

# Improving transparency and integrating SPM: *The case of UCORA (Armenia)*



## EXECUTIVE SUMMARY

UCORA was established in 2008 to represent the general goals and interests of its members in the Central Bank of RA, Government of RA, state and non-state other bodies. Its 2012 SPM Start-up Fund project was designed to help its 12 members address the reputational risk related to increasing client over-indebtedness, and promote SPM best practice among its members as well as other stakeholders including the Central Bank. As a result of this project, UCORA doubled the number of members reporting on social performance, and successfully used the social performance report verification process to assist members in improving their SPM systems. Importantly, UCORA also produced a country-level social performance report, which among other things was used to communicate the state of SPM practice with the Central Bank, other stakeholders and the public at large, with the aim of improving the overall image of the Armenian microfinance sector.

## INTRODUCTION AND BACKGROUND

This case presents the experience of the Union of Credit Organizations of Republic of Armenia (UCORA) and its work with the MFC<sup>2</sup> Social Performance Start-up Fund project, which aimed to support members to manage and report on their social performance. UCORA is a voluntary union of 12 credit organizations with a combined portfolio of around \$1.35 million, representing 20% of the total microfinance market (with the rest covered by two major downscaling banks). Armenian MFIs are present in all regions of Armenia, — even remote, mountainous and rural regions.

UCORA's mission is to foster the development of the Armenian financial system through a more efficient and potentially widespread outreach of credit organizations. It achieves this through representing the sector (to the Central Bank, social investors and professional associations), capacity building, member coordination and advocacy.

UCORA's involvement in the MFC SP Start-up Fund tells the story of using the social performance reporting exercise to communicate the social focus of microfinance internally and externally: convincing members of the need for internal improvement, and

strengthening the dialogue with the Central Bank in order to create an enabling environment for sector development.

### Box one: The MFC SP Start-up Fund

The MFC Social Performance (SP) Start-up Fund for Networks<sup>1</sup> supports 13 national networks from Asia, Africa and Eastern Europe (with limited or no SPM experience) to implement one-year country-level projects on social performance management (SPM). Grantee networks engage local stakeholders around microfinance and social performance, increase sector transparency and help members align internal processes to facilitate more effective fulfillment of their social goals. Supported by the Ford Foundation, the Fund is managed by the Microfinance Centre (MFC), a microfinance resource center and network serving the Europe and Central Asia region and beyond.

<sup>1</sup> More information can be found at [www.mfc.org/en/content/sp-start-fund](http://www.mfc.org/en/content/sp-start-fund)

<sup>2</sup> MFC – Microfinance Centre is a regional network for Europe and Central Asia with headquarters in Poland. Since 2005, MFC has provided SPM and social reporting capacity building to over 30 microfinance networks and 150 MFIs. MFC is a member of the *Imp-Act* Consortium and the Social Performance Task Force. For more information visit [www.mfc.org.pl](http://www.mfc.org.pl)

<sup>3</sup> The development of this case benefited from the input and insights of Kinga Dabrowska (MFC), Katarzyna Pawlak (MFC), and Inna Ghabulyan (UCORA).

## MAIN STORY

### Context for SPM in Armenia

According to the World Bank, nearly 36 per cent of the Armenian population is poor.<sup>4</sup> At the same time, 36 per cent of the population lives in rural areas, of which 45 per cent are poor. Traditionally, UCORA's members (who evolved from NGOs) worked in rural areas, focusing on the most vulnerable. However, recent developments in the sector (described below) have caused a lot of turbulence in terms of the sector's identity as a socially-focused industry.

The first challenge is that MFIs are not clearly defined within national legislation, and as such are not seen as complementary to the mainstream financial sector. Limited understanding of the nature of the microfinance business model means that MFIs are under pressure to lower what are perceived as overly-high interest rates,<sup>5</sup> which works against long-term sustainable outreach to vulnerable segments of the population. Previous ad-hoc attempts by various MFIs to communicate with different stakeholders about the social mission of microfinance have only resulted in a general understanding that "social" equals "charity".

Donors' recent withdrawal from the country, coupled with significant legal and regulatory challenges imposing MFI transformation in recent years have left SPM issues largely on the back burner, even for those organizations with a double bottom-line.

Additionally, in recent years, Armenia has been identified as a microfinance market with a high risk of crisis (similar to Andhra Pradesh or Bosnia and Herzegovina<sup>6</sup>) resulting from excessive growth.

It is within this context that UCORA saw social performance, with a focus on client protection, as key crisis prevention strategy. Its SP Start-up Fund project work focused on supporting members to revitalize their mission focus, consolidate their SPM efforts, and strengthen advocacy for the sector around social performance.

### Project activities overview

UCORA's aim for the project was to:

- Improve the quality of social performance reporting by member MFIs through training and report verification

Table one: UCORA's project plan

ACTIVITY	WHEN
SPM kick-off workshop (delivered by MFC)	Nov 2011
1 day SP awareness-raising workshop for stakeholders and new members	Jan 2012
2 day SPM awareness-raising workshop for members and social reporting training	Jan 2012
Verification of SP reports and support to members	Mar-Apr 2012
Reporting lessons learned workshop: finalizing the list of indicators for country report	July 2012
SP data collection for country report	June-Aug 2012
SP country report presentation	Oct 2012
Network SPM scale-up plan development	Oct 2012

- Consolidate individual MFI social performance data into a country-level report to promote microfinance as a responsible sector with the regulator and others
- Support MFIs to introduce SPM "quick wins".

During the project period (January-November 2012), UCORA worked on the following (see table one for timeline):

- Raising awareness of new members and stakeholders around the importance and benefits of social performance management and transparency through two targeted events
- Training members in social reporting to the MIX, followed by verification of their draft reports
- Collecting and analyzing SP data at a country level
- Producing and disseminating a country report on social performance.

4 UCORA 2012 Report, World Bank data as of 2010.

5 Average interest rates in Armenia range from 15-24 per cent.

6 [www.blogs.cgdev.org/open\\_book/2011/05/signs-of-trouble.php](http://www.blogs.cgdev.org/open_book/2011/05/signs-of-trouble.php)

## Project experience in detail

### *Scaling up and promoting social performance transparency*

At the beginning of the project, 6 out UCORA's now 10 members were reporting to the MIX on their social performance. Over the project period, UCORA saw this number double. Based on this data, UCORA produced the first social performance country report. It was used as a communication tool with external stakeholders, especially the Central Bank, in order to convey the message about the important and unique role of MFIs in Armenia. The project also helped UCORA's members' identify practice gaps, to guide their SPM improvement work.

### *Improved data quality through on-site verification*

A key challenge for UCORA was around the quality of members' social performance data, given that it was self-reported. Often MFIs reported an "ideal picture" rather than the real state of social performance practice. This was particularly true regarding qualitative data around client protection. Having received the first draft of members' reports, UCORA followed up on a one-on-one basis. Network staff challenged the MFIs' answers through more in-depth questions around various gaps related to lack or incomplete policies, procedures and solutions. The most common gaps related to ineffective client protection practices e.g. with regards to the mechanisms for collecting feedback from clients and staff.

The most useful tool for verifying data quality was individual discussions with each member, usually with the person responsible for filling out the social performance report. Network staff discussed the draft report with MFIs indicator by indicator. Network staff, having overall knowledge about each member organization, were able to: identify over-reported data, challenge the real status or practice of the organization, and support the person in identifying the correct source of information. Visiting the MFI's head office enabled UCORA to immediately search for evidence by reviewing policies, procedures and/or discuss their content with staff. On average, two UCORA staff members spent one day per member to verify and correct the draft reports.

## *Producing an SPM country report*

Based on the members' individual social performance reports, the network produced a country report. The first step towards developing this was a participatory discussion with members, aimed at identifying the indicators to be covered in the report. In the end, members agreed to include all SPS indicators, as well as a few additional ones seen as relevant for communicating members' performance with external stakeholders. Box two lists the key indicators used.

### **Box three: The list of selected SP indicators**

- # rural clients (MIX indicator)
- # clients in capital
- # other urban clients
- # women (MIX indicator)/ # women in rural areas
- # clients aged 18-24
- # clients aged 25-30
- # loans for individual entrepreneurs
- # loans for legal entities
- # repeated clients
- # new rural clients (% female new rural clients)
- # new clients in capital city (% female new clients in capital)
- # new clients in other urban areas (% female new clients)
- # of clients served 2-5 cycles (% female clients)
- # clients served 6-10 cycles (% female clients)
- # clients served more than 10 cycles (% female clients)
- # and volume of credits disbursed up to 90 days
- # and volume of credits disbursed from 91 to 180 days
- # and volume of credits disbursed from 181 to 270 days
- # and volume of credits disbursed from 271 to 365 days
- # and volume of credits disbursed for more than 365 days
- Standard portfolio (MIX indicator)
- Total PAR (MIX indicator)
- Write offs (MIX indicator)

The biggest challenge for UCORA was to identify indicators to effectively highlight members' contribution to the creation of economic opportunities for vulnerable population of Armenia — especially those in rural areas and with small unregistered businesses. A key barrier in this was the lack of country-level poverty measurement tools (such as the PPI or PAT<sup>7</sup>), despite the majority of members being focused on low-income clients. To overcome this, the network used a mix of member-reported social performance data and other available national statistical data, thus enabling the network to present the contribution of the sector to overall economic development in the country using proxy indicators.

The analysis of proxies highlighted the following information on the MFIs' depth of outreach:

- Member MFIs focus on geographic areas with increased populations of poor and vulnerable people: 53% of all clients live in rural areas
- 33% of UCORA members' clients live in small municipalities and regional towns, with concentrated low-income and poor populations
- The ratio of average loan balance to GDP (internationally recognized as a proxy measure for poverty outreach) of 24% confirms the poverty focus of the sector.

### *Using country reports to improve members' SPM*

Apart from serving as a communication tool with external stakeholders on the sector's social aspirations and achievements, mainly the regulatory body, the report was used by the network and the members to identify early warning signals for the sector. For example, it helped to capture decreasing outreach to female clients by MFIs. Since none of the MFIs had undertaken deliberate strategies to shift their outreach to more male clients, this finding created red flags that can facilitate discussion among members on potential exclusion of female clients.

### *Enhancing the sector's image with the Central Bank*

UCORA encouraged the Central Bank to participate in project activities in order to support continuous dialogue about the unique role of the microfinance sector in Armenia's economy.

First of all, the SPM awareness-raising workshop organized by UCORA in late January 2012 was an opportunity to explain to Central Bank representatives and other stakeholders (such as the financial ombudsmen and Habitat for Humanity) what microfinance is about, including the social goals at its center. Participants were positively surprised with the level of advancement of the global microfinance industry in terms of social performance management, and especially key initiatives like social performance reporting to the MIX.

As a result of this dialogue, regulators expressed a readiness to consider a legal definition for microfinance in Armenia, an important step towards discussing the specific needs and required regulations for the industry. Central Bank representatives noted their readiness to continue the dialogue with UCORA and its members, in order to create an environment supportive of socially-focused microfinance.

UCORA also invited the Central Bank to the social performance country report presentation, along with other stakeholders like the Financial Sector Mediator and UN representative and MFIs. The presentation was well-received, as it provided a clear picture of microfinance in Armenian terms of its outreach, strategies and impact on the population. Key themes discussed included rural outreach, gender issues, client loyalty, credit methodologies and client protection practice.

Both participating MFIs and other stakeholders expressed an interest in reading the report next year, and provided useful suggestions for increasing the number of indicators.

### *Quick wins: Improving MFI SPM practice*

Within the project, 7 out of 12 members introduced SPM improvements. In most cases, areas for SPM improvement were identified during the:

- Early awareness-raising phase, when UCORA was presenting international good practice examples
- Verification of social performance reports, when MFIs discovered practice gaps with support of network staff.

<sup>7</sup> PPI: Progress out of Poverty Index; for more information see [www.progressoutofpoverty.org](http://www.progressoutofpoverty.org);  
PAT: Poverty Assessment Tool; for more information see [www.povertytools.org](http://www.povertytools.org)

The following are the examples of improvements introduced by UCORA members:

- ECLOF UCO identified effectiveness gaps in its client complaints handling process. First, clients were unclear where to direct their complaints. Even if a complaint was submitted, it was rarely acted upon, due to procedures not functioning as they should. ECLOF decided to review the complaints handling policy and implement changes: staff responsible for handling client complaints were moved to a part of office more easily accessible by clients. All complaints and suggestions submitted are recorded separately, and reported to a dedicated committee, consisting of the CEO, internal auditor and head of staff, who review and act on the complaint within 5 days. The auditor monitors the process for complaint investigation and response.
- FINCA Armenia realized that staff and clients were not familiar with the mission of the organization. They used a “quick win” solution of placing color posters printed with the mission in all branches, visible by all.
- SEF International reviewed their practice around social responsibility towards staff. It realized that because its staff feedback collection process did not guarantee anonymity, it wasn't resulting in honest opinions. The organization reviewed and improved the survey, which was made available in an electronic form, which could be completed without including a name. Analysis of this new staff feedback is expected by end of 2012.

## BENEFITS AND NEXT STEPS

### Benefits

UCORA's work contributed to useful dialogue with the Central Bank, enabling the network to communicate the value of microfinance (as compared to the mainstream financial sector). The country report clearly indicated the social performance outcomes of its members, helping to position the sector being socially responsible among other financial institutions in Armenia.

Additionally, the work on the country report with members refocused MFIs back on their missions and social goals, which were overlooked given fierce competition with banks. MFIs were reminded of their origins and purpose, which made them more willing to review their strategies and internal systems in order to prevent mission drift.

UCORA also increased its capacity to manage the project and facilitate discussions and collaboration between members, which among other things resulted in the country report. As a relatively new network, it used this project (particularly the reporting verification process) to deepen its understanding of its members' needs and priorities.

Additionally, the project enabled UCORA to participate in a number of international events, which increased its global visibility.

Interestingly, the project also attracted new members — commercial organizations interested in enacting their social values and increasing their influence on poorer and vulnerable populations of Armenia.

### Next Steps

Given the success of country-level report, UCORA plans to continue and expand its work around social performance reporting. Keeping members in touch with current global social performance efforts will mean promoting the Universal Standards for Social Performance Management through:

- Translation of the USSPM into the local language
- Organizing awareness-raising workshops
- Collecting existing good practice in relation to the standards.

UCORA's future work on the SPM agenda will also include a strong focus on further improvement of client protection practices by member MFIs.

## KEY LESSONS

### Addressing members' hesitance to share sensitive information with competitors

Due to the small size of the sector, some members hesitated to report their performance and practices, wary of revealing confidential information to competitors. To address this, the network agreed that member data would be aggregated and reported only at a general level. All the data would be kept confidential unless an MFI was willing to self-publish it. Data segmentation was not included in the report, to further protect the confidentiality of each MFI.

It is also important not to underestimate the role of the biggest member MFIs here — in their role as the network's board members and sector leaders, they were able to convince their smaller peers to join the project in spite of their fears and concerns over confidentiality.

### Addressing initial resistance to improving SPM practice

Initially, UCORA met with resistance from members around improving management practice, despite their initial commitment to do so.

Individual follow-up with members revealed that simple practice improvements had already been implemented based on what MFIs had learned

in UCORA's trainings and workshops. UCORA also found that MFI leadership perceived the term "SPM improvement" as requiring a large investment of financial and human resources. They were unaware that the small but powerful changes that had been introduced (the "quick wins") also constituted SPM practice improvement in and of themselves.

In future, UCORA plans to use more specific examples when communicating its expectations with members, to avoid unnecessary frustration and delay.

### Supporting MFIs in structuring the organizational change management process

Early on, the network realized the importance of assigning official focal points in each of member MFI. Despite winning the commitment of MFIs' leadership, UCORA faced numerous problems during field implementation. While management had provided guidance and a mandate for change, a lack of an assigned SPM project leader caused delays and miscommunication within partner MFIs. In future, beyond written letters of commitment signed by senior management, the network will also request the appointment of a project champion in each of the participating MFI.

### Conclusion:

Despite its young age and limited capacity, UCORA successfully facilitated SPM discussions among members, by drawing on the stories of 3 of its members who worked on SPM before. UCORA's main focus was on improving sector transparency, with the following positive results:

- Social performance reports served as a tool to identify the members' SPM weaknesses
- The country report strengthened UCORA's communication with Central Bank
- The project activities prompted members to engage more actively with the network, and attracted two new member organizations.

Most importantly, the good balance of awareness-raising and dissemination events allowed discussion on the state-of-the-art of the national sector in terms of social performance. It helped remind MFIs about their social roots and re-focus them to think more deliberately about their social aspirations.