

# IDENTIFYING GOOD SOCIAL PERFORMANCE MANAGEMENT PRACTICES

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## INTRODUCTION

The Social Performance (SP) movement is a global effort of the microfinance community, including Pakistan, to translate the mission of microfinance providers (MFPs) into practice in line with accepted social values. SP looks at the impact of an MFP against their stated objectives, the effectiveness of their systems and services in meeting these objectives, and the related outputs and changes in the lives of clients. Social performance management (SPM) is the institutionalized process of translating social mission into practice. It involves “setting clear goals, monitoring and assessing progress towards those goals, and using this information to improve performance and practice”.<sup>1</sup>

In order to mainstream efforts in implementing strong SPM practices, a global task force of microfinance stakeholders known as the Social Performance Task Force (SPTF) launched the **Universal Standards for Social Performance Management (USSPM)** in June 2012.<sup>2</sup> These ‘Universal Standards’ are meant to provide a comprehensive toolkit of essential practices to clarify and standardize SPM for microfinance practitioners. The standards have been organized in six sections (FIGURE 1).

In terms of implementing SPM in the microfinance industry in Pakistan, several MFPs have made efforts to build their internal capacity to define and monitor social goals. Practitioners across peer groups<sup>3</sup> have become increasingly sensitive to measuring

<sup>1</sup> <http://sptf.info/what-is-social-performance-2>

<sup>2</sup> For the full USSPM manual, please see: <http://www.sptf.info/spmstandards/universal-standards>

<sup>3</sup> In Pakistan, there are a range of peer groups within which microfinance practitioners can be categorized: **Microfinance Banks (MFBs)** are licensed and prudentially regulated by the State Bank of Pakistan (SBP) to exclusively service the microfinance market; no other peer group comes under SBP supervision. **Microfinance Institutions (MFIs)** are non-bank, non-governmental organizations providing specialized microfinance services, and are registered under a variety of regulations including the Societies Act, the Trust Act and the Companies Act (continued on Page 2)

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social impact and cognizant of the need to be able to state emphatically the role that microfinance interventions have played in lives of their clients. Reporting on SP has been strong in the industry, with an increasing number of practitioners reporting annually to the MIX Market on social indicators. Several MFPs have also made efforts to mainstream a standard poverty measurement tool within their operations, refine their product development processes and improve practices in client protection. Overall, the industry has shown commendable willingness to implement SPM, and more recently on working towards the USSPM.

As the industry moves towards implementing USSPM, is it important to take stock of the current practices in the industry related to SPM. This Note will highlight some of the existing best practices in the industry with regards to particular sections of the USSPM. The tools and practices presented in the succeeding sections pertain to the efforts of various MFPs in Pakistan vis-à-vis building USSPM compliance.

The Note will focus on three of the six sections of the USSPM: Section 2 'Ensuring Board, Management and Employee Commitment to Social Goals', Section 3 'Treating Clients Responsibly' and Section 4 'Design Products, Services, Delivery Models and Channels That Meet Clients' Needs and Preferences'. We chose to focus on these since they were selected as the focus areas for improving practice by the industry over 2013-2014 under a project with the national microfinance association, Pakistan Microfinance Network (PMN)<sup>4</sup>, supported by the Microfinance Centre (MFC) Poland and the Ford Foundation USA.

The next section gives an overview of the good practices that exist in the microfinance industry in Pakistan in terms of the three selected USSPM sections; followed by Section 3 which highlights specific case studies from individual MFPs in Pakistan.

FIGURE 1: Universal Standards for Social Performance Management (USSPM)



<sup>3</sup>(continued) Ordinance with the Securities and Exchange Commission of Pakistan (SECP). This peer group includes local and multinational NGOs of varying size.

Rural Support Programs (RSPs) are multidimensional NGOs registered as non-profit companies with the SECP, and have a purely rural focus for their microfinance and other operations.

<sup>4</sup> For more details on the Pakistan Microfinance Network, please see: <http://www.pmn.org.pk/>

## EXISTING GOOD PRACTICES AND CHALLENGES

### USSPM Section 2: Ensure Board, Management, and Employee Commitment to Social Goals

Involvement of board and top-level management is crucial to creating buy-in for institutionalization of SPM. Responses gathered during the feedback round on the draft USSPM during 2012 by the PMN on behalf of the SPTF indicated that management at individual MFPs would like their top management/board members to be educated on the USSPM in order to ensure their commitment to SP when developing business plans for their institutions.<sup>5</sup>

Overall, compliance to this particular section of the USSPM is adequate, with most MFPs in Pakistan having a formal 'code of conduct' written in their internal policy manuals. In addition to this, there have also been in place efforts to develop sector-level norms on client protection. As members of the PMN, all MFPs are voluntary signatories to the industry's Code of Conduct for Consumer Protection since 2009. This Code is based on six principles of CP i.e. a) Transparency b) Fair Practices c) Dignified Treatment d) Privacy & Fair Disclosure e) Governance and, f) Client Satisfaction in the delivery of all microfinance interventions. For many MFPs, this Code has been incorporated into their own policy documents, distributed and signed by staff, and in some cases also featured in the orientation or training of new field staff.

In terms of Board level involvement in the mainstreaming of SPM: this is considered a gap in existing practices. While the Board of Directors at these MFPs generally reviews performance and growth indicators on a quarterly basis, there is less emphasis on reviewing social performance data, or assessing overall compliance to the social mission, vision and objectives of the MFP. In addition, no SP committees have been formed at the MFP Board level to date.

The push for mainstreaming SP indicators has increasingly come from senior management at these MFPs, with growing awareness at this level through exposure to regional and network-level meetings, workshops and trainings on SPM.

FIGURE 2: Indicators for stakeholder commitment to SP



An example of senior management commitment to integrating social performance goals into strategic decision making is *Asasah*, a small non-bank microfinance institution based in the Punjab province. The institution uses the Grameen Foundation's Progress out of Poverty Index (PPI) to target poor households and ensure that their microfinance services are reaching the intended beneficiaries. Asasah was certified on the use of PPI in August 2012 following a process of assessment by Grameen Foundation to ensure that Asasah was adhering to the certification standards set in place for the use of PPI. Achieving certification was an important milestone for the institution to

<sup>5</sup> In 2011, 13 PMN member MFPs gave their feedback on the first draft of the Universal Standards for Social Performance Management (USSPM). Following this, a second and more comprehensive round of feedback was collected from 14 PMN member MFPs in 2012.

<sup>6</sup> For more details on Asasah, please see: [www.asasah.org/](http://www.asasah.org/)

prove, both internally and to wider stakeholders, that Asasah is committed to targeting poor clients and developing products that are appropriate for its market.

The collection and analysis of initial data has helped Asasah to define its focus on particular economic industries, such as embroidery, to support women entrepreneurs. The PPI has also allowed senior management to identify existing gaps in the provision of financial and non-financial services, such as the need for education loans for poor households in the geographic regions where Asasah is present. The management is committed to using such findings from the PPI to begin looking at ways to develop a wider range of products that address existing gaps. The challenge here will be that translation of PPI results into actual improvements in product features/parameters will undoubtedly be a lengthy and costly process, for which the institution would not be able to show results until sufficient time and funds were allocated to pilot and finally gauge the success of changes in different product features. In the future, Asasah also plans to use the PPI to track changes in the socio-economic conditions of poor beneficiaries and their households over time, for which new software has been developed to collect and analyze data.

In terms of employees being recruited and evaluated based on social performance criteria, this has been a particular challenge for practitioners in the country. There is a distinct need for MFPs to begin evaluating staff, specifically front-line staff, against social goals and performance. Employee productivity targets and incentive systems in the industry currently tend to focus on disbursement, growth or retention of borrowers. More emphasis needs to be placed on maintaining portfolio quality, and rewarding field staff on strong ethical behavior if the MFPs are to move towards best practices in USSPM implementation.

### USSPM Section 3: Treat Clients Responsibility

The industry has recognized the need for greater commitment towards 'do no harm' practices, particularly as the market in Pakistan is moving towards greater competition, changing ownership structures with more commercially oriented players increasing their stakes, and a renewed focus on growth and expanding outreach through alternate delivery channels such as branchless banking and agent networks. The industry is keen to ensure that this expansion is in line with responsible lending practices that have a positive impact on the image of the industry in general as well the clients.

This is often considered one of the most crucial standards for MFPs in Pakistan to pursue. Given the rapid growth of the industry in terms of outreach and gross portfolio in the past few years, it has become increasingly important to all stakeholders (national association, practitioners, investors and regulators) to ensure the general health of the market vis-à-vis avoiding over-indebtedness and ensuring good repayment capacity.

In 2012, all PMN members committed to participating in an industry wide effort to mainstream the **Microfinance Credit Information Bureau (MF-CIB)** set up by the PMN at a private information bureau Data Check Private Limited, with support from State Bank of Pakistan (SBP), Pakistan Poverty Alleviation Fund (PPAF) and the International Finance Corporation (IFC). Although the MF-CIB alone cannot prevent delinquency problems, it is considered an essential component of the market infrastructure for microfinance and will play a critical role in improving credit risk management, managing multiple borrowing and thereby creating a healthy industry environment.

MFPs have also taken steps at their own individual level to ensure that they are providing responsible finance to clients, i.e. avoiding client over-indebtedness and ensuring productive use of loans. Overall, the industry shows relative strength in this regard, with almost all MFPs using some form of cash flow analysis during the loan appraisal process to ensure repayment capacity of the borrower. The degree of detail in the analysis varies from institution to institution, but generally covers household

income and expenditure, business and other sources of revenue and credit taken from other sources. Subsequent to this analysis, microfinance banks that fall under the central bank regulations are given clear guidelines about lending to clients within the following criteria: microenterprises loans to not exceed a maximum loan size of up to PKR 150,000 (USD 1,526) to a single borrower with household annual income (net of business expenses) up to PKR 300,000 (USD 3,052).<sup>7</sup>

Further to conducting cash flow analysis at the initial stages of a loan application process, some institutions also conduct post-disbursement analysis to ensure responsible usage of loans. *Jinnah Welfare Society (JWS)*<sup>8</sup>, a small non-bank microfinance institution based in the Punjab province, has its credit officers fill out a 'loan utilization report' for each loan disbursed. The content covered in this report includes:

- Loan amount
- Disbursement date
- Purpose of loan
- Status of loan utilization (whether completely utilized, partially utilized or miss utilized)

Such analysis allows the institution to deduce whether the loan amount disbursed was appropriate for the client's needs, and whether the purpose stated at the beginning of the loan process was consistent with the business or enterprise of the borrower.

In terms effective communication to clients on their rights and responsibilities, the PMN conducted an industry wide Client Protection (CP) communication campaign in 2012 with support from Citi Foundation, consisting of dissemination material (posters and brochures) with pictorial messages on clients' rights and responsibilities. The brochures were designed and shared with member MFPs, to be distributed among clients, while the posters are displayed at a majority of PMN member MFP's branches (see **BOX 1: PMN Client Protection Campaign – Posters**). In addition to this, individual MFPs have also incorporated key client protection messages, such as the importance of appropriate use and timely repayment of loan, into their own communication materials (pass books, brochures, posters) as well as in the trainings for field staff and clients.

**BOX 1: PMN Client Protection Campaign – Posters**



**Translation:**  
Understand your requirement...  
using this loan wisely is your responsibility.



**Translation:**  
Maintain good relations...  
being treated with respect is your right.

*Continued on Page 6*

<sup>7</sup> State Bank of Pakistan, Agricultural Credit and Microfinance Division (AC&MFD) Circular No. 2, 2012. Definition of Microenterprise & Revised Prudential Regulations No. 10 & 11. PKR:USD exchange rate as of June 2013.

<sup>8</sup> For more information on JWS, please see: <http://jws.org.pk/index.php>



**Translation:**  
While applying for a loan, provide accurate personal and business information... carrying out all proceedings with honesty is **your responsibility**.



**Translation:**  
Be aware of the terms and conditions of the services you use... making you aware of all the stipulations is **our responsibility**.



**Translation:**  
Make your voice heard to us in case of unfair treatment or other complaints... protecting your rights is **our responsibility**.



**Translation:**  
Trust us with your personal and business information... protecting your privacy is **our responsibility**.

With respect to the final standard in USSPM section 3, 'timely and responsive mechanisms for complaints and problem resolution', the process followed by **Tameer Micro-finance Bank Ltd. (TMFB)** has been considered a global best practice according to the Smart Campaign<sup>9</sup>. TMFB has employed a full time call center, known as the Customer Services Unit (CSU) that allows the bank to formally monitor and address client complaints, conduct analysis on customer compliant trends, and simultaneously verify client data through outbound calls to clients before disbursement of loans.

#### USSPM Section 4: Design Products, Services, Delivery Models and Channels that Meet Clients' Needs and Preferences

Given the opportunities in the industry to cater to an increasingly widened client market base and continually evolving client needs, there is a heightened interest among MFPs in Pakistan to be innovative in product design and delivery mechanisms that meet clients' needs. However there is a need for MFPs' capacity building in this regard so that the product development teams are able to collect information

<sup>9</sup> Smart Campaign Smart Note Number 15, September 2012; Responding to Client Complaints at Tameer Bank, Pakistan: [http://centerforfinancialinclusionblog.files.wordpress.com/2012/09/tameer\\_smartnote\\_english.pdf](http://centerforfinancialinclusionblog.files.wordpress.com/2012/09/tameer_smartnote_english.pdf)

through regular and standardized channels -- to then be able to analyze findings and translate into better products and innovative delivery channels that bring benefits to the client in real economic and social terms.

With regards to understanding client satisfaction, and how clients use products and services, several MFPs in Pakistan employ client needs assessment and client satisfaction surveys on a regular basis. Survey reports by several MFPs including *Kashf Microfinance Bank Ltd.*, *First Microfinance Bank Ltd.* and *DAMEN*, for example, indicate that feedback is collected on the following characteristics of credit programs:

- Accessibility of loan;
- Loan policy;
- Loan purpose and utilization;
- Service delivery and staff behavior;
- Monthly meetings (in case of groups) and group leaders' role;
- Willingness to partake in other MFP services (such as savings).

The data collected is then analyzed according to various indicators such as age range of client, gender, geographical location, branch location and loan cycle. In some cases, annual satisfaction surveys are themed on particular products or services, for example if the MFP has recently deployed a new credit, savings or insurance product, or ventured into a new delivery model (as with branchless banking initiatives at some MFPs). For a summary of general principles that govern appropriate product design, see **BOX 2**.

#### **BOX 2: General Principles of Appropriate Product Design followed in Pakistan**

##### **Understanding Client Satisfaction:**

Regular feedback gathered on client satisfaction levels (overall experience with the MFP, convenience of accessing services, suggestions for product and service improvement).

##### **Monitoring Client Retention:**

Regular client exit surveys and understanding reasons for client drop-out

##### **Offering Flexible Loan Products:**

Products include inherent flexibility to address different business needs and cash flows of agriculture vs. enterprise borrowers (bullet vs. monthly repayment schedules)

##### **Convenient Service Delivery:**

Multiple options available for clients to access products, including service points/permanent booths in remote locations and branchless banking options.

## CASE STUDIES ON EXISTING GOOD PRACTICES

### USSPM Section 2: Ensure Board, Management, and Employee Commitment to Social Goals

#### KhushhaliBank Ltd and inception of a new department for Social and Environmental Management Systems (SEMS)

##### **Institutional context**

KhushhaliBank Ltd. (KBL) was set up in 2000 by the Government of Pakistan as part of the national Poverty Reduction Strategy and its Microfinance Industry Development Program with support from the Asian Development Bank. In 2008, the bank was converted into a public limited company and is currently regulated by the State Bank of Pakistan (SBP) under the Microfinance Ordinance, 2001.

The mission of KBL is "to strengthen the economic base of low-income populace

across Pakistan by improving their accessibility to financial services. By supporting a diverse product suite with exemplary service and by deploying cost efficient next generation delivery systems, we intend achieving our core objective of outreach and sustainability”.

In 2012, a consortium led by United Bank Limited (UBL<sup>10</sup>) and comprising of Incofin Investment Management, Shorecap II Limited, ASN-NOVIB MicroKreditfonds and Credit Suisse Microfinance Fund (the “consortium”), acquired 67.4 per cent of shares in KBL. The inclusion of a new consortium of shareholders created an opportunity within KBL to implement good practices vis-à-vis the creation of a **Social and Environmental Management Systems (SEMS)** Unit.

### **Inception of Social and Environmental Management Systems (SEMS) Department**

The new consortium of shareholders signed on to a Shareholders Agreement that incorporates several social performance indicators, such as implementation of the Smart Campaign’s Client Protection Principles (CPPs), data collection on clients needs and preferences, and reporting to stakeholders including the MIX Market and Board members on social performance management at KBL. This agreement also serves as a guideline for senior management at KBL to incorporate relevant practices that would enable the Bank to achieve its social performance goals (such as ensuring client protection, monitoring client satisfaction and retention levels).

As well as looking at social performance, client protection and development impact indicators, the SEMS Unit was also made responsible for reporting on environment, social and governance commitments as set out in Shorecap SEMS Investment Policy.

Upon finalization of the Shareholders Agreement between the consortium, KBL appointed a SEMS manager and coordinator to ensure proper functioning of the new system. The SEMS manager, with prior experience in microfinance and social performance, coordinates activities with Board members and the SEMS Unit. This Unit is an independent function, and similar to all other key departments at KBL reports directly to the President, with quarterly reports as well as an annual report as per the Shareholder’s Agreement. In addition to this, the SEMS manager is in the process of developing the unit’s annual work plan, with projected timelines and quarterly progress reports against the work plan.

The objectives of the SEMS Unit are:

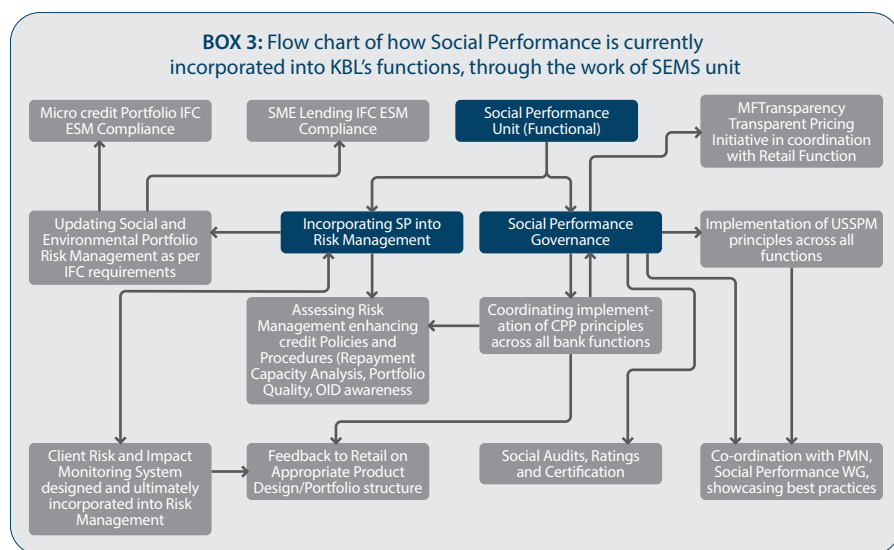
- Implement adequate social performance and client impact assessment tools with the aim of aligning financial objectives with clients needs.
- Tracking impact on clients and portfolio of product design/concentration.
- Driving international best practices in microfinance across all functions, ensuring and managing compliance with all the requirements by all Bank functions under the Shareholders Agreement, particularly the client protection principles.
- Ensuring that a risk management system is in place to monitor compliance with Shareholder requirements, including monitoring of the microfinance exclusion list for clients’ activities/industries.

A SEMS policy document was devised to provide a framework for the functions of the unit, which has since been updated to reflect the current scope of work being carried out (see **BOX 3**: ‘Flowchart of how Social Performance is currently incorporated into KBL’s functions, through the work of SEMS unit’ for more details). The management at KBL recognizes that the microfinance industry has significantly increased its focus on responsible and client-centered microfinance over the past decade. A number of initiatives have been taken at KBL to promote greater practices in this regard. For example KBL has endorsed the Social Performance Task Force’s Universal Standards for Social Performance Management (SPTF Universal Standards) and the Smart

<sup>10</sup> One of the largest and oldest commercial banks in Pakistan, which was also one of the first to roll out branchless banking.



Campaign's Client Protection Principles (CPPs)<sup>11</sup>. In April 2013, KBL became the fourth Microfinance provider in Pakistan to submit itself to a Smart Assessment – a full review of its policies, procedures and operations with respect to client protection, by a panel of external assessors sponsored by Pakistan Microfinance Network. Based on the findings, KBL will develop a roadmap for full compliance to the CPPs, aiming at Smart certification<sup>12</sup>.



### Key Milestones of SEMS to date

KBL now consists of an independent Social and Environmental Performance Management Systems (SEMS) Unit reporting directly to the president. This has been established with the core objective of rolling out Social & Environmental Compliance policy, incorporating requirements by shareholders, regulatory bodies, investors, donors and rating agencies.

- A SEMS cross functional Working Group was established in the first quarter of 2013 with departmental heads from Retail, Operations, Client Processing Unit, Audit and Compliance to co-ordinate all matters related to the Bank's Social and Environmental commitments and objectives. The working group was set up since SEMS is a cross departmental function which deals with governance issues affecting all core banking operations, where best practices are being integrated into existing procedures. As such, coordination, feedback and support for operational departments is required.
- SEMS Unit has worked in collaboration with IFC in designing Social and Environmental Risk Management structures deemed satisfactory by IFC.
- SEMS Unit has proposed modifications to Credit Policy in order to incorporate Social and Environmental Risk Management into Credit Risk Management, for approval by Credit Risk Management Committee.
- As per IFC indications, steps are being taken to incorporate social and environmental due diligence into Loan Application Processes and Procedures.
- Implemented a Smart client protection assessment in coordination with PMN (as part of the network's client protection initiative). Current implementation and gap analysis in terms of client protection was presented to senior management, and SEMS to lead KBL towards certification based on the findings from this assessment.

## First Microfinance Bank Ltd. 'Code of Ethics' and Ethics Training

### Institutional context

The First Microfinance Bank Ltd. Pakistan (FMFB-P) was established in 2002 as a result

<sup>11</sup> The Smart Campaign is housed at the Centre for Financial Inclusion at Accion International. The Smart Campaign's Client Protection Principles (CPPs) are a set of minimum standards of client protection for the global microfinance industry.

<sup>12</sup> A Smart certification is public acknowledgement of a MFP by the Smart Campaign for meeting all the minimum standards of client protection i.e. the CPPs, and is gauged in a Smart Campaign certification mission to the MFP.

of the transformation of the Credit and Savings Program of the Aga Khan Rural Support Program (AKRSP) to become the first private sector microfinance bank in the country.

The mission of FMFB is to help “strengthen the entrepreneurial base of the economically disadvantaged population across the country by seeking to marry entrepreneurship with capital formation in not only rural areas but also major population centres. To provide people scope to expand their economic base, and over time, to support diversification beyond traditional small enterprises”.

FMFB endeavors to “introduce good practices, ethical precepts and the highest standards of rectitude in the conduct of business and remains respectful of the needs of the poorest segments of society”. With reference to its mission and endeavors, FMFB has devised a strong code *of ethics and business practices* aimed to set the tone for proper conduct and ethical behavior of all personnel and other individuals associated with FMFB.

### **Code of Ethics and Governance Framework**

Like all microfinance banks in the country, FMFB is regulated under the State Bank of Pakistan, which ensures that all regulated microfinance providers comply with the laws, (prudential) rules and regulations, including those related to client protection.

The Board, Chairman and President at FMFB all have ultimate responsibility for ensuring the integrity of FMFB’s operations, while each employee is personally responsible for ensuring that s/he acts in accordance with the standards laid out in FMFB’s ‘code of ethics and business conduct’ policy document (2008).

The policy covers an array of guiding principles for staff, including their responsibilities to uphold ethical standards and protect clients in the following respects:

- Confidentiality of customers’ information
- Maintaining professional relationships
- Compliance to laws, regulations, local customs and traditions
- Avoidance of conflict of interest
- Anti money laundering
- Protection of FMFB’s resources
- Accurate record keeping and reporting
- Zero tolerance to workplace violence
- Equal employment opportunity, nepotism, discrimination or harassment

Further to building compliance to the code of ethics, FMFB is also in the process of developing and institutionalizing a *Corporate Governance Framework*, which would outline the roles and responsibilities of FMFB Board of Directors, senior management and all employees. This framework provides an outline for the expected responsibilities of the staff, including the audit, risk and human resources committees at the Board level. With this effort, FMFB will ensure overall conformity with the objectives of the organization and its shareholders, specifically with regards to transparency and accountability of personnel at all levels of the organization. Given the scale of FMFB operations (132 branches and sub-offices across the country) it is beneficial to have a standard governance framework in place to ensure that employees at all levels and locations maintain standard practices and that these are followed even during/after changes in management teams.

## Development Ethics Training

Since 2008, employees of FMFB not only sign on to the organization's 'Code of Conduct' and receive training and information on this formal code during their orientation, they also receive a '*Development Ethics 100*' training in the field. This allows field staff in particular to understand and act upon the proper standards of conduct and business practices expected of them as FMFB employees.

It has become an increasing concern for some microfinance practitioners (MFPs) that preoccupation with financial efficiency and growth can often shift focus away from social performance. To avoid this, FMFB has taken steps to educate their staff on the social element of microfinance operations. A development ethics training program was devised by FMFB's parent organization, the Aga Khan Agency for Microfinance (AKAM) and funding for implementation of the master training sessions was also provided by AKAM. For roll-out of the training beyond the master training sessions, key trainers were identified at the regional level (normally branch managers) to deliver the three-day training to their respective field staff.

The 'Development Ethics 100' training covers some of the particular ethics issues related to the development industry and provision of microfinance services to the poor. This is a three day intensive training program targeting front line staff. It is designed to be interactive and shares ethics and ideals in working collectively to address poverty. The specific outcomes of this course are:

The main learning outcomes of this training program are:

- Understanding FMFB's mission, ethics and approach to solving the challenges of poverty
- Understanding clients' needs
- Learning to evaluate microenterprises and microfinance interest rates
- Understanding risks and accepting personal responsibility

## USSPM Section 3: Treat Clients Responsibly

### DAMEN Ad Campaign on Client Protection (CP)

#### Institutional context

Development Action for Mobilization and Emancipation (DAMEN) is a microfinance institution founded in 1992 and based solely in the Punjab province in Pakistan. It provides microcredit and credit life insurance facilities to women in rural areas and underdeveloped urban centers.

The mission of DAMEN is to "make the people of marginalized communities understand the true notion of development and build their capacity, which would enable them to organize themselves into groups for collective action leading towards self-reliance and empowerment."

Based in a highly-concentrated microfinance market, i.e. Punjab, DAMEN has recognized the need to address prevalent issues with regards to multiple borrowing, over-indebtedness and appropriate collections practices. DAMEN has taken several steps to ensure a focus on social performance standards, particularly those associated with the CPPs.

Protection'<sup>13</sup> developed by the PMN, reflected in its different practices, including a cash-flow based lending model, strong pre- and post- appraisal policies to ensure

<sup>13</sup> PMN Code of Conduct for Consumer Protection, launched 2009: <http://www.microfinanceconnect.info/coc.php>

proper utilization of loan, reporting to the microfinance credit information bureau (MF-CIB) and vocational, enterprise development training for clients.

DAMEN uses multiple channels for disclosing key information to clients about the products they are offered, as well as their rights and responsibilities as microfinance clients. DAMEN distributes brochures which entail product information (including pricing details) and how to access DAMEN services. Existing clients also receive repayment schedules mentioning service charges, and field staff conduct regular meetings with client groups to familiarize them on DAMEN's credit policies and update them on any new product information. Depending on the relevancy and awareness level of the client groups, these meetings will also include time for field staff to reiterate messages on timely repayments and appropriate usage of loans. The institution also displays print posters on client protection at their branches<sup>14</sup>. In addition to the print campaign, DAMEN has been running ads on local cable TV channels around Lahore to educate the population (both existing microfinance clients and potential clients) on the services offered by DAMEN as well as several key client protection messages<sup>15</sup>.

The key messages covered in the cable TV ads were:

Appropriate loan usage

Timely repayment of loan installments

Appropriate collection practices to be expected of DAMEN field staff

The need to focus on communication and client awareness is particularly important in the region where DAMEN operates. The Punjab province has the highest concentration of microfinance providers in the country and in the recent past, several MFIs working in the area experienced client delinquency issues as a result of high growth, in 2008, DAMEN has been working to educate clients not only about the objectives of the institution in particular, but also the general (globally accepted) rules and responsibilities of microfinance clients.

## Kashf Foundation and Awareness Raising Among Clients

### Institutional context

Kashf Foundation is a specialized microfinance institution which was set up in 1996 to provide microfinance services to low income households, particularly women. The institution offers microcredit, credit life insurance, and non-financial services that include financial literacy, business incubation labs and interactive theater performances on prevalent socio-economic issues, especially those relating to gender.

Kashf Foundation's mission is "To be a transformational institution providing quality and cost effective microfinance services to low income households and enabling women to become active agents of social and economic change by enhancing their decision making capacity".

### Client Awareness and Feedback Mechanisms

Kashf Foundation has a robust client centric approach which has been embedded into all its products and services. Products remain client-driven and a client feedback system ensures that products and services are continually revamped to reflect changing client preferences and needs.

This is complimented with a strong focus on client accountability, created by providing complete and transparent information to clients regarding their loan and its terms and agreements. Loan tenure, amount, service charges, and repayment schedules are shared with clients and their co-borrowers to ensure that clients have compete

<sup>14</sup> These posters were developed by PMN for the benefit of microfinance practitioners, their clients, and for the overall awareness raising within the microfinance industry. For more details please see Annex: 1

<sup>15</sup> Link to DAMEN cable TV ads on YouTube: <http://youtu.be/IRuXR-jl8S4>; DAMEN's website: <http://www.damen-pk.org>

knowledge regarding all terms and conditions of the loans availed.

Clients are given repayment schedules as well as 'pass-books' which clearly state the particulars of an individual's loan, including loan amount, loan cycle, exact date of monthly repayment and the monthly installment amount. The pass-books have been developed based on the understanding that a majority of Kashf clients are illiterate, and it would be less effective to state interest rates in terms of APR or per cent age figures. Service charges are therefore listed on each installment as actual amounts. The pass-books are written in easy-to-understand, local language (i.e. Urdu) and include pictorial messages on appropriate loan usage, timely repayment, and where to call in case of complaints or queries (see Box 4: Client Protection messages in Kashf Foundation pass books).

Another key feature of Kashf's client centric approach is the Women Entrepreneurs Council. This body, consisting of Kashf clients, provides quarterly feedback to Kashf Management and Board of Directors on client perceptions regarding products and services. This feedback is then used to further modify existing products and practices to keep them in line with customer preferences. Last year, for example, Kashf received requests from several clients on loans for start-ups. This year Kashf has launched the Kashf Ibtida-e-Karobar Karza (starting a business loan) for women who wish to inject capital into new businesses and have little prior experience with running such ventures. Complementing this is the Kashf Consumer Protection Code which received global commendation in April 2012 by the Smart Campaign for its strong commitment to consumer protection principles<sup>16</sup>.

Additionally, Kashf ensures that multiple easy to use channels exist via which Kashf clients can effectively communicate their concerns, queries, fears, expectations and complaints. Specialized resources have been allocated to deal with complaints and issues faced by clients while interacting/dealing with Kashf staff. Numerous clients, on an on-going basis, share their feedback through the client complaint cell, complaint/feedback boxes placed in every branch, and personal visits to Kashf's offices. This entire process is supervised by the Compliance Department at Kashf, situated at the Head Office. All queries are centrally dealt with and response timelines are kept to a minimum. Through these channels, Kashf provides complete autonomy to its female clients to get their feedback and ensure that their issues are heard and resolved.

### **Promoting Responsible Finance via Micro-Plus Services**

Kashf's experience with gender based microfinance has highlighted the need to compliment the provision of responsible credit with customer-centric ancillary services. Kashf Foundation provides its clients, as well as non-clients, with a range of financial trainings, gender trainings, and social theatre workshops.

The gender trainings are provided to three main target groups; males, females, and youth living within communities where our clients operate. These gender trainings, having trained **41,580** participants thus far, aim to strengthen the necessary knowledge and tools required to integrate gender equity into their lives, and subsequently promote and foster an environment in which Kashf female clients are valued for their economic contribution within their households.

The second aspect of this intervention, financial education trainings are delivered in two stages. The first stage involves delivering Basic Financial Literacy (BFL) trainings to all clients prior to obtaining a loan from Kashf. This hour-long training, delivered by Business Development Officers, is provided as part of the lending process to educate clients on the basics of borrowing, debt management, savings, and principles of financial management, client rights, and key details of their financial partnership with Kashf. BFL trainings have been provided to 385,207 participants to date.

Once clients graduate from the BFL component of the program, they can progress to the second stage, i.e. the Advanced Systemized Financial Education (SFE) trainings,

<sup>16</sup> <http://www.smartcampaign.org/news-a-highlights/press-releases/36-2011/568-smart-campaign-publishes-example-codes-of-ethics-from-microfinance-institutions-around-the-world>

which have already been delivered to 106,514 clients. This component is delivered by specialized SFE trainers, comprising of modular coursework, covers savings, budgeting, financial transactions and debt management, and spans over three days. Impact of these trainings can be seen in terms of increased savings of clients, increased women’s agency and decision making power within the household, improved utilization of loan leading to higher economic returns, and increased asset ownership.

**BOX 4: Client Protection (CP) messages illustrated in Kashf Foundation ‘passbooks’**  
All clients receive a passbook, which lists important information about their loan amount, installment schedule and fees.



The final aspect of the microfinance-plus approach places emphasis on enhancing business skills for female entrepreneurs, and helps clients build linkages through Business Incubation Labs (BIL). Business Management Trainings provide in-house trainings to clients on various business management themes. Business networking support helps clients develop linkages with vendors and other suppliers in their local marketplaces. Through these Business Incubations Labs, Kashf has enabled 1,662 female entrepreneurs to graduate their businesses from small home-based initiatives into small enterprises.

While Kashf’s client-centric policies, coupled with its consumer protection code, help the institution to achieve its responsible finance agenda, its ancillary services and trainings facilitate women’s economic participation and help create a more gender equitable society where women are given access to “responsible finance that makes a difference.”

## USSPM Section 4: Design Products, Services, Delivery Models and Channels That Meet Clients’ Needs and Preferences

### Branchless Banking Options for Microfinance Clients

With regards to the USSPM Standard 4.b (essential practice 5) that relates to products and service delivery channels being “reliable, convenient for the client, and reduce personal costs (e.g., travel) associated with accessing the product or service” there is an industry-wide branchless banking initiative in place in Pakistan.

Several microfinance practitioners are leading the way in this respect, by offering mobile banking services to their clients, especially those in remote areas with very little access to formal financial institutions. Individuals living in these areas attach a large opportunity cost to leaving their work/business in order to travel to their nearest bank branch for frequent repayments. Mobile banking is considered a powerful instrument by which microfinance practitioners can access previously untapped target markets.

According to the State Bank of Pakistan, there are 2.1 million registered branchless banking accounts in the country as of year-end 2012, which shows an increase of 20 per cent from the previous quarter. The average size of transaction is PKR 4,278 (USD 44), which indicates that there is a huge potential for the low income population of Pakistan to access financial services via their mobile phones<sup>17</sup>.

Microfinance practitioners typically partner with a single Telco-provider to carry out collec-

tions in the field. **Tameer Microfinance Bank** and Asasah offer repayment options in partnership with a Telco-led mobile banking model known as Telenor Pakistan's '*easypaisa*'.

KhushhaliBank Ltd and Kashf Foundation both offer clients the option to pay installments through United Bank Ltd (UBL)'s branchless banking model called *Omni*. Clients visit a nearby Omni agent (usually a retail shop owner), make the repayment using a Point of Sales (POS) machine and receive a receipt upon completion of the transaction. KhushhaliBank currently has over 1000 Omni agents on board, all of whom work in very close proximity to the target markets. According to Khushhali Bank's estimation, they are partnering with roughly 10 Omni agents per branch, which illustrates the likelihood that clients have easier access to the Omni agents than going to the branch.

An important note here is the role played by the State Bank of Pakistan in providing an enabling policy environment for practitioners to offer mobile banking solutions to their customers. In the case of Pakistan, the regulator has been actively advocating for branchless banking developments, with the ultimate objective of broadening and deepening financial inclusion.

## OPPORTUNITIES AND CHALLENGES

MFPs in Pakistan have displayed great interest to take part in building industry-level compliance towards the USSPM. Fifteen institutions are working voluntarily with the microfinance association towards implementing SPM through selected sections of the USSPM, indicating the desire among practitioners in Pakistan to not only showcase their best practices, but also identify gaps and address these in a bid to comply with these Standards.

Having said that, some challenges are foreseen in terms of achieving full compliance particularly to certain standards within section 2 (Ensure Board, Management, and Employee Commitment to Social Goals) and section 4 (Design Products, Services, Delivery Models and Channels That Meet Clients' Needs and Preferences). In terms of ensuring board commitment, more emphasis needs to be placed on building capacity at the board level, perhaps by creating SPM champions or committees within the Board of Directors at these MFPs. There is a perceived need for awareness raising at the Board level, to reaffirm the need to define, measure and track progress towards the MFP achieving its social mission.

With regards to section 4, there are strong indications that MFPs in Pakistan understand and value the role of research for better product designing, particularly client satisfaction and client exit surveys. This represents an opportunity for MFPs to further build capacity within their research and analytical functions, provided that funds are available for regular and periodic studies on clients' overall experience and needs vis-à-vis microfinance services.

In terms of greater opportunities to build compliance to the Universal Standards, a recent initiative undertaken by the industry association, the PMN, is expected to have a significant impact, particularly on compliance to Section 3. In April 2013, the PMN launched a "Client Protection Monitoring and Pricing Transparency Initiative" with support from the State Bank of Pakistan (SBP), Pakistan Poverty Alleviation Fund (PPAF) and UK-Aid.

This initiative will encompass client protection assessments of all 30 PMN members over three years (2013-15) using the Smart Assessment format of the globally recognised pioneer in developing client protection standards, i.e. the Smart Campaign. Monitoring of MFPs in Pakistan against internationally recognized 'do no harm' benchmarks established by the Smart Campaign will allow MFPs to indicate their commitment to client protection, identify weaknesses in current practices and monitor progress towards better client protection. The pricing transparency aspect of this initiative is being conducted in partnership with Microfinance Transparency (<http://www.mftransparency.org/>), and will allow industry-wide standardization in pricing disclosure; thereby creating greater transparency in the pricing, terms and conditions communicated to the clients in Pakistan.

While there is much to be accomplished to ensure that the Standards are met by the majority of MFPs in Pakistan, the foundation is set and ongoing advocacy and efforts by various stakeholders, most of all MFPs themselves, are paving the way for strengthening of the industry in this crucial area.



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