious/complicated cases.
- **Verification:** Verify the effectiveness of the system on an ongoing basis. This means that the internal audit team or some other controls team conducts periodic checks to assess how many complaints are being registered—this tests whether clients are using the system actively—and what actions were taken. To do this, 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.

4E.4 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.

The 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.

FIELD EXAMPLE 25. **TAMEER BANK, PAKISTAN CREATES A CLIENT COMPLAINTS MECHANISM**

A 2007 client delinquency crisis forced Tameer Bank 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 institution. 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: <http://smartcampaign.org/tools-a-resources/589>



Dimension 5:

Treat Employees Responsibly

Dimension 5 includes three standards:

- > **Standard 5A.** The institution follows a written Human Resources policy that protects employees and creates a supportive working environment.
- > **Standard 5B.** The institution communicates to all employees the terms of their employment and provides training for essential job functions.
- > **Standard 5C.** The institution monitors employee satisfaction and turnover.

Standard 5A

The institution follows a written Human Resources policy that protects employees and creates a supportive working environment.

- > **Essential Practice 5A.1** A written Human Resources policy is available to all employees, complies with national law, and explains employees' rights.
- > **Essential Practice 5A.2** Employee compensation levels constitute a living wage for employees.
- > **Essential Practice 5A.3** The institution accepts and responds to employee grievances through a formal and confidential grievance system.
- > **Essential Practice 5A.4** The institution neither employs nor benefits from forced or compulsory labor or illegal child labor.
- > **Essential Practice 5A.5** The institution assesses employees' health and safety risks and takes steps to mitigate them.
- > **Essential Practice 5A.6** The institution documents, reports, and investigates all occupational accidents, injuries or diseases.



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 of 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:** Describe the institution's pay scale; the mechanism through which employees will be paid (e.g., monthly direct deposit); and how the 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 the institution's

financial services (e.g., loans, transfer services).

- **Working conditions:** 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 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.
- **Non-discrimination:** Describe employee rights to fair and equal treatment regardless of the employee's sex, race/ethnicity, religion, HIV status, disability, sexual orientation, and participation in any collective bargaining agreement. Confirm employee rights to associate outside of working hours with any individual or group of any religion, political party, or other affiliation, without affecting on his/her employment status.
- **Freedom of association:** Describe employees' rights to form or join a trade union without interference and to bargain collectively.
- **Grievance resolution:** 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 the 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 the institution will protect the right of privacy of both the alleged victim and the person accused.
- **Disciplinary procedures and possible sanctions:** 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.
- **Provision of any collective bargaining agreements:** Describe the institution’s policy on collective bargaining activities (e.g., formation of an employee union to bargain for higher wages), including the rights of the institution and the employee.
- **Exit formalities:** Describe 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.

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. Regular employee meetings could include a discussion on a specific part of the policy and/or any policy updates.



5A.2 PAY EMPLOYEES A LIVING WAGE

Your institution should pay employees at a rate that 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, ensuring at a minimum that the wage is consistent with national wage laws. In the absence of a national or sectorial minimum wage, your institution should consider the market rates for employees at each level, working in the same industry (or a similar industry in the absence of competitors). If market rates or minimum wage rates do not constitute a living wage (i.e., employees are commonly underpaid throughout the local industry), your institution should adjust wages above the market rate, in order to protect employees.

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, the institution should address the problem openly with employees and adjust wages accordingly.

FIELD EXAMPLE 26. FINCA PERU PROTECTS STAFF WITH HR POLICIES

[FINCA Peru](#) (an independent microfinance institution) 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.
- **Continued education:** Employees are encouraged to continue their formal education. FINCA Peru enables them to have flexible work hours so they can attend school and sponsors up to 50% of tuition.
- **Interest-free loans:** Employees have access to interest-free loans to use toward housing, education, and health needs, and access to low interest rate loans for family businesses. Office staff participates 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.



5A.3 RESPOND TO EMPLOYEE GRIEVANCES THROUGH A FORMAL GRIEVANCE SYSTEM

Your institution should provide a formal way for employees to voice grievances. The mechanism should allow employee grievances to remain confidential, and the HR policy should protect employees from retaliation for submitting complaints, including protection for “whistleblowers”—those who disclose serious offenses such as criminal activity.

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 institution 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 institution 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 institution will seek to resolve the problem, such as using an Ethics Committee to determine a fair resolution.

5A.4 DO NOT BENEFIT FROM FORCED OR COMPULSORY LABOR, AND COMPLY WITH LEGAL REQUIREMENTS AND NORMS WHEN HIRING 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.⁷⁷ Pay special attention to vulnerable groups, including migrant workers, prison laborers, indigenous or tribal peoples, and workers from groups that are significantly discriminated against in the local culture.

The 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” 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.

⁷⁷ The institution should have a separate policy on the responsibility of loan officers to ensure that clients’ operating practices respect employees’ rights.

**5A.5 PROVIDE HEALTH AND SAFETY TRAINING AND EQUIPMENT TO EMPLOYEES**

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. Consider forming a joint management-worker safety committee to ensure representatives from all types of employees.

Table 20 presents examples of health and safety risks for office workers and field workers.

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 21 provides examples of health/safety risks and corresponding training topics for employees.

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.

TABLE 20. EXAMPLE HEALTH AND SAFETY RISKS THAT EMPLOYEES FACE

TYPE OF EMPLOYEE	POTENTIAL HEATH/SAFETY RISK
Employees working in an office, such as administrative positions	<ul style="list-style-type: none">Chronic stress due to demanding work and lack of support to handle thisPhysical pain due to long hours of standing, sitting, typing, or other repetitive motionsSickness due to unsanitary conditions in shared spaces (kitchen, bathrooms, etc.)
Employees working in the field, such as loan officers	<ul style="list-style-type: none">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

TABLE 21. EXAMPLE TOPICS FOR HEALTH AND SAFETY TRAININGS

POTENTIAL HEATH/SAFETY RISK	TRAINING TOPICS TO MITIGATE RISK FOR EMPLOYEES
Employees working in an office, such as administrative positions	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 the institution's grievance mechanism in the case of confidential complaints against managers.
Employees working in the field, such as loan officers	Train employees on the 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).

5A.6 DOCUMENT, REPORT, AND INVESTIGATE ALL OCCUPATIONAL ACCIDENTS, INJURIES, AND DISEASES

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.

Example of incident procedure in action

A loan officer sustains minor 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 creates a procedure for inspecting all motorbike tires on a monthly basis, and promptly replaces worn tires.

FIELD EXAMPLE 27. FUNDESER, NICARAGUA STRENGTHENS HR POLICIES

During the 2008 financial crisis, [FUNDESER](#) clients struggled with severe inflation and a steep decline in remittances. FUNDESER was a victim of the “No Pay Movement,” which saw the government encourage delinquent borrowers not to repay their loans. In 2009, FUNDESER's PAR jumped from 3.8 to 26 percent. A large portion of the portfolio was written off, and the institution reconsidered its entire operating model.

Many Nicaraguan institutions—FUNDESER included—were accused of being out of touch with clients, so the institution 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, FUNDESER overhauled its HR policies, putting in place a new manual that emphasized three institutional priorities:

- **Skills development.** The institution now offers increased training and skill-building opportunities, aimed at customer service.
- **Loyalty to institutional values.** The institution now recruits, hires, and evaluates employees based on the values outlined in the Code of Conduct.
- **Fair remuneration.** The institution 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 institution'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 institution follows a written Human Resources policy that protects employees and creates a supportive working environment.

- > **Essential Practice 5B.1** Each employee receives a written job description and an employment contract.
- > **Essential Practice 5B.2** Employees receive job-specific training and/or skill development.
- > **Essential Practice 5B.3** Each employee understands how his/her performance will be evaluated and rewarded by the institution.



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 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.

Your institution should also provide each employee with a contract that specifies his/her:

- **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
- **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.)

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 when 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;⁷⁸ and the conditions of employment.
- **Ongoing skills development:** Facilitate professional development opportunities that respond to employees' evolving needs as identified during regular performance reviews. 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.

⁷⁸ The guidance for standard [standard 2c](#) provides examples of the SPM duties for a loan officer, and example social goals for which various employees are responsible.

**5B.3 INFORM EMPLOYEES HOW THEIR PERFORMANCE WILL BE EVALUATED AND REWARDED**

Your institution should have a performance-based management system in place. Include the institution's social performance goals and integrate metrics to measure progress in individual performance appraisal forms. Employees at different levels (junior and senior) should actively participate in the development of the system and its evaluation metrics and rewards. This should help make these metrics relevant to employees and create a sense of ownership and motivation among employees. Finally, your institution should periodically (e.g., every two years) review the metrics and process used to evaluate employees, to make sure that it is still effectively motivating employees to achieve the institution's social goals.

Your institution should provide each employee with:

- Up-to-date, written performance metrics that the institution will use to evaluate the employee's performance
- An up-to-date, written explanation of the institution's incentive/reward system

**FIELD EXAMPLE 28. AL MAJMOUA, LEBANON
TRAINS EMPLOYEES ON SPM TOPICS**

Until recently, [Al Majmoua](#) 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.

In 2011, the institution implemented a new 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 institution monitors employee satisfaction and turnover.

- > **Essential Practice 5C.1** The institution analyzes employee satisfaction.
- > **Essential Practice 5C.2** The institution monitors the rate of employee turnover and understands the reasons for employee exit.
- > **Essential Practice 5C.3** The institution 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

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.

FIELD EXAMPLE 29. VISIONFUND, CAMBODIA AND ESAF, INDIA MONITOR EMPLOYEE SATISFACTION AND UNDERSTAND REASONS FOR STAFF EXIT

Both [VisionFund Cambodia](#) and [ESAF](#) 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 or not employees are happy with the institution 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 institution'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.



5C.2 MONITOR EMPLOYEE EXIT, AND UNDERSTAND THE REASONS FOR EMPLOYEE EXIT

Your institution's employee turnover rate⁷⁹ 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.

Track the employee turnover rate on a regular basis (at least annually) and by different types of employees (including gender, level, and location). Choose a turnover/rotation formula, and use it consistently over time. 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.

⁷⁹ The MIX calculates employee turnover rate in the following way: Employee turnover rate = Exit during the period / average (Number of employees at the end of the reporting period + Staff employed for one year or more).

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. This group should review the information on a regular basis (at least annually) and actively engage with employees to determine how the institution can improve employee satisfaction and retention.⁸⁰

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.

⁸⁰ The guidance for [standard 2b](#) and [standard 2c](#) discusses management/board review of social performance data.

FIELD EXAMPLE 30. NRSP, PAKISTAN RESPONDS TO EMPLOYEE GRIEVANCES

Among other HR policies that affect more than 5,000 employees, [NRSP](#) 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, and it also allows anonymous complaints. 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 10 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 institution'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 institution.



Dimension 6:

Balance Financial and Social Performance

Dimension 6 includes four standards:

- > **Standard 6A.** The institution sets and monitors growth rates that promote both financial sustainability and client well-being.
- > **Standard 6B.** Equity investors, lenders, board, and management are aligned on the institution's double bottom line and implement an appropriate financial structure in its mix of sources, terms, and desired returns.
- > **Standard 6C.** Pursuit of profits does not undermine the long-term sustainability of the institution or client well-being.
- > **Standard 6D.** The institution offers compensation to senior managers that is appropriate to a double bottom line institution.

Standard 6A

The institution sets and monitors growth rates that promote both financial sustainability and client well-being.

> **Essential Practice 6A.1** The institution establishes a policy on sustainable target growth rates, approved by the board, for all branches/regions and all product types, considering the institution's growth capacity and the markets being targeted.

> **Essential Practice 6A.2** The institution analyzes growth rates and market saturation to assess whether growth policies ensure both financial sustainability and client well-being.

> **Essential Practice 6A.3** The institution monitors whether its internal capacity is keeping pace with institutional growth in number of clients and amount of loans and deposits, and it enhances that capacity as needed.

6A.1 SET SUSTAINABLE GROWTH TARGETS

Most microfinance institutions register positive growth rates of their customer base or portfolio. Annual growth rates are usually in the range of 5-30% but can reach 50% or more in markets where the market potential is still very large or in which the competition is very intense. Such high growth rates can be appropriate in some market contexts yet very dangerous in others where they can generate problems of over-indebtedness of clients or weaken the internal control systems of the institution.

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. Sustainable growth rates allow you to maintain good customer service, respect clients' rights, and ensure manageable workloads for employees. In other words, pursue growth 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.

Sets 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, market penetration, market saturation, market infrastructure
- **Internal factors:** management team workload and skills, internal controls, operational procedures, human resources, management information system, financing

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, and market saturation. Careful analysis of these elements is necessary to set sustainable target growth rates. 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.⁸¹

[Table 22](#) 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 8](#) provides an example of how your institution can calculate the market penetration rate. [Table 23](#) demonstrates how your institution can use Global Index data to help determine your institution's potential market.

⁸¹ 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 FI) 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).

TABLE 22. 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).	<ul style="list-style-type: none"> Market research Credit bureau information Data available from national/regional network 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.	<ul style="list-style-type: none"> Competitors'⁸² 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.	<ul style="list-style-type: none"> MIMOSA⁸³ Global Findex dataset⁸⁴ Credit bureau information National statistics institute (data on micro entrepreneurs) MIX Market Cross Market Analysis⁸⁵ Feedback from branches (See Box 8)
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).	<ul style="list-style-type: none"> Credit bureau data Feedback from branches Global Findex dataset indicators for informal sources of lending MIX Market Cross-Market Analysis or MIX Market Country Pages⁸⁶

⁸² Competitor projections of growth or a national average growth projection may be difficult to find. FIs 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 markets are also quite dynamic (absorptions, mergers, new microfinance 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.

⁸³ 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: www.planetrating.com/userfiles/file/MIMOSA_1_0_entire_version_FINAL.pdf

⁸⁴ 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. <http://datatopics.worldbank.org/financialinclusion/>

⁸⁵ www.mixmarket.org/profiles-reports/crossmarket-analysis-report

⁸⁶ <http://www.mixmarket.org/mfi>

BOX 8. USING GLOBAL INDEX DATA

If detailed information on your potential market size is not available, Global Findex data provide a good proxy (<http://datatopics.worldbank.org/financialinclusion/>). This database includes results from surveys on the use of financial services (formal and informal) conducted in 148 countries in 2011. 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 that declared having taken a loan in the past year, from any source. The potential market 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 financial institutions (d) †	50%
Potential market (e= c*d)	177,000
Targeted market share (d)	30%
Total number of targeted clients (c*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.

FIELD EXAMPLE 31. INCOFIN DEFINES "RESPONSIBLE GROWTH"

[Incofin Investment Management](#) believes that all investors have a responsibility to assess market penetration before investing. When monitoring investees and potential investees, Incofin closely evaluates the level of market penetration where the institution operates (at the national, provincial, district, and village level), the instances of multiple borrowing and the use of Credit Bureau information, the institution's growth target rates, the institution's past and present loan portfolio and client growth rates, and the internal capacities of the institution (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 FIs with good systems in place in market with low penetration rates.
- 30% to 50% annually— Medium-sized FIs in markets with low to medium penetration
- Up to 30% annually—More mature FIs in markets with high penetration.

TABLE 23. **ANALYZE INTERNAL FACTORS TO INFORM YOUR GROWTH POLICY***Analyze internal factors*

Your growth policy should also take into account your institution's internal capacity for balancing growth with quality. Table 23 lists six internal factors you should examine, and it summarizes the insights you can gain from each analysis.

INTERNAL FACTOR	DIAGNOSTIC
Internal control	Assess whether internal controls are robust enough to support a larger portfolio and/or geographic area. This includes delinquency management controls.
Operational procedures	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.
Management team workload and skills	Assess whether managers have the capacity—in terms of workload and skills—to manage the increased responsibilities and pressures of expanded operations. Consider what your current staff will be required to manage: new technologies, systems, human resources, clients, products, etc.
Human resources	Assess the ability of your human resources to manage higher volumes of activity. Take into account: number of employees, their training and skills, employee turnover, employee productivity, and availability of qualified applicants for new positions, and your capacity to train new hires at the right pace.
Management information system (MIS)	Assess whether your MIS has the capacity to 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.
Financing	Consider the financing sources that you will need, and ensure that their terms are adapted to the products and services you want to offer to your clients.

6A.2 MONITOR COMPLIANCE WITH GROWTH POLICIES

Growth has a direct impact on the institution's ability to maintain high service quality and institutional sustainability. To maintain close control of institutional growth, the institution should monitor the following indicators each quarter:

- Internal indicators of growth, per branch and region, and for each product, including the following:
 - Number of loans outstanding
 - Outstanding portfolio
 - Number of savings accounts and average balances
 - New client recruitment
 - Incidence of multiple borrowing (from the same FI and from other sources)
 - Change in PAR 30
 - Productivity (Borrowers/Employee or Borrowers/Field staff)
- The evolution of the local market conditions

Monitor internal growth

Taken together, these indicators demonstrate how growth may be affecting service quality for clients and/or institutional sustainability. Quarterly monitoring is important, as an annual assessment does not capture periods of fluctuation, such as high growth followed by contraction. Additionally, it is 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.

Monitor market growth

Analysis of local market conditions is described above. Watch the evolution of market conditions closely by analyzing market growth on a quarterly basis. If unexpected changes in the external conditions are detected, management should act to prevent negative consequences for the institution and clients. For example, if a new competitor enters a geographic area that already has high penetration by other institutions, consider whether preventive or corrective action is necessary, such as implementing more conservative debt limits for client loans or revising growth targets.

TABLE 24. MONITOR THE INSTITUTION'S ONGOING CAPACITY TO HANDLE GROWTH

6A.3 MONITOR WHETHER INTERNAL CAPACITY IS KEEPING PACE WITH GROWTH

In addition to carefully tracking institutional growth, also monitor whether the institution's internal capacity is keeping pace with growth. Table 24 presents key indicators that management should monitor, as well as how to analyze these indicators, in order to address risks related to the institution's capacity to handle growth. Monitor these indicators for each branch or regional office, and for each product.

INDICATOR	ANALYSIS
Internal audit findings	Examine internal audit findings on how all branches/regional offices are implementing credit policies such as client debt thresholds, repayment capacity analysis, and loan restructuring. Give extra attention to new and high-growth branches.
Internal controls	Examine the quality and capacity of the internal controls, looking for areas where capacity should be augmented to ensure sufficient monitoring of all branches.
Staff capacity	Consider number of employees, employee training, productivity, turnover, clients per loan officer, and employees per manager. Determine whether employees have the skills, time, and resources to successfully manage portfolio growth.
Management information system (MIS)	Consider the quality control protocols for data, how much data the system can hold, how easily and accurately data can be exported, and how easily reports can be created. Determine whether the system allows managers to closely monitor the portfolio for each product and find growth-related problems before they become significant.
Service quality	Gather input from managers, internal audit, and clients to determine whether service quality is suffering as growth increases. Use this information in conjunction with PAR 1 and PAR 30 data.
Vintage analysis ⁸⁷	Vintage analysis per branch for each product, per loan officer or period 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.

⁸⁷ 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.

Standard 6B

Equity investors, lenders, board, and management are aligned on the institution's double bottom line, and they implement an appropriate financial structure in its mix of sources, terms, and desired returns.

> **Essential Practice 6B.1** The institution has clear policies, consistent with its social goals, on its desired level of returns and on how those returns will be used.

> **Essential Practice 6B.2** The institution engages with funders whose expectations for financial returns, timeframe, and exit strategies are aligned with the institution's social goals and stage of development.

> **Essential Practice 6B.3** When deciding on funding sources, the institution considers how cost of capital is passed on to the client.

> **Essential Practice 6B.4** The institution minimizes financial risk as it relates to its obligations to clients, such as savings and cash collateral.

> **Essential Practice 6B.5** The institution has a transparent financial structure, as reflected in its annual audited financial statements that incorporate any off-balance sheet sources of funding into leverage ratios.

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 between investors, the institution, and clients. This 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.⁸⁸

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.

Set a policy on desired profits

This policy should include targets or ranges for ROA, ROE, and 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 check whether the institution is generating too much or too little profit, as compared to established targets.

Articulate the rationale for target profits

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 the 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 justified by 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).

The industry does not yet have established “norms” for profitability targets for FIs, but some social investors have identified acceptable profit thresholds for double bottom-line investees (e.g., maximum 5-7% ROA; 20-25% ROE). Many investors look at a combination of ratios, ROA, ROE, and proxies for costs to clients, such as the APR or portfolio yield ([see Field Example 32](#) for an example). Some have a “traffic light” system to alert investment officers and decision makers in the organization to profit levels that are considered above or below targeted levels ([see Field Example 35](#) for an example).

⁸⁸ The guidance for [standard 6c](#) discusses board oversight of whether the institution's profitability levels are consistent with the institution's policies on returns.

This is not to suggest that investors believe that higher profits and strong social performance are inconsistent, but that FIs must be transparent on target profit goals, and they must fully explain and reconcile their desired social and financial performance. Most investors recognize that each institution is unique and has its own cost structure and market circumstances to consider.

In all cases, the following points should be taken into account for setting desired profitability ratios/ranges:

- How does the FI's pricing compare to market prices? Do profitability targets allow the FI to remain competitive relative to the market and its competition?
- What is the minimum pricing to ensure full coverage of product costs? If deliberately targeting a lower return on a product for social purposes, how sustainable is the "subsidy" from more profitable products?
- How does each product and service contribute to the 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 the clients?
- Can you be viable without needing large profits from the larger 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 ([see Table 26](#) for guidance on assessing affordability to clients).
- Can you set lower profitability targets that support the sustainability of the institution and attract new investors while at the same time enable clients to retain a greater share of their income?
- How much of the FI's growth—whether scaling up or development of new programs—should be borne by new investor capital vs. financed through retained earnings provided by clients? What level of profitability is needed to attract adequate investor capital?

Set a policy on use of profits

In addition to setting profitability ratios/ranges, institutional policy (statutes, shareholder agreements, etc.) should also cover 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 might be allocated to special reserves for social performance. This refers to reserves that your institution might create to make investments in product design, investigation of client needs or satisfaction, to offer non-financial services to clients (social services, trainings, etc.), or to contribute to other philanthropic activities or social businesses beyond your direct scope of activities. The 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.

6B.2 ALIGN EXPECTATIONS UPFRONT

When your institution is seeking equity investment, only engage with funders⁸⁹ 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 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](#)).⁹⁰ 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 the institution's approach and goals with respect to financial and social performance, which will be included in the formal documentation of the transaction.

Table 25 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 the institution's social goals.

⁸⁹ This applies to institutions that are externally funded and not to institutions such as cooperatives that are funded by members themselves.

⁹⁰ 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 25. ALIGNING SOCIAL AND FINANCIAL EXPECTATIONS

TERMS	QUESTIONS TO DETERMINE ALIGNMENT WITH THE INSTITUTION'S SOCIAL GOALS		
Social outcomes	<ul style="list-style-type: none"> Does the investor share the same social goals as the institution? What action will the investor take if the institution does not achieve the agreed-on social 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 <i>Principles for Investors in Inclusive Finance</i>) 	Use and allocation of profits	<ul style="list-style-type: none"> What portion of profits should go toward: reinvestment in the institution 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 FIs (improvement in product design, investigation of clients' needs, non-financial services, etc.), other? What portion of the institution'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?
Profit expectations	<ul style="list-style-type: none"> Do the funder's profit expectations align with what the institution believes is reasonable, given the institution'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 multiple expansion, and are targeted growth rates underlying the latter consistent with the institution's social goals? Do profit expectations take into account the social returns that the institution expects to deliver? Are debt and equity investors' financial return expectations aligned with the institution's own target ranges, given their cost of capital, the particular risks of investment, and the social returns generated by the FI? What will the funder's profit expectations require of the institution in terms of pricing, growth, human resources, and risk management? Can the institution manage these requirements? 	Investment timeframe and exit strategy	<ul style="list-style-type: none"> Is the investor's intended timeframe appropriate? If too short, it may require the institution 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 FI's mission will help the seller make a decision, as will judgments about the kind of capital and expertise the FI most needs.⁹¹ 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 FI toward a new strategy that reduces benefits to or even harms clients.⁹²

⁹¹ CGAP. A Graceful Exit: understanding social responsibility during equity sales (forthcoming publication). | ⁹² *ibid*

FIELD EXAMPLE 32. DEUTSCHE BANK SETS PROFITABILITY LIMITS THAT TRIGGER CLOSE ANALYSIS

[Deutsche Bank](#) advocates for the microfinance industry to “gradually and proactively work toward an overall decline in interest rates,” since such a reduction will likely “allow clients to maintain a greater share of the generated profits to help build assets and to better cope with cash flow uncertainties.” While acknowledging that there is not a single responsible profit level, Deutsche Bank does set limits that, if exceeded, prompt the investor to further analyze the FI’s interest rates and profitability before deciding to proceed with the investment. These limits are listed below.

Regional “Trigger Metrics”

Region	Portfolio Yield (PY)	Operating Exp. Ratio (OER)	Return on Assets
Africa	58%	35%	7.5%
East Asia & Pacific	46%	35%	
Eastern Europe & Central Asia	45%	26%	
Latin America & Caribbean	53%	39%	
Middle East & North Africa	38%	29%	
South Asia	29%	18%	

If an FI’s “trigger metrics” meet or exceed the levels above, Deutsche Bank analyzes the FI in three steps:

- Reviews trigger metrics as three-year averages and as the most recent rolling four-quarter ratios. If the FI’s numbers exceed the limits on a three-year average basis, it will trigger a review and require a brief analysis. If the FI’s numbers exceed the limits on a three-year average basis, but the most recent rolling four-quarter ratios do not exceed the limits, a positive trend is shown, and no additional analysis is required.
- If analysis is required, compares the FI’s metrics with those of its in-country peers in order to determine whether country-specific contextual factors (e.g., growth potential or high cost of doing business) may be influencing high levels of yield, profitability, or inefficiency.
- Charts the FI’s portfolio yield and OER against its average loan size in a scatter plot with the other institutions in its country. [MFTransparency](#) has shown the relationship between an FI’s portfolio yield and operating expense and its average loan size, suggesting that there is a fairly predictable curve for each country. Based on curve, the analyst should be able to estimate an approximate expected level for each ratio and should take note of extreme differences.

Finally, Deutsche Bank considers the results of the above analysis, alongside pertinent data on the FI, such as: outreach to rural areas, average loan sizes, stage of maturity, donor subsidies, regulatory costs, and provision of non-financial services. Based on this careful analysis, the investor then decides whether to move forward with full due diligence for potential investments or determines what actions may be required in the case of existing borrowers.

6B.3 UNDERSTAND WHICH RISKS AND COSTS ARE PASSED ON TO THE CLIENT

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 investors, bearing in mind that when profits are generated, they will accrue to the benefit of the investor.

In addition, the management and board is responsible for preserving the capabilities and stability of the institution, given the relative vulnerability of your clients. While more affluent or secure clients

may be better able to absorb reductions in lending, termination of a product, or closure of a branch, your institution should always consider the impact of such actions on your clients and place a premium on steady and sustainable growth.

Your institution should have an agreement with investors that hedgeable risks, such as foreign exchange and interest rate risks, should not be passed on to clients. Also, investors should agree to take on the risks of breaches in its fiduciary responsibilities, such as for the safekeeping of savings deposits or losses on insurance products. If losses result from these types of risks, product pricing should not be increased, nor services to clients reduced, in order to compensate investors for the losses. Instead, investors will bear the cost of these losses by accepting a lower return. Costs relating to product delivery (such as changes in local interest rates) can be passed on to the client, but the design of the products should protect them from unexpected fluctuations in the cost of the services.

6B.4 SAFEGUARD CLIENT FUNDS THAT YOU ARE HOLDING

Besides its shareholders, the institution also has obligations to its clients for safeguarding 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' and investors' interests. The board must reinforce these prudent measures by defining and closely managing financial risks. Increasingly, some FIs 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 FI's financial liquidity and long-term solvency, as well as its social commitment to clients.

One particular risk management responsibility is to safeguard client deposits and/or cash collateral. While most regulated institutions can expect supervisory authorities to provide an additional safeguard for public deposits, your board and management should also actively ensure that the 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 the institution's obligations to its other debtors (lenders, shareholders), if not mandated by local regulation.

6B.5 MAINTAIN A TRANSPARENT FINANCIAL STRUCTURE

As described above, transparency regarding social objectives and return expectations is critical to a full alignment between funders and the institution. Your institution should also be transparent on the all risks it bears, notably financial risks. Transparency and risk management are not unique to microfinance—however, the responsibility weighs more heavily on an institution serving more vulnerable clients and operating in unstable environments with unreliable or non-existent deposit insurance.

Specifically, your institution should disclose in its financial statements all risks related to assets or liabilities (foreign exchange risk, interest rate risk, maturity risk), delineate contingent liabilities⁹³, disclose off balance sheet items⁹⁴ and count them in leverage ratios if there is recourse (e.g., asset sales with recourse, securitizations, and law suits), and provide all details of your shareholding structure and participations in other companies.

⁹³ 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.

⁹⁴ 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 institution. Examples include operating lease agreements and joint ventures.

FIELD EXAMPLE 33. **EQUITAS MICRO FINANCE, INDIA SETS PROFIT POLICIES AND ALIGNS MANAGEMENT AND INVESTOR EXPECTATION**

Since 2007, [Equitas](#) has provided clients in Tamil Nadu, India with access to credit and other services. Equitas targets clients who are unable to access mainstream banks, and it prioritizes “transparency to clients, employees, society, regulators, government, lenders, and owners.”

Equitas takes the following measures to ensure that profit expectations are clear to management, the board, and funders:

- **Establish 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 lower costs of scale will go to the clients through reduced rates or other services.
- **Establish 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.
- **Establish social expectations:** In an attempt to align return expectations, the company 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 institution 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.

Standard 6C

Pursuit of profits does not undermine the long-term sustainability of the institution or client well-being.

- > **Essential Practice 6C.1** Products and services offer value to the client for the price.
- > **Essential Practice 6C.2** The institution offers market-based, non-discriminatory pricing. (Client Protection standard 4.1)
- > **Essential Practice 6C.3** The institution has efficiency ratios aligned with peers. (Client Protection standard 4.2)
- > **Essential Practice 6C.4** The institution does not charge excessive fees. (Client Protection standard 4.3)
- > **Essential Practice 6C.5** The Board monitors whether the institution's pricing levels are consistent with the institution's policies on returns.
- > **Essential Practice 6C.5** The institution establishes a field-officer-to-client ratio that promotes high service quality for clients.

6C.1 OFFER VALUE TO THE CLIENT FOR THE PRICE

When deciding how to price products, your institution should ensure that clients will find value in the products and services for the prices they pay. You should not assume that just because clients are using your products, they are realizing value from them. This is especially true in less-competitive markets and in cases when clients cannot easily compare prices, where clients may not have much choice in their provider selection, and/or where clients may not understand the true costs of the products.

In addition to setting prices that are in line with your social goals, your institution should also use client feedback to determine whether current prices provide value to clients. Table 26 presents information that you should gather and analyze to determine the value of your products/services to clients.

TABLE 26. DETERMINING THE VALUE OF YOUR PRODUCTS TO CLIENTS

INFORMATION TO GATHER	ANALYSIS
Competitor's prices for similar products	This provides a useful benchmark for understanding whether or not your prices are much higher or lower than similar competitors. This analysis is discussed below, under "offer market-based, non-discriminatory pricing" (standard 6c.2)
Market research on client willingness to pay for products	Check your prices against the results of market research on how much clients are willing to pay for specific products and services. Consider the specific capacity of your target clients—income and expenses, savings, and seasonal variations on these. The guidance for standard 3a discusses how to conduct market research.
Client feedback on affordability of products	Check your prices against the results of direct client feedback on whether or not current or proposed prices are affordable to clients. Determine whether clients retain a sufficient share of profit generated by their economic activities to enable them to build assets and cope with cash flow uncertainties. In the case of loans for non-productive or consumer purposes, check whether the client retains some discretionary surplus after incremental debt service to provide for emergencies and build wealth. The guidance for standard 3a discusses how to gather client feedback.
Client satisfaction with products	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 guidance for standard 3a discusses how to gather client satisfaction data.

6C.2 OFFER MARKET-BASED, NON-DISCRIMINATORY PRICING

Your institution should set interest rates purposefully, based on a formal pricing procedure that:

- takes into account:
 - the cost of providing the product ([see 6b.3](#))
 - affordability for the client ([Table 26](#))
 - desired profit, ([see 6b.1](#)) and
 - any other goals to be achieved by the product (including social goals) ([see standard 1a](#));
- expressly prohibits discrimination based on non-financial characteristics.

Understand the costs of each product for the client

The loan prices communicated to a client can be confusing, as clients might not be able to decipher which costs are included—interest, fees, value-added taxes, compulsory deposits, and mandatory services (e.g., life insurance), et cetera. Complex pricing structures might also reflect a lack of understanding on the part of the institution about the true prices of products. Make sure that you have a precise calculation of the prices of the different options that you offer to clients and understand how different pricing components affect the total cost for clients. For instance, flat upfront fees have a higher impact on the price of small loans than on the price of large loans; upfront fees also have a higher impact on short term loans than on longer term loans, et cetera. To understand the impact on the different components (interest, fee,

cash collateral, etc.) on the final price of a loan for the client, you can read the MFTransparency Pricing Supervision Handbook⁹⁵ and you can also use a pricing tool.⁹⁶

Evaluate how the costs vary for loan sizes and terms within each product. Smaller loans will generally cost the FI as much as larger loans within the same product methodology; so if they are sold at the same price, the larger loan will cover more of its costs.

Compare prices with competitors

You should know whether your prices are 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 amount and the loan term. 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 cost 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 compound) 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.

If prices are substantially higher or lower than those of your competitors, you should be able to justify this difference to clients and other stakeholders. Lower pricing is inappropriate if it reveals

⁹⁵ www.mftransparency.org/resources/microfinance-traps-handbook/

⁹⁶ MFTransparency's Calculating Transparent Pricing Tool v2.2 is an Excel-based costing tool that offers these features and demonstrates the price of a product in terms of APR/EIR.

that the provider is unsustainable or has a strategy to gain market share, only to raise prices later. Higher pricing raises concerns if the provider has higher operating costs than the competition, and is passing the cost of its inefficiencies on to its clients, or is pursuing profit at the expense of client affordability. However, higher pricing might be appropriate if the provider has made a deliberate decision to use high profits for one product to subsidize an unprofitable product that is important to clients or to serve clients in hard-to-reach geographic areas.

When determining appropriate prices for your products, use this price comparison in conjunction with your other pricing considerations, including affordability to clients.

Offer fair interest on deposits

Regardless of your competitors' policies, your institution should pay interest on all client deposit/savings accounts. Interest rates should be comparable with peers and calculated on a daily basis. If your closest peers do not pay interest on accounts, compare your interest rates to the next most-similar institution. Similarly, if your institution offers payment services, transaction costs should be comparable to those charged by peers.⁹⁷

Offer fair insurance prices

Insurance products should be priced similarly to the same product offered by the formal sector to the same client segment, where applicable. Additionally, the difference between premiums collected and paid to the insurance company should not exceed an estimate of reasonable costs to administer the product. In general, the premium paid by the client should not exceed the premium paid to the insurance company by more than 50%.

Non-discrimination

Your prices should not differ based on ethnicity, gender, disability, political affiliation, sexual orientation, or religion, among other characteristics. In other words, if certain prices differ from client-to-client (e.g., a fee is waived, the grace period is lengthened) field officers should only consider relevant factors when making the pricing decision (e.g., risk level of the activity being financed, client loyalty, loan purpose), and they should not consider other factors, such as gender or ethnicity.

⁹⁷ Remittance providers can compare their pricing with the market by using the World Bank database on remittance prices: <http://remittanceprices.worldbank.org>

6C.3 MAINTAIN EFFICIENCY RATIOS THAT ARE ALIGNED WITH PEERS

Efficiency ratios like cost per client, loan officer/staff productivity, and operating expense ratio (OER), indicate the extent to which the institution is providing services cost-effectively. Particularly for mature institutions, high OER and low staff productivity, combined with high interest rates, may indicate that the institution is passing inefficiencies onto its clients, and it is not pricing products responsibly.

Just as your institution compares its own prices with institutions in its peer group, so should you compare your efficiency ratios with peers. Based on this efficiency review, identify any areas of inefficiency, and consider how to improve the efficiency of your processes. Any new measures should take client and employee well-being into account. Aim for an appropriate balance between efficiency and your social goals. For example, increasing the client-to-loan-officer ratio too much will negatively affect employee workload and customer service, and it may create a “low-touch” model of service delivery.

6C.4 DO NOT CHARGE EXCESSIVE FEES

Pre-payment penalties, account closure fees, transaction fees, or other penalties should not be excessive. For example, pre-payment fees should be based on an evaluation of the actual costs incurred by the early repayment. It is recommended that fees cover interest accrued to date plus a reasonable fee to cover the administrative fees related to the early repayment and lost opportunity for the institution.

**FIELD EXAMPLE 34. EQUITAS MICRO FINANCE,
INDIA USES A FORMAL PRICING PROCEDURE**

When [Equitas](#) began operating in 2007, the company surveyed the market and found that MFIs were charging interest rates ranging from 32% to 55%, 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 to quote the effective interest rate (EIR), even though it would appear to clients that Equitas was charging higher rates. Furthermore, Equitas set its interest rate as if it were already operating full scale (e.g., 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%, all-inclusive declining balance rate. Additionally, Equitas worked to bring Microfinance Transparency to India to promote transparent prices across the industry.

**FIELD EXAMPLE 35. TRIPLE JUMP USES AN “INTEREST
TRAFFIC LIGHT” FOR POTENTIAL INVESTEEES**

In 2013, [Triple Jump](#) (TJ) introduced a new version of a tool called the “[TJ Interest Traffic Light](#).” The tool evaluates whether or not interest rates and associated profitability are justifiable, in light of the institution's social mission.

The tool seeks to answer three central questions: 1) Is the client better off after using the loan product? 2) Does the FI have a reasonable cost structure? 3) Is the profit level acceptable, and who benefits from profits?

To answer these questions, TJ takes into account the actual interest rates (the EIR) as well as a set of underlying factors that determine what the FI needs to reasonably charge their clients: the value provided to clients, the FI's rates and costs in comparison to peers, its history of lowering rates, profitability, and the use of profits.

Based on these factors, the tool generates a score, which corresponds to the following traffic light colors:

- Green: FI is eligible for investment without additional conditions.
- Yellow: FI is eligible for investment under the condition that it reduces the interest rate within a 12-18 month period. Loan terms are reduced to a maximum of 24 months, and TJ contacts other lenders to initiate a joint effort in ensuring the FI fulfills its commitment.
- Red: FI is not eligible for investment.

**6C.5 MONITOR WHETHER PRICES FOR CONSISTENCY WITH THE INSTITUTION'S POLICY ON RETURNS**

Your board should monitor prices to ensure that they reflect the double bottom-line social and financial goals.

6C.6 MAINTAIN A FIELD-OFFICER-TO-CLIENT RATIO THAT PROMOTES HIGH SERVICE QUALITY FOR CLIENTS

Your institution's field-officer-to-client ratio should balance your efficiency and profitability goals with your goal to provide quality service to clients. For credit products, management should discuss and define a threshold for the number of clients per loan officer that will allow loan officers to give adequate attention to proper client targeting, data collection, product explanation to clients, group formation and training (for group lending), repayment capacity analysis, resolution of client questions and complaints, customer service, and other essential social performance duties.

Once this ratio is established and maintained for a period, management should monitor the appropriateness of the ratio by examining data on client satisfaction and compliance with procedures in the different branches on a quarterly basis. Adjust the ratio as necessary to maintain high service quality for clients.

Standard 6D

The institution offers compensation to senior managers that is appropriate to a double bottom line institution.

- > **Essential Practice 6D.1** The board ensures that compensation of the CEO/Managing Director and other senior staff is in line with the institution's social goals.
- > **Essential Practice 6D.2** If senior management compensation is in part incentive-based, the incentives are based on the social performance evaluation.
- > **Essential Practice 6D.3** Upon request, the institution transparently discloses compensation to regulators, auditors, raters, donors, lenders, and investors.
- > **Essential Practice 6D.4** The institution 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 institution's mission.

6D.1 ALIGN CEO COMPENSATION TO SOCIAL GOALS

Your institution's board plays a critical oversight role in evaluating the performance of the CEO and other top-level executives and in determining their compensation (defined as salary, benefits, bonuses, stock options, and cash value of perquisites). Such oversight motivates managers to achieve specific social and financial targets, and it ensures that salaries reflect such performance.

Compensation levels will vary widely across different institutions, but all institutions should ensure that compensation 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. Decisions on CEO compensation must take into account the results of the evaluation of the CEO's performance, including social performance goals.⁹⁸

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 annually⁹⁹ 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 or not 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.

⁹⁹ 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."

⁹⁸ Guidance for [standard 2a](#) discusses how to evaluate CEO performance based on social performance criteria.

6D.2 INCLUDE SOCIAL PERFORMANCE EVALUATION IN CEO INCENTIVES

The board should evaluate the CEO/Managing Director based on the social performance of the institution, taking the evaluation criteria directly from the social targets established in the social strategy.¹⁰⁰ 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 but positive performance against their financial targets.

¹⁰⁰ Guidance for [standard 2b](#) discusses how to evaluate the CEO based on social performance criteria.

6D.3 DISCLOSE MANAGEMENT COMPENSATION UPON REQUEST

In keeping with International Financial Reporting Standards (IFRS),¹⁰¹ 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.

¹⁰¹ <http://www.ifrs.org/>

**6D.4 ENSURE THE SPREAD BETWEEN THE COMPENSATION OF SENIOR STAFF AND FIELD WORKERS IS ALIGNED WITH THE INSTITUTION'S 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 against 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 management salary is 20 times that of the lowest paid loan officer. 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?

An institution 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 financial incentives for executives to achieve social performance targets.

ANNEX:

Resources for Implementation

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

Chapter 1

Use the following resources when implementing steps 1 to 5, found in Chapter 1.

SPTF Communications Resources for the Universal Standards

The SPTF communications resources can help you understand the Universal Standards and present them to your institution. In particular, consult the “Full Universal Standards Manual,” “Message Manual for MFIs,” and “USSPM Presentation for Broad Audiences.”

Insights from Beta Testing the Universal Standards for Social Performance Management

This publication from the Microfinance CEO Working Group presents experience from beta testing the Universal Standards with 21 FIs. See pages 6 to 8 for a discussion of the different types of assessments, as well as lessons learned from FIs who used each type of assessment (e.g., self-assessment, external assessment).

The CERISE Social Performance Indicators 4 tool (SPI4)

Use this tool to evaluate your institution against the Universal Standards.

User Guide for the CERISE Social Performance Indicators 4 tool (SPI4)

This Guide provides additional information on the SPI4 process and indicators. Use it when performing a self-assessment or accompanied self-assessment.

Imp-Act SPM Practice Guide¹⁰²

This Guide contains additional guidance for creating and implementing your SPM action plan.

- Identifying SPM priorities (page 38)
- Identifying staffing and funding needs (page 41)
- Budgeting for SPM (page 43)
- Setting a timeframe for implementation (page 45)
- Taking action and regularly reviewing progress (page 45)

¹⁰² This is the short name we will use for the publication “Putting the ‘Social’ into Performance Management: A practice-based guide for microfinance.”

Dimension 1:

Define and Monitor Social Goals

Top Resources for Dimension 1:

Imp-Act SPM Practice Guide: Chapter three

The MFC Strategic Management Toolkit Handbook, Chapters 7 to 10

Choosing and using indicators: *Imp-Act* practice note No. 5

Standard 1A

The institution has a strategy to achieve its social goals

Imp-Act SPM Practice Guide: Chapter 3

This chapter will help you clarify your social mission and develop a strategy to fulfil it. In doing so, you will consider the importance of the social mission, how it can change over time, how to conduct a mission review, and who should be involved.

The MFC Strategic Management Toolkit Handbook

- Chapter 7 covers strategic analysis: what it is, how to use it, and introduces some of the basic approaches to determining an FI's market position.
- Chapter 8, section 2 contains a useful discussion of strategic choices to be considered when choosing a target market, including defining an FI's value proposition, competitive advantage, growth, and competitive strategies.
- Chapter 9 looks in more detail at creating a strategy map to balance the needs of institutional stakeholders.
- Chapter 10 Table 10.2 (page 58) offers a template to develop year-on-year social performance targets from a Balanced Scorecard perspective. Table 10.3 (page 59) is a useful reference to audit targets and objectives to see whether they are "S.M.A.R.T."

Strategic Planning: Imp-Act/MicroSave Guidance Note

Pages 1-4 discuss breaking down the mission into social goals, including key issues to consider when setting goals. Pages 5-7 cover key issues to consider when setting a strategy for social performance management.

The Eight-Word Mission Statement

Food for thought from the Stanford Social Innovation Review [Blog post]. This blog post challenges us to think "less is more" around mission statements — which will help create clarity of purpose and facilitate outcomes measurement.

Governance: Imp-Act/MicroSave Guidance Note

This briefing focuses on the role of the board of directors in ensuring effective governance. Appendix A (page 13) contains a sample exercise that boards can complete to develop goals and measures from the social mission.

Standard 1A

The institution has a strategy to achieve its social goals

Choosing and using indicators: *Imp-Act* practice note No. 5

This practice note helps FIs to contextualize indicators within their own operational and strategic context. Rather than listing a “menu” of indicators, it aims to help FIs think about the steps needed to develop indicators that make sense for its own program. The Note also highlights issues that may influence the choice of indicators, as well as common difficulties along the way.

Information system needs audit

There are nine questions you need to consider in order to make a thorough assessment of your information needs. Answering these questions before you choose tools or indicators or make changes to the MIS will save you both time and money. See Section 2.2 of the *Imp-Act* SPM Guidelines.

Imp-Act/MFC SPM Guidelines

Part Two, Section 1.3 (page 16) covers key points to consider when designing or adapting an organizational strategy to achieve goals. As part of this process, it demonstrates how to develop an “impact pathway” to map out how your activities will help you achieve your social objectives. Your indicators should be designed to test each link on the pathway – giving you real-time information on what is (and is not) working.

Standard 1B

The institution collects, reports, and ensures the accuracy of client-level data that are specific to the institution's social goals

Tracking client performance: *Imp-Act Practice Note No. 7*

This Practice Note guides you through choices that need to be made in designing a system that suits your needs. While there is no single system that works for all FIs, there are some key principals and things to avoid that will help guide you through the process. In the end, the effectiveness of your monitoring will depend on how you use the information to make better management decisions.

Information system needs audit

There are nine questions you need to consider in order to make a thorough assessment of your information needs. Answering these questions before you choose tools or indicators or make changes to the MIS will save you both time and money. See Section 2.2 of the *Imp-Act* SPM Guidelines.

Choosing and using indicators: *Imp-Act Practice Note No. 5*

This Note aims to help FIs think about the steps they need to take to develop indicators that make sense for their own program. The Note also highlights issues that may influence the choice of indicators, as well as difficulties they may encounter along the way.

Planning research to assess social performance: *Imp-Act Practice Note No. 6*

This note covers practical aspects of planning social performance monitoring activities—how to shape your approach, choose tools, and analyze social performance information effectively. It underlines the importance of matching information collection strategies to institutional capacity and needs, and it compares the relative utility of qualitative vs. quantitative data collection methods.

Internal control: *Imp-Act Guidance Note*

This briefing emphasizes the importance of integrating social performance into internal controls and audit. It offers guidance on how FIs can systematically check compliance with their social mission into: client protection, quality of service provided to clients, and monitoring impact on clients' lives.

A guide for training staff on social performance assessment

This guide, developed by the MicroLoan Foundation (Malawi), is a good example of training materials for training credit staff on accurate client-level data collection.

Standard 1B

The institution collects, reports, and ensures the accuracy of client-level data that are specific to the institution's social goals

MicroSave Toolkit: Market Research for Microfinance

This toolkit provides Participatory Rapid Appraisal (PRA) tools, including: wealth ranking tools; seasonality, life cycle, and time series tools; and several original PRA tools developed to understand the financial service use, options, and opportunities within communities, including tools for assessing the gender issues and household control of resources. It also offers examples of analysis matrices to help organize and process information generated by each tool. The tools can be changed, combined, and adapted to examine areas of specific of interest to the market researcher.

SEEP Progress Note No. 1: Integrating Poverty Assessment into Client Assessment

This is a good resource for FIs thinking through what “poverty” means in practice. The note broadly addresses the use of poverty assessment data in daily practice of an FI. In this context, the discussion around segmenting client-level information with poverty data (pages 3-4) is quite useful. When an FI is in the process of selecting the most appropriate poverty measurement tool for its context, the “caveats” section of this paper is useful in terms of laying out key tensions/challenges (Page 5).

Client assessment questionnaire

EFIL (India) uses this questionnaire on all new clients, at the time of their entry, to assess their socioeconomic status. Many of the indicators correspond to the institution's social goals and targets, and the data collected help EFIL determine whether they are meeting their targets. The questionnaire is also administered to clients during their fourth loan cycle, to measure change in the client's socioeconomic status over time.

MicroSave India Focus Note 96: Poverty Measurement: Challenges and Benefits

This short note highlights the key benefits of poverty measurements, as well as practical considerations when choosing and using a poverty measurement tool.

Fonkoze SPM Annual Report

This is an excellent example of an institution making their social performance data public.

Standard 1B

The institution collects, reports, and ensures the accuracy of client-level data that are specific to the institution's social goals

[MIX Social Performance Resource Center](#)

Find MIX's Social Performance data requirements, how to report, and social performance data analysis by MIX.

[Reporting Social Performance to MIX Market: Benefits for Microfinance Institutions](#)

This SPTF publication highlights the primary benefits to FIs who report social performance to MIX.

[ILO Participatory Gender Audit](#)

A team-based audit tool that evaluates whether or not the institution's internal practices and related support systems for gender mainstreaming are effective.

Dimension 2:

Ensure Board, Management, and Employee
Commitment to Social Goals

Top Resources for Dimension 2:

[Imp-Act SPM Practice Guide: Chapters 3, 4, and 7](#)

[Governance: Imp-Act/MicroSave Guidance Note](#)

[Risk Management: Imp-Act Guidance Note](#)

Standard 2A

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

[Imp-Act SPM Practice Guide: Chapter four](#)

This chapter will help you to understand how to get the board “on board” with SPM. It looks at how board composition and institutional type influence the SPM process as well as and the role of leadership.

[Governance: Imp-Act/MicroSave Guidance Note](#)

This briefing focuses on the role of the board of directors in ensuring effective governance. The section on board orientation/training and creating a balanced perspective is relevant (page 3), as are the sections on adopting a statement of values or code of conduct, (page 6) and establishing an SPM committee (page 9).

[Risk Management: Imp-Act Guidance Note](#)

This briefing provides a quick overview of the main non-financial and operational risks typically overlooked by FIs. It discusses the key institutional questions and the importance of analyzing existing practices to assess how the FI may overlook some of these risks. It also presents emerging practices that FIs are finding useful to help them integrate social performance into their risk management activities.

[How to Develop an Institutional Code of Ethics](#)

Establishing high standards of ethical employee behavior is a two-part process; first, the institution defines standards of behavior, and second, those standards are brought to life throughout the institution. This guide focuses on the first part of the process—defining standards of behavior through a formal Code of Ethics.

[Small Enterprise Foundation \(South Africa\) Code of Ethics](#)

This is an excellent example of a clearly written and well-structured code of ethics. It covers standards of behavior expected from staff in relation to clients, the institution, and the wider community. It also references rights of staff as employees of SEF, and it lays out clear guidelines in terms of sanctioning unethical behavior.

[Codes of Ethics: Examples for Getting Started](#)

The Smart Campaign has compiled a list of codes of ethics from institutions around the world, which are available for organizations to download and adapt.

Standard 2A

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

[Internal control: *Imp-Act* Guidance Note](#)

This briefing emphasizes the importance of integrating social performance into internal controls and audit. It offers guidance on how FIs can systematically check compliance with their social mission into: client protection, quality of service provided to clients, and monitoring impact on clients' lives.

[AMK \(Cambodia\)'s social performance reporting framework](#)

AMK has established a “dashboard-style” internal reporting framework, which aggregates monitoring data on whether it is meeting its social performance goals.

[Strategic Planning: *Imp-Act*/MicroSave Guidance Note](#)

This briefing offers guidance on how to ensure that social performance is included in strategic planning processes, as well as how to address key challenges. The note will help you clarify long-term social goals, specify short-term social objectives, and underpin your social intentions with appropriate measurement systems.

[Transformation issues: *Imp-Act* SPM Practice Guide](#)

Chapter 3 discusses key leadership issues at stake when protecting the institutional mission throughout the process of transformation,

including understanding the needs and priorities of new institutional stakeholders.

[Stemming the Tide of Mission Drift: Microfinance Transformations and the Double Bottom Line](#)

This excellent general resource provides an overview of the process by which FIs transform from NGOs into regulated financial institutions, and it examines the impact of transformation within a group of FIs over five years, with particular focus on the effect of transformation on FIs' outreach to low-income women.

[Preventing mission drift during institutional transformation](#)

This is an *Imp-Act* Consortium resource on transformation that includes the measures that FIE, Boliva took to protect its social mission when it made the transition to a for-profit institution, and offers lists of key questions to ask potential new donors and investors.

[CGAP Focus Note No 7: Effective Governance for Microfinance Institutions](#)

This paper examines the role of governance, including the roles of board members, board composition, and an explanation of important issues of trust and conflicts of interests. In this context, the discussion on page 3 around transformation is relevant.

Standard 2B

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

[Strategic Planning: *Imp-Act/MicroSave* Guidance Note](#)

This briefing offers guidance on how to ensure that social performance is included in strategic planning processes, as well as how to address key challenges. Pages 5-7 cover key issues to consider when setting a strategy for social performance management.

[Governance: *Imp-Act/MicroSave* Guidance Note](#)

This briefing focuses on the role of the board of directors in ensuring effective governance. In this context, the section on adopting a statement of values or code of conduct is relevant (page 6).

[How to Develop an Institutional Code of Ethics](#)

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Standard 2B

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

[*Imp-Act SPM Practice Guide: Chapter three*](#)

This chapter tackles creating a strategy to achieve social objectives (starting on page 64). This requires managers to use clients' needs as a starting point, rather than the products themselves, else risk missing an opportunity to effectively help clients. As part of this process, the chapter discusses how to identify and overcome barriers that clients face in their economic lives and how to reduce or mitigate risks.

[*Learning from Client Exit: Imp-Act Practice Note No. 3*](#)

This Practice note will help your FI track and understand client exit in a simple, low-cost way. It looks closely at what client exit can mean for your program, and it shows how you can define and measure your FI's exit rate. It provides an overview of tools you can use for finding out who is leaving your program and how these tools can help you profile the different types of leavers. The note also provides guidance on finding out why clients are exiting, and it explains how to use exit information in the most effective way.

[*Internal control: Imp-Act Guidance Note*](#)

This briefing emphasizes the importance of integrating social performance into internal controls and audit. It offers guidance on how FIs can systematically check compliance with their social mission into: client protection, quality of service provided to clients, and monitoring impact on clients' lives.

[*Staff Incentives: Imp-Act Guidance Note*](#)

This briefing frames the key questions to consider when reviewing an FI's staff incentive system. It then identifies some emerging practices that FIs are finding helpful in ensuring that the staff incentive systems appropriately balance their social and financial performance objectives.

Standard 2C

Employees are recruited, evaluated, and recognized based on both social and financial performance criteria

[Imp-Act SPM Practice Guide: Chapter seven](#)

This chapter addresses how Human Resources supports balanced performance management. Relevant here is the section on page 123 which focuses on how FIs can ensure that new staff share in their mission.

[Staff Incentives: Imp-Act Guidance Note](#)

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[Governance: Imp-Act/MicroSave Guidance Note](#)

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[How to Develop an Institutional Code of Ethics](#)

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[Codes of Ethics: Examples for Getting Started](#)

The Smart Campaign has compiled a list of codes of ethics from institutions around the world, which are available for organizations to download and adapt.

Dimension 3:

**Design Products, Services, Delivery Model, and
Channels That Meet Clients' Needs and Preferences**

Top Resources for Dimension 3:

[MicroSave Toolkit: Market Research for Microfinance](#)

[SEEP/AIMS Client Satisfaction tool](#) and [SEEP/AIMS Client Exit tool](#)

CGAP Topics: [Market Segmentation](#) and [Market Research](#)

[The Feedback Loop: Responding to client needs: *Imp-Act* Practice Note No. 1](#)

Standards 3A/3B

The institution understands the needs and preferences of different types of clients

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

MicroSave Toolkit: Market Research for Microfinance

This toolkit provides Participatory Rapid Appraisal (PRA) tools, including: wealth ranking tools; seasonality, life cycle, and time series tools; and several original PRA tools developed to understand the financial service use, options, and opportunities within communities, including tools for assessing the gender issues and household control of resources. It also offers examples of analysis matrices to help organize and process information generated by each tool. The tools can be changed, combined, and adapted to examine areas of specific of interest to the market researcher.

SEEP/AIMS Client Satisfaction tool and SEEP/AIMS Client Exit tool

The Client Satisfaction Tool is a focus group interview tool that will help users learn the extent to which clients are satisfied with the program and what specific changes would better meet their needs (starts on page 275). The Client Exit Survey seeks information about why the client left the program, as well as the client's opinion about the program and its impact (starts on page 209).

CGAP Topics: Market Segmentation and Market Research

These pages highlight the importance of each topic, offer insights from CGAP research, and recommend relevant studies, tools, and other resources.

The Feedback Loop: Responding to client needs: *Imp-Act* Practice Note No. 1

The feedback loop describes the stages that information moves through in an institution from its initial generation to the implementation of changes in products and services. This Practice note is designed to help you review and improve your institution's own systems of information flow and feedback, or to review these processes as an external assessor. The note outlines the steps of the feedback loop, and it gives advice on how to use it.

The Poor and Their Money: An Essay About Financial Services for Poor People

This essay is a must-read resource for managers thinking through how financial services meet the diverse financial needs of clients. In particular, it helps FIs to flip their paradigm from "what products can we offer?" to "how can we design products to match your needs?"

SEEP/AIMS Use of Loans, Profits and Savings Over Time tool

The "Use of Loans, Profits and Savings Over Time" tool is composed of two distinct modules—one on loan use and the other on savings. These two modules can be used together or singularly. In both cases, individual interviews are used to find out how mature clients have used their loans, profits, and savings over time (starts on page 239 of the handbook).

Standards 3A/3B

The institution understands the needs and preferences of different types of clients

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

Understanding Clients Through In-depth Interviews: *Imp-Act* Practice Note No. 2

This Practice note provides a step-by-step guide to developing and conducting in-depth qualitative interviews of individuals in order to uncover useful information about the impact of products and services provided by the FI. This Practice note guides the reader through the process in ten steps, including planning, data collection, analysis, presentation of findings, and decision-making, emphasizing the need to plan and implement the qualitative process in a way that is appropriate for each FI and its clients.

Tracking Client Performance: Monitoring Systems for SPM: *Imp-Act* Practice Note No. 7

Information systems are an important part of SPM. However, only careful planning produces a system appropriate for your needs, capacity, and resources. At the end of the day, how you use the information to make better management decisions determines how effective your information system really is. In this context, page 7 contains a useful discussion on segmentation, and it lays out key issues to consider.

Understanding the Financial Service Needs of the Poor in Mexico

This CGAP publication describes the findings of a CGAP study that surveyed customers to understand their financial habits and needs, as well as the role of finance in their lives. The research techniques and findings are applicable to FIs in other markets.

CGAP's Applied Product Innovation Program

This page highlights the findings from CGAP's work in applied product innovation, which aims to understand how customer-centric design methodologies can be tailored to branchless banking in order to create better financial service offerings for the poor.

Building Customer Loyalty

This is an excellent general resource on understanding the client-FI relationship. Part one makes the business case for enhancing client loyalty. Part six looks at measuring customer satisfaction. Part seven provides helpful technical notes to the tool.

Standards 3A/3B

The institution understands the needs and preferences of different types of clients

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

[Al Majmoua \(Lebanon\) Client Satisfaction Survey](#)

This client satisfaction survey tool can be downloaded and adapted by other organizations; the tool itself focuses mostly on issues around convenience and the staff-client relationship, but it provides a good foundation for getting at satisfaction issues.

[Learning from Client Exit: *Imp-Act* Practice Note No. 3](#)

This Practice note helps your FI track and understand client exit in a simple, low-cost way. It looks closely at what client exit can mean for your program, and it shows how you can define and measure your FI's exit rate. It provides an overview of tools you can use for finding out who is leaving your program, and how these tools can help you profile the different types of leavers. The note also provides guidance on finding out why clients are exiting, and it explains how to use exit information in the most effective way.

[Smart Note: Appropriate Product Design at Musoni](#)

This case study demonstrates how Musoni, Kenya uses mobile technology to deliver convenient, flexible, and reliable loans to low-income people.

[Appropriate Product Design: Smart Campaign training resource \(PPT\)](#)

This presentation looks at how to put appropriate product design principles into practice, considering issues around product selection, design, and delivery. It also looks at reducing design barriers for clients. These presentations can be used in group training sessions in which the facilitator and presenters are physically present or in virtual learning sessions, such as webinars.

[Addressing Exclusion: Operational Issues Brief No. 1](#)

There is a big debate within the microfinance industry about how we can increase access to our services. But do we really know who is not accessing our services and why? Experience shows that FIs tend to exclude some of the poorest and most vulnerable people, particularly those in remote rural areas. Here, we look at why exclusion happens – and what FIs can do about it.

[Tackling Gender Barriers: SPM Practice Guide](#)

For FIs with a gender dimension to their mission, gender equitable treatment of clients is a must. The SPM Practice Guide includes a table that outlines gender barriers across various dimensions of society. See Table 3.5 of the SPM Practice Guide.

Dimension 4:

Treat Clients Responsibly

Top Resources for Dimension 4:

[Getting Started Questionnaire: Client Protection Self Assessment for Microfinance Institutions](#)

[Client Protection Principles Training Series](#)

[Smart Operations](#)

[Essential Documents for New Clients](#)

Standard 4A

Prevention of Over-indebtedness—Client Protection Principle 2

Providers will take adequate care in all phases of their credit processes 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).

Avoidance of Over-indebtedness: Guidelines for Financial and Non-financial Evaluation

This technical guide from the Smart Campaign provides guidelines for determining a loan applicant's capacity and willingness to repay a loan.

Smart Lending: Client Protection in the Group Loan Process and in the Individual Loan Process

These guides are designed to help FIs incorporate good client protection practices into their individual and group lending policies and operations. Use these tools to understand at which points in the process your institution can prevent over-indebtedness.

Smart Savings: Client Protection in the Savings Process

This guide is designed to help FIs incorporate good client protection practices into their savings policies and operations. Use this tool to understand at which points in the process your institution can prevent over-indebtedness.

Client Business Evaluation Toolkit- Example from Microfund for Women

This is the toolkit that Microfund uses for assessing the repayment capacity of individual borrowers, which can be adapted by other FIs. Consisting of a total of four forms—including the loan application—this toolkit provides credit staff a complete profile of the health of the potential client's business and their capacity to take on debt.

Loan Officer Training Manual- Example from Banco Solidario

This manual includes Banco Solidario's Code of Ethics for credit staff and procedures for financial and non-financial evaluation which can be adapted by other FIs. It guides loan officers thorough the loan evaluation process, including the relevant financial formulas.

How to Assess Client Business- Example from KazMicroFinance

KazMicroFinance, Kazakhstan uses this short training presentation to teach loan officers how to thoroughly evaluate a potential client. It can be adapted by other FIs to improve loan officer training.

Standard 4A

Prevention of Over-indebtedness—Client Protection Principle 2

Over-indebtedness of Microborrowers in Ghana

This Center for Financial Inclusion publication discusses the reasons for over-indebtedness among Ghanaian microfinance borrowers, which provide practical lessons for FIs in other markets.

Study on the Drivers of Over-Indebtedness of Microfinance Borrowers in Cambodia: An In-depth Investigation of Saturated Area

This study, published by BlueOrchard, Incofin, and Oikocredit, examines the reasons behind over-indebtedness among Cambodian borrowers, and it offers practical lessons for FIs in other markets.

Refinancing Policy - FUBODE

FIs can use this example policy from FUBODE, Bolivia to improve their restructuring and rescheduling policies.

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.

Calculating Transparent Pricing Tool v2.2 from MicroFinance Transparency

This is an Excel-based tool that can be used to analyze the cost of a particular loan product. This tool helps FIs understand how various factors influence the total cost of a loan. It also enables cost comparisons between loans with different fee structures.

Putting Transparency into Practice: Communicating About Pricing

This brief document describes how FIs observe the Smart Campaign Principle of transparency, current resources that exist to help providers understand and communicate their prices to clients, and information on where providers can find more information from the Smart Campaign and MFTransparency.

Transparency in Promotions and Sales: A Checklist for Financial Service Providers

The tool contains five “good practice” checklists for transparent communications during promotions and sales. These checklists allow providers to check their own practices when selling individual loans, group loans, savings products, and products to clients with extra needs.

Essential Documents for New Clients

This toolkit provides guidelines for, or examples of, documents that all FIs should provide to their new clients, including: The Loan Contract Guidelines (page 7), Loan Contract Summary & Repayment Schedule (page 11) are particularly important to transparency.

Standard 4B

Transparency—Client Protection Principle 3

Loan Agreement for Small Business Clients- Example from JSC MFO Crystal

This sample “plain language loan contract” from JSC MFO Crystal, Georgia demonstrates how FIs can clearly communicate loan terms to their clients. Other FIs can use it to improve their own loan contracts.

Loan Contract Summary Handout- Example from Mibanco

This sample “plain language loan contract” from Mibanco, Peru demonstrates how FIs can clearly communicate loan terms to their clients. Other FIs can use it to improve their own loan contracts.

Transparency in Practice

This paper presents Microfinanza Rating’s experiences in client protection, inspired by good practices observed in the field while conducting social ratings and client protection certifications of MFIs. It aims to promote best practices in transparency.

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.

How to Develop an Institutional Code of Ethics

Establishing high standards of ethical employee behavior is a two-part process: first, the institution defines standards of behavior; and second, those standards are brought to life throughout the institution. This guide focuses on the first part of the process—defining standards of behavior through a formal Code of Ethics.

Codes of Ethics: Examples for Getting Started

The Smart Campaign has compiled a list of codes of ethics from institutions around the world, which are available for organizations to download and adapt.

Collections Guidelines for Financial Service Providers

This tool addresses collections policies, practices, manuals, and training of field staff. For each of these topics, an institution can compare “adequate practice” with its own practice and identify areas for improvement.

Best Practices in Collections Strategies

This guide explains the collections process used by ACCION International with partners in Latin America and India, and it details the practices that an FI should consider for successful collections that also respect clients’ rights.

Code of Conduct for Collections and Collections Practices for Group Loans- Example from Swadhaar FinServe Pvt. Ltd.

This example from Swadhaar, India includes a Code of Conduct for Collections and the FI’s Collections Practices for Group Loans, both of which provide collections staff with specific guidelines and procedures for treating clients with dignity during the collections process.

Educating Clients About Client Protection: A Guide for Financial Service Providers

Clients should know their rights and what kind of treatment to expect from employees working at the FI. This short tool explains client rights and responsibilities, and it includes ideas for how to talk to clients about these.

Standard 4C

Fair and Respectful Treatment of Clients—Client Protection Principle 5

Essential Documents for New Clients (Institutional Pledge to Clients)

This toolkit provides guidelines for, or examples of, documents that all FIs should provide to their new clients. The Institutional Pledge to Clients (page 10) is particularly important for fair and respectful treatment of clients.

Responsible Treatment of Clients: Practicing Non-discrimination

This tool provides FIs with insight into the difference between client targeting and harmful discrimination, and it illuminates examples of common forms of discrimination. Also, the tool provides financial service providers with seven action steps to correct and prevent discrimination.

Nondiscrimination Policy- Example from Fundación Paraguaya

This sample from Fundación Paraguaya includes comprehensive non-discrimination policy composed of ten standards, which detail how the FI does not discriminate based on abilities, gender, age, religion, ethnicity, sexual orientation, or political affinities. Other FIs can use it as an example for creating or improving their own non-discrimination policies and practices.

Illustrations and Activities for Training Loan Officers on Customers' Rights and Responsibilities- Example from Sahayata Micro Finance Pvt. Ltd.

Sahayata, India's "Customers' Rights and Responsibilities Illustrations" are a series of simple pictures and texts that demonstrate five client rights and five client responsibilities, each of which are aligned with the Client Protection Principles. The sets may be used for training field staff on how to inform clients of their rights and responsibilities, and they may also serve as visual aids for training clients.

Smart Note: Building Institutional Culture Around a Code of Ethics at Compartamos

This case study describes Compartamos Mexico's Code of Conduct, training for staff on the Code, and the department that reviews, monitors, and institutionalizes the Code throughout the institution.

Code of Conduct E-Learning Module and Test- Example from Grameen Financial Services Pvt. Ltd.

During GFSP India's employee induction, all trainees are introduced to the Code of Conduct, as well as the institutional mission, vision, and values. This tool is then used as an interactive review of training material, and it tests understanding of the institution's ethical standards. Other FIs can use it to improve their own training and testing on their Code of Ethics.

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.

Essential Documents for New Clients (sample data privacy agreement)

This toolkit provides guidelines for, or examples of, documents that all FIs should provide to their new clients. The sample Data privacy agreement—full version (page 13) and Privacy Summary Statement (page 16) are particularly important to privacy of client data.

Smart Note: Customized IT at Caja Morelia Safeguards Client Data

This case study explains how Caja Morelia, Colombia put into place Information Technology systems to protect client information. Other FIs can use this example to improve their own security and privacy measures.

Security is the Key: Pocket Guide to Financial Security for Clients- Example from FinAmérica

FinAmérica, Colombia provides this pocket-size brochure with tips on how to protect one's security and prevent identity theft, robberies, and other possible threats to the privacy of their personal information. Other FIs can use this example to design their own materials to educate clients on data privacy and security.

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 will use these mechanisms both to resolve individual problems and to improve their products and services.

Essential Documents for New Clients (Complaints Information Flyer)

This toolkit provides guidelines for, or examples of, documents that all FIs should provide to their new clients. The sample Complaints Information Flyer (page 12) is particularly important to resolution of client complaints.

Complaints-Handling Brochure for Clients (Opportunity Bank)

This is an example client brochure detailing exactly where and how clients can lodge a complaint. The brochure provides clients with a list of steps for introducing a complaint or suggestion through various means—such as a suggestion box, telephone call, email, or in person—and also provides information about next steps and what to do if the client is not happy with the outcome.

Smart Note: Responding to Client Complaints at Tameer Bank, Pakistan

This case study describes how Tameer receives, records, and responds to client complaints.

Complaints-Handling Manuals- Examples from Tamweelcom and FONDESURCO

These sample manuals from Tamweelcom, Jordan and FONDESURCO, Peru describe how complaints staff should handle client complaints. Other FIs can use these examples to improve their own complaints policies and procedures.

Complaints-Analysis Spreadsheet- Example from Fundación Delamujer

This sample spreadsheet from Fundación Delamujer, Colombia is used to record and classify client complaints according to their importance, type, and branch. Other FIs can use this example to improve their own complaints system.

Making Recourse Work for Base-of-the-Pyramid Financial Consumers

This Focus Note explores innovative ways for policy makers and providers to raise awareness and improve accessibility of recourse mechanisms, tailor recourse to suit new products and delivery channels, and proactively use recourse data to address systematic problems in Base-of-Pyramid (BoP) markets.

Dimension 5:

Treat Employees Responsibly

Top Resources for Dimension 5:

[Grameen Foundation's Human Capital Management Hub](#)

[A Toolkit for Designing and Implementing Staff Incentive Schemes](#)

Standard 5A

The institution follows a written Human Resources policy that protects employees and creates a supportive working environment

Grameen Foundation's Human Capital Management (HCM) Assessment tool

This is an assessment tool for FIs who want to align their institution's human capital management practices with its business strategy—including their social strategy. The tool allows FIs to identify the current state of human capital management practices and the gaps between the current state and what is needed to drive business strategy, and it includes recommendations for strengthening practice.

Why Invest in People? Leveraging Talent to Reach Strategic Objectives

This Grameen Foundation publication explores what FIs can do to maximize the value of their people. It suggests that FIs can maximize staff strengths by hiring right, providing appropriate learning and development opportunities, and adopting strategically-focused human capital management practices.

Smart Note: Hiring Staff with Disabilities at AccessBank, Azerbaijan

This Smart Note focuses on the efforts of AccessBank, Azerbaijan to practice non-discrimination among employees through deliberate efforts to hire people with disabilities (PWD).

ILO Conventions and Recommendations on Child Labour

This convention and recommendations highlight global problem of some forms of child labor, and it provides recommended concrete actions for limiting child labor. FIs can use this resource to understand the issues with child labor and take action to eliminate or limit child labor within the institution.

Treat Your Employees Responsibly—Universal Standard Dimension 5—Results from the Philippines

This short analysis from MicroFinanza Rating examines a sample of social ratings of FIs in the Philippines—specifically, the social rating data on implementation of Standard 5—Treat Employees Responsibly. FIs can use this publication to understand the strong and weak practices in one market and apply those lessons to their own institutions.

Standard 5A

The institution follows a written Human Resources policy that protects employees and creates a supportive working environment

[Encyclopaedia of Occupational Health and Safety](#)

This ILO website is a global knowledge platform for sharing occupational safety and health (OSH) information and good practices. Users can learn about safety issues that face employees in the workplace, as well as how to assess and mitigate these risks.

[Pressure on Loan Officers in Microfinance Institutions: An Ethical Perspective](#)

This research paper looks at the effects of workplace pressures on loan officers, as well as how FIs experience negative consequences as a result. Section 5, “Practical Recommendations” offers seven concrete ideas for creating a more supportive and productive working environment for loan officers.

Standard 5B

The institution communicates to all employees the terms of their employment and provides training for essential job functions

[Recruitment and Selection Module—Grameen Foundation Human Capital Hub](#)

This multi-part toolkit discusses the importance of recruiting and selecting employees who fit with the FI's mission and strategic goals. It includes many practical tools, including interview guides and sample job descriptions.

[Performance Planning and Management Module—Grameen Foundation Human Capital Hub](#)

PPM is a process to align employee goals to the organizational goals. This multi-part toolkit focuses on: 1) objective goal setting so that every employee receives direction and communication about what they are expected to do, and 2) on 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.

[Total Rewards Module—Grameen Foundation Human Capital Hub](#)

"Total rewards" refers to the financial and non-financial return provided to employees in exchange for their time, talents, efforts, and results. This toolkit discusses how to develop a reward system to motivate employees to achieve the institution's social and financial goals, and it includes practical tools such as incentive plans and merit increase guidelines.

[A Toolkit for Designing and Implementing Staff Incentive Schemes](#)

This MicroSave toolkit provides practical guidance on creating staff incentive schemes that are fair and transparent.

Standard 5C

The institution monitors employee satisfaction and turnover

Organizational Gender Assessment Toolkit

This Women's World Banking toolkit provides FIs with the tools and guidance to conduct a self-assessment of their recruitment, retention, and promotion of female staff.

Dimension 6:

Balance Social and Financial Performance

Top Resources for Dimension 6:

[Calculating Transparent Pricing Tool v2.2 from MicroFinance Transparency](#)

[Growth, Profit & Compensation in Microfinance - How Much Is Too Much?](#)

[Responsible returns guidelines from Triple Jump, Deutsche Bank, and Grassroots Capital](#)

Standard 6A

The institution sets and monitors growth rates that promote both financial sustainability and client well-being

Defining Responsible Financial Performance: How to Think About Growth

This MIX publication examines data on FI growth rates across the world, and it compares these rates to portfolio quality to try to answer the question—“can we determine how much growth is too much?” The findings offer lessons for FIs when setting sustainable, responsible growth rates.

Growth, Profit & Compensation in Microfinance - How Much Is Too Much?

This MFTransparency screencast (PPT and voice recording) discusses the difficult issue of how to define appropriate limits on growth, profit, and compensation for the microfinance industry. This discussion piece is useful for FI managers when setting sustainable, responsible growth rates.

The Microfinance Index of Market Outreach and Saturation (MIMOSA)

This Planet Rating tool offers a measurement of the risk of market saturation. Based on data from the Global Index database, the model created by Planet Rating calculates an estimated total credit market capacity for each country and compares it to the actual use of credit reported by Global Index, to give a score on a scale of 1 to 5. Countries where the use of credit exceeds the estimated market capacity are considered at risk of market saturation.

The Global Financial Inclusion (Global Findex) Database

This World Bank project measures 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. FIs can use this data set to understand their own markets, including market saturation and growth potential, as part of the analysis needed to set growth rates.

Standard 6B

Equity investors, lenders, board and management are aligned on the institution's double bottom line and implement an appropriate financial structure in its mix of sources, terms, and desired returns

The Art of the Responsible Exit in Microfinance Equity Sales

This CGAP/Financial Inclusion Equity Council publication is an excellent general resource on how equity providers can maintain the social goals of the FI when selling their stakes. In this context, the questions in the box under section “Responsible Exits: Looking Ahead” are particularly relevant.

Standard 6C

Pursuit of profits does not undermine the long-term sustainability of the institution or client well-being

Smart Note: Transparent and Responsible Pricing at Mi-Bospo

This case study describes how Mi-Bospo, Bosnia-Herzegovina offers responsible pricing by: carefully analyzing their clients' businesses to determine the interest rates they can afford to repay; comparing their prices to those of similar competitors; and monitoring operating expenses to keep them low, while also paying competitive salaries to staff.

MFTransparency Transparent Pricing Supervision (TraPS) Handbook

While targeting regulators/policymakers, this tool is also useful for FIs to understand pricing and set sustainable, responsible prices. In particular, Chapter 2 details elements that add to and affect the true price of a loan; and Chapter 4 explains how FIs should disclose a true price.

Deutsche Bank Balanced Return Framework

This short paper describes how Deutsche Bank evaluates the profitability of potential investees, the levels of key ratios (Portfolio Yield, Operating Expense Ratio, Return on Assets) that trigger a warning and deeper analysis by the investor, and which factors (target clients, market maturity, etc.) they consider when determining whether the FI's profitability levels are acceptable.

Grassroots Capital Management: Framework for Balanced Returns

This short paper describes Grassroots' approach to evaluating whether or not an FI has "balanced returns," including an evaluation of how well the FI's mission has been operationalized, an evaluation of the FI's prioritization of its social mission in its corporate structure and ownership documents, and an assessment of key financial performance metrics.

The Triple Jump Interest Rate Traffic Light

This tool evaluates whether or not interest rates and associated profitability are justifiable in light of the institution's social mission. Triple Jump takes into account the actual interest rates (the EIR) as well as a set of underlying factors that determine what the FI needs to reasonably charge their clients (e.g., the value provided to clients, the FI's rates and costs in comparison to peers). With this analysis, Triple Jump assigns the FI either a red, yellow, or green rating, which allows the investor to make an investment decision.

Defining Responsible Financial Performance: the Role of Profits

This MIX publication examines worldwide data on profits to determine whether certain profit levels (both high and low) are incompatible with client wellbeing. The findings offer lessons for FIs when setting sustainable, responsible prices.

Standard 6C

Pursuit of profits does not undermine the long-term sustainability of the institution or client well-being

Defining Responsible Financial Performance: Understanding Efficiency

This MIX publication examines worldwide data on efficiency to determine whether certain efficiency levels (both high and low) are incompatible with client wellbeing. The findings offer lessons for FIs when making operational decisions that will affect efficiency.

Growth, Profit & Compensation in Microfinance - How Much Is Too Much?

This MFTransparency screencast (PPT and voice recording) discusses the difficult issue of how to define appropriate limits on growth, profit, and compensation for the microfinance industry. This discussion piece is useful for FI managers when setting prices and profitability targets.

Calculating Transparent Pricing Tool v2.2 from MicroFinance Transparency

This is an Excel-based tool that can be used to analyze the cost of a particular loan product. This tool helps FIs understand how various factors influence the total cost of a loan. It also enables cost comparisons between loans with different fee structures.

World Bank database- Remittances Prices Worldwide

This database allows FIs to compare their prices with those of other remittance providers.

Standard 6D

The institution offers compensation to senior managers that is appropriate to a double bottom line institution

The Practice of Corporate Governance in Microfinance Institutions

This Financial Inclusion Equity Council (formerly Council of Microfinance Equity Funds) publication is an excellent general resource on governance for FIs. In this context, the discussion of CEO compensation (page 30) is relevant.

Field Staff Compensation at Indian FIs: A New Perspective on the Crisis in Andhra Pradesh

This MIX publication discusses how Indian FIs treated field staff leading up to the AP crisis, and it shows the relationship between low staff salaries/benefits and mistreatment of clients. The conclusions offer valuable lessons for FIs on field staff compensation.

Growth, Profit & Compensation in Microfinance - How Much Is Too Much?

This MFTransparency screencast (PPT and voice recording) discusses the difficult issue of how to define appropriate limits on growth, profit, and compensation for the microfinance industry. This discussion piece is useful for FI managers and boards when setting compensation levels.

For more information, please visit:

www.sptf.info

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