



How can financial institution use the
Universal Standards for SPM and SPI4?

SP Fund, 29 September 2016

Association focused on disseminating knowledge and tools for ethical finance

- **Founding members:** five French organizations specialized in microfinance
- **Partners:** MFIs, networks, TA providers, investors, donors, researchers, worldwide
- **Working areas:** impact and social performance, governance, rural and agricultural finance.

www.cerise-microfinance.org

Social Performance Fund – 3rd round

Who we target?

- ✓ MFIs, National networks, Local regulators, Investors

SP Fund offer for Microfinance Stakeholders

- ✓ On-line trainings (in English, Spanish and Russian) for network representatives, MFIs' managers, credit analysts and SPI4 auditors on the data collection and use of SPI4
- ✓ Off site individual TA for selected MFIs, networks and credit analysts
- ✓ Scholarships to participate to SPTF annual meeting in 2016 and 2017

Next calls for proposals 26 Sept 2016

More: <http://www.mfc.org.pl>



Webinar objectives

To present experience from Khushhali Bank Ltd

- How to introduce SPM
- How to evaluate practises in the institutions
- How to effectively introduce changes

Speaker

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Implementing Universal Standards with SPI4 at Khushhali Microfinance Bank

September 29, 2016



Inception

Khushhali Microfinance Bank

- Founded in the year 2000, as a part of the Government of Pakistan's Poverty Reduction Strategy and its Microfinance Sector Development Program (MSDP).
- MSDP objective – to provide affordable financial and social services to the poor, for a significant impact on poverty reduction through:
- Headquartered in Islamabad, KMBL operates under supervision of the State Bank of Pakistan.
- In 2012, A Consortium of Shareholders took the institution's reins, preserving the mandate.
- KMBL is Pakistan's largest microfinance Institution.

Shareholding of KMBL as at December 31, 2015		%	Indicator	Unit	PKR 2015	USD 2015
Local Commercial Banks		31.4%	OUTREACH			
Incofin Fund Management (Rural Impulse Fund II)		24.5%	Active Borrowers	Number	520,517	520,517
Credit Suisse Fund Management Co (Responsibility Global Microfinance Fund)		19.9%	Gross Advances	Millions	17,467	166
Equator Capital Partners (ShoreCap II Limited)		14.3%	Deposits	Millions	15,583	148
ASN-NOVIB Mikro kredietfonds (Tripple Jump)		9.9%	SUSTAINABILITY			
			Profit After Tax	Millions	824	7.85
			OSS	%	127.8%	127.8%
			QUALITY			
			PAR 30	%	1.9%	1.9%

KMBL Social & Environmental Goals

- 1. MICROFINANCE ORDINANCE AND SBP PRUDENTIAL REGULATIONS**
- 2. SHAREHOLDERS' AGREEMENT (S&E REQUIREMENTS):**

a) IFC:

- IFC Microfinance Exclusion Lists
- Projects requiring pre-approval from IFC
- Performance Standards
- General Environmental, Health, and Safety Guidelines
- Industry Sector Environmental, Health and Safety Guidelines
- Policy on Social & Environmental Sustainability
- IFC ESG Code
- IFC Anti Corruption Guidelines

b) European Development Finance Institutions (EDFI)

- EDFI Prohibited Activities List

c) ADB

- ADB Prohibited Investment Activities List
- ADB Social Safeguards Exclusion Criteria
- ADB Social Protection Requirements

KMBL Social & Environmental Goals

SHAREHOLDERS' AGREEMENT (S&E REQUIREMENTS):

d) Equator Capital Partners

- Investment Code
- Investee Guideline and Procedures
- Environment, Social, Governance (ESG) Undertakings
 - ☐ Principles
 - ☐ Environment
 - ☐ Social Matters
 - ☐ Governance
 - ☐ Exclusions

e) SMART Campaign

- Client Protection Principles

f) International Best Practices/Policy Requirements

- USSPM (Universal Standards for Social Performance Management)
- ISO (International Standards Organization)

g) Other Requirements

- Reporting to MIX on Social & Environmental

OTHER COMMITMENTS

SMART Certification, Social & Environmental audit, SP Country Report

SPI4/USSPM Roadmap for Khushhali Microfinance Bank



Need for USSPM

- To comply with a set of social standards put forward by MF Ordinance and SBP Regulations
- Consortium of Shareholders established in 2012 necessitated USSPM and CPP compliance
- Other SPM requirements could also be fulfilled through implementation of USSPM

Education on USSPM

- A Social & Environmental (SEMS) Unit was established under Chief Risk Officer. Dedicated resource was hired to take this initiative forward.
- USSPM Implementation Guide/Social Performance working Group meetings.
- SPTF Webinars/Other online material available
- Annual SPTF Meetings

Institution wide Awareness

- Creating awareness among other departments
- Engaging all relevant staff in SPM Webinars
- Imparting Training to Field Staff
- In-house Orientation Sessions

Exploring tools – SPI4

- Studying possible tools for SPM Reporting
- Shortlisting SPI4 as an ideal tool befitting organizational needs

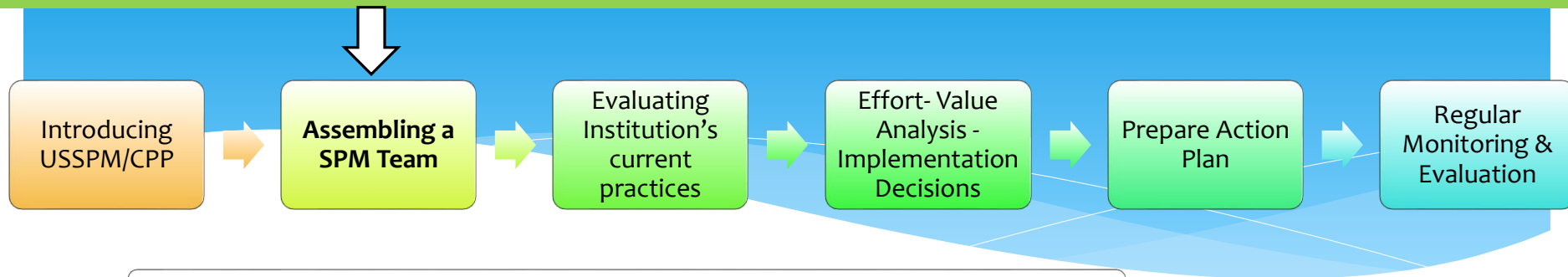
Khushhali Microfinance Bank

Khushhali Microfinance Bank opted for SPI4 because:

- SPI4 user-friendly and comprehensive
- SPI4 serves to demonstrate exactly how KMBL's mission is being fulfilled in terms of hard data.
- Assists in analysis of USSPM, CPP and other relevant Social & Environmental Requirements for the institution.
- Gives detailed indicators, assisting in measurement of Social Performance and Development Impact.
- Standardized collection, tabulation, monitoring and reporting on SPM to the Board and top management
- Report extraction feature for external forums e.g. MIX
- Promotes “continuity of approach” i.e. if key unit staff leaves the institution, incoming staff can easily transition by studying widely available SPI4 guidelines.
- A one-window stop to cover all SPM requirements end to end
- Cost Saving –available free of cost for self assessment and audit



SPI4/USSPM Roadmap for Khushhali Microfinance Bank



Decision of Approach

- SEMS Unit responsible for ensuring implementation of all S&E Goals & Objectives
- SPM Champions taken on board from all departments/units

Institution wide Engagement

- Creating Process Flows between SEMS and other personnel
- Integrating SPM with other functions of the institution
- Creating linkages with other objectives and deliverables
- Following amendments made to the TORs of RMC to incorporate social aspect:
 - Recommend SEMS Policy and Procedures for approval
 - Ensure adequacy of reporting contents and formats, data collection systems, applications and databases
 - Overseeing the adequacy of training materials.
 - Overseeing the implementation of SPM through the bank.
- Creating a Board Level SPM Committee

Challenges while engaging the Management & Board

- Revision in Policy and Procedural Documents (e.g. a lot of cross questioning from Business and HR Function)
- These challenges were overcome through awareness sessions and integrating social goals with business goals
- Regular SPM reporting – ensure incorporation in regular decision making process

SPI4/USSPM Roadmap for Khushhali Microfinance Bank



Mapping Standards/Essential Practices/Indicators with relevant functions/departments

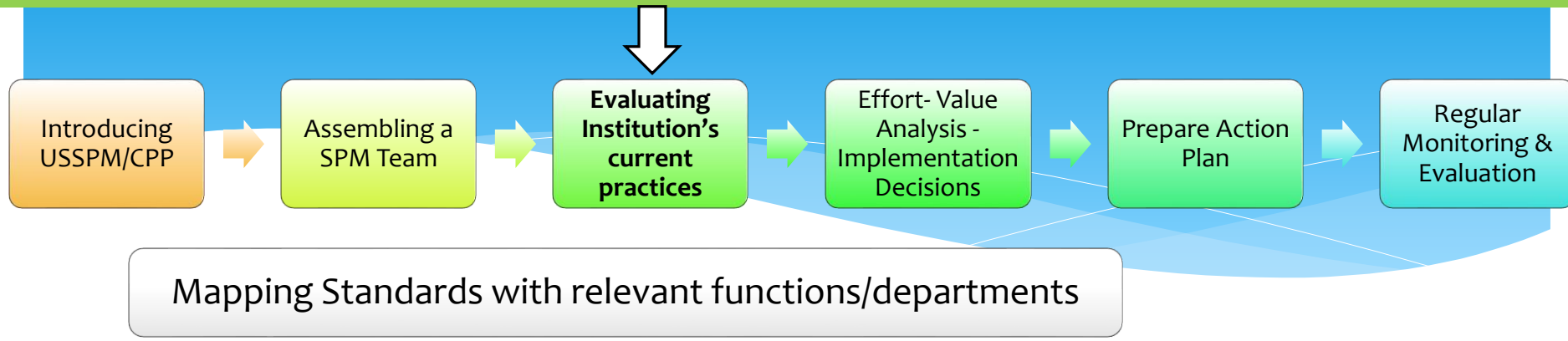
- Jointly with relevant SPM champions reviewed the requirements related to their department /unit. Continuous debate between SEMS team and SPM Champions regarding level of Compliance

Decision of Initial Screening

- Management team identified which Essential Practices are currently being implemented and where it falls short
- An evaluation of current SPM practices revealed areas of weaker practices to address
- Understood how a “pressing issue” was cutting across many management areas.
- Mapping organizational challenges most relevant to Khushhali with Essential Practices

ORGANIZATIONAL CHALLENGE	RELEVANT ESSENTIAL PRACTICES
Designing products/delivery channels aligned in terms of target client's needs and preferences	3a2, 3a3, 3b1, 3b4
Setting responsible growth policies	6c1, 6c3
Assessing Client Level Outcome	1b5
Conducting Employee Satisfaction Surveys	5c1

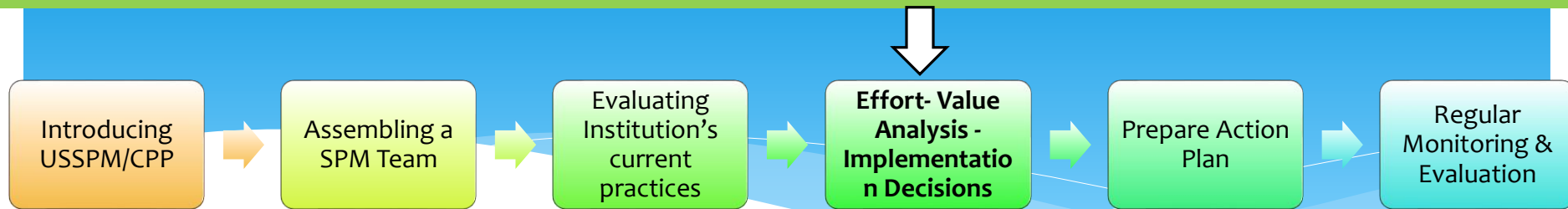
SPI4/USSPM Roadmap for Khushhali Microfinance Bank



DIMENSIONS

	1	2	3	4	5	6
Board/CEO	■	■				■
Operations/Business	■	■	■	■		■
Finance	■	■				■
Marketing/R&D	■		■	■		■
Human Resource		■		■	■	
IT	■	■		■		
Audit/Risk	■	■		■		■

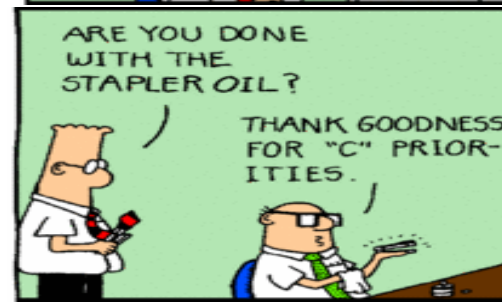
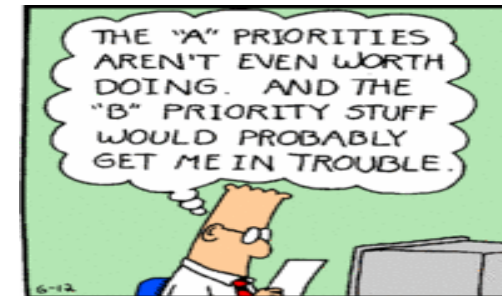
SPI4/USSPM Roadmap for Khushhali Microfinance Bank



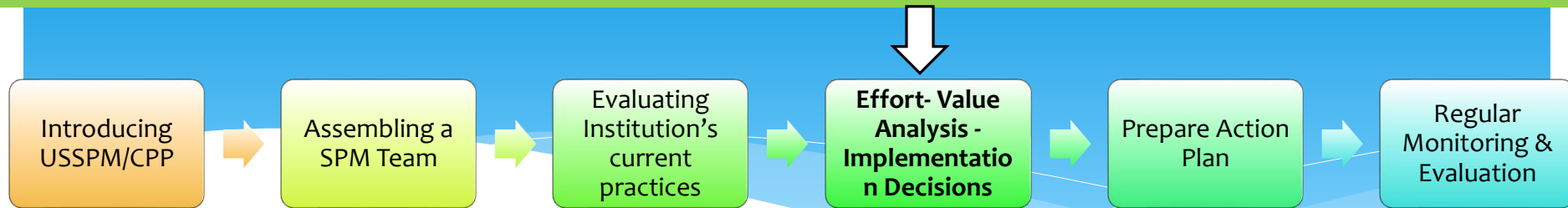
Moving Forward

- After initial screening and scoring – it was decided that the scores need to be improved
- As a precursor to preparing an implementation plan, Gaps were weighed
- Extensive deliberations to help decide where to focus/which Gaps to close first
- Analyzing each activity and ascertaining its importance
- Following factors were considered before finalization of implementation plan:

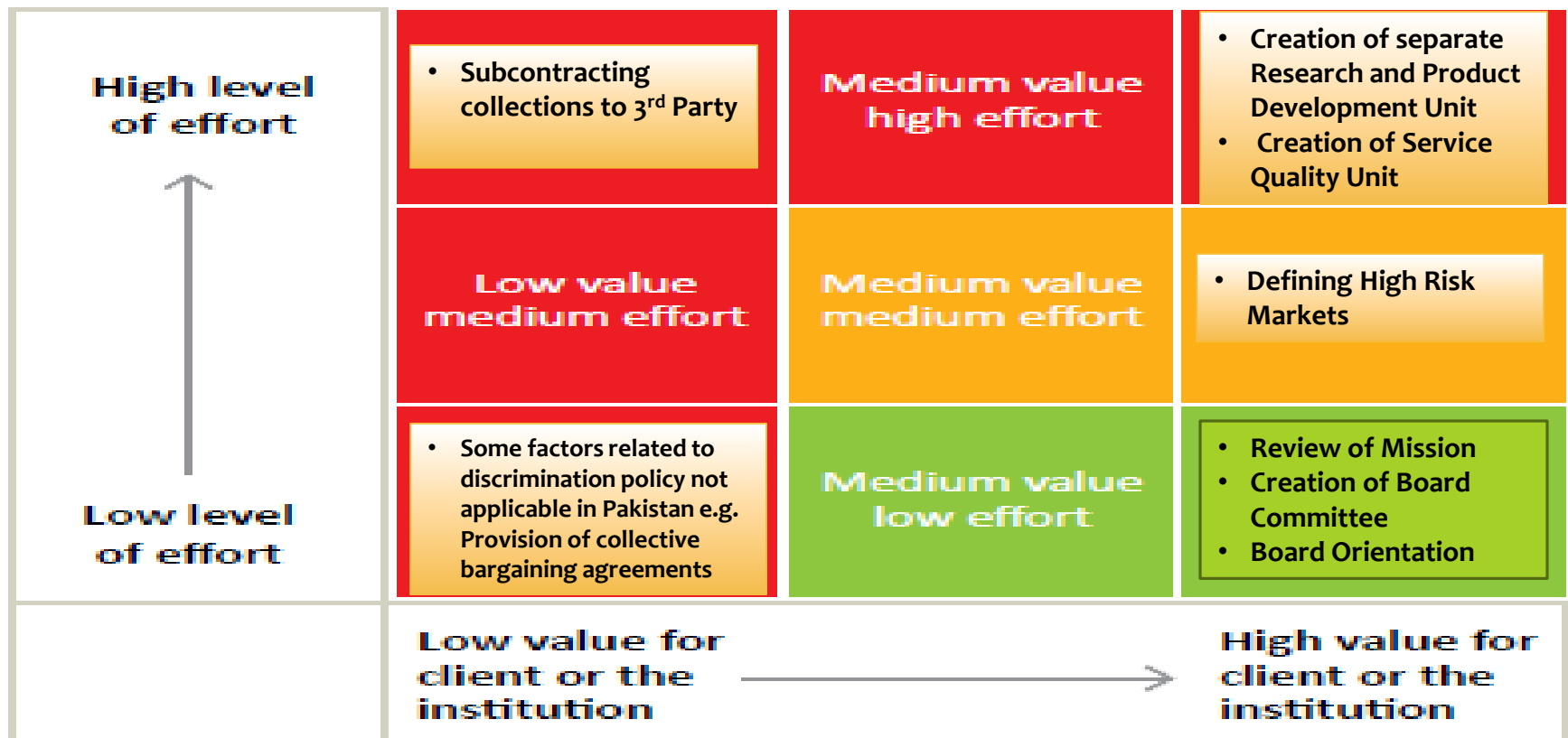
1. How an action will benefit clients-Client Level Outcomes
2. How an action will benefit the institution -improved staff morale; and longer-term benefits resulting from benefits for clients, such as improved client retention.
3. Time and resources required (human and financial)
4. Level of complexity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



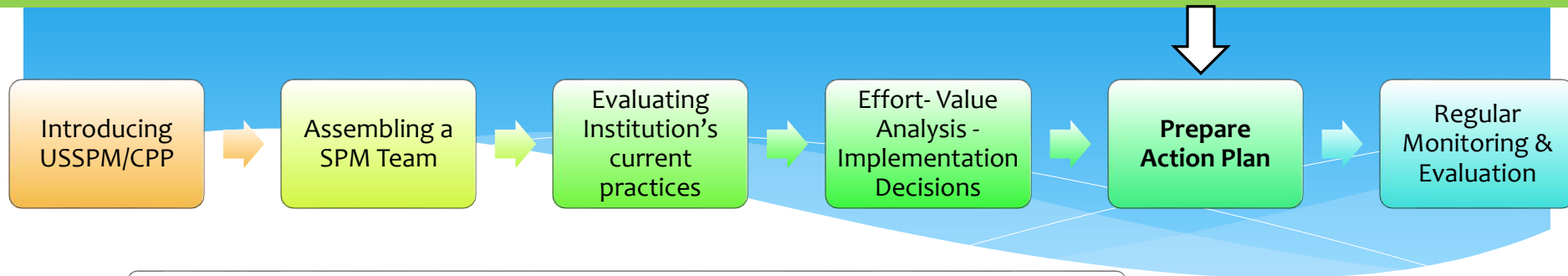
SPI4/USSPM Roadmap for Khushhali Microfinance Bank



Effort-Value Analysis



SPI4/USSPM Roadmap for Khushhali Microfinance Bank



Assigned a timeline and staff to the Action Plan

- Created a timeline for each step of the implementation process;
 - 1 Month to coordinate with Finance to incorporate social goals into the overall business/strategic plan
 - 3 months for updating policy/procedures with respective SPM champions
 - 3 months for designing relevant surveys;
 - 3 Months for updating recruitment, appraisal, job description, interview assessment forms etc.
 - 1 year to introduce new units/departments and hiring resources accordingly
- All work done by existing staff which was cost effective and made it easier to integrate SPM into ongoing activities, however SEMS Unit had to close all points with the relevant Department Heads to get their buy-in

Assign a budget to the Action Plan

- Some implementation steps required staff time but little or no monetary resources (e.g. updating policy /procedure documents).
- Others required dedicated funds (e.g. creation a of Service Quality Unit, Independent Product Development Unit, Strengthening Complaint Handling Unit etc.)
- Included a budget for SPM activities within Khushhali's operational budget for the new positions created.
- We chose to begin with simple, inexpensive activities--this is a low-risk way to begin, and early success built buy-in for future SPM implementation.
- For execution of Action Plan, Process Flows were created between SEMS and other personnel
- Budget/Resource Allocation for realization of Action Plan

SPI4/USSPM Roadmap for Khushhali Microfinance Bank

“Extensive review on policies from different department to ensure transversal implementation, embedded in the whole organization, and guided by Essential practices of the USSPM”

Realignment of following policies /procedures to embed SPM best practices.

- Credit Policy & Procedures
- Whistle blowing Policy
- Complaint Handling Policy/Procedures
- HR Policy & Procedures
- Strategic & Annual Business Plans
- Incentive Policy for Loans and Deposits.
- Audit test sheets for the branches
- Training Modules
- SEMS Policy/Framework
- Risk Management Policy
- Performance Management Policy
- Loan Contract
- Staff Sanctions Policy
- Code of Conduct/Code of Ethics/Staff Book of Rules
- Health, Safety and Environment Policy



SPI4/USSPM Roadmap for Khushhali Microfinance Bank



Objective

- M&E is an ongoing process, the objective of which is to understand and monitor the current state of Khushhali with respect to its stated goals.
- Implementing our Action Plan is a long-term change management process that affects all aspects of KMBL
- Implementation requires ongoing commitment, management, and action.

Completing this Step (Regular Intervals)

- Quarterly progress reporting to RMC & SEC and thorough deliberations between the board and the management on Action Plan and its implementation to ascertain the progress made in achieving social objectives, and adjust our approach accordingly
- Submission of quarterly Social Dashboard to the Board

SPI4/USSPM at Khushhali Bank

Through use of USSPM standards, essential practices, detailed indicators, ranking of social objectives, social dashboard , KMBL has been able to improve scores in all dimensions



Dimension 1:

Define and Monitor Social Goals

- Review of mission to take into account long term interest of all stakeholders and construction of a social dashboard to check for mission drift.
- **Embedding SPM requirements in the strategic/business plan.**
- Specific Characteristics of target clients/Social Goals/SMART Targets defined in business plan.
- Developed monitoring tools for implementation of social objectives
- Social data collection, tabulation and on going periodic reporting streamlined.
- Client level reports prepared and presented to management /board.



Dimension 2:

Ensure Board, Management, and Employee Commitment to Social Goals

Dimension 2 includes three standards:

- Creation of SPM Committee at board and management level.
- Orientation on SPM provided to board and management
- ToRs included review of mission compliance, performance results, social performance related risks, client protection practices, and Growth/Profit Allocation.
- **Input used to integrate social goals into operational and business plan.** Ongoing monitoring through RMC
- SPM criteria embedded in the recruitment forms/performance appraisals, incentives schemes etc



Dimension 3:

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

Dimension 3 includes two standards:

To inform Product Development process:

- **R&D and Service Quality functions are being strengthened,**
- SPM criteria embedded in Compliant Handling policy/procedures.
- Customer Satisfaction Survey adopted
- client retention being reviewed.
- Increasing diversification of products especially for enterprise.
- Reasons for client drop outs being investigated for improvement in product development and service quality.

** Most challenging actions highlighted above*

SPI4/USSPM at Khushhali Bank

Through use of social goals, indicators, targets, dashboard and assessment of social objectives, KMBL has been able to improve scores in all dimensions



Dimension 4:

Treat Clients Responsibly⁶⁵

- Indicators for client over indebtedness risk improved and high risk markets defined.
- **Development of Key Facts Sheet for effective communication and preservation of client rights.**
- Debt collection practices improved..
- Documents strengthened to ensure privacy of client data.
- Complaint Handling Policy/Procedure updated to incorporate SPM criteria.
- **Internal Audit process streamlined .**



Dimension 5:

Treat Employees Responsibly

HSE Policy/Procedure strengthened

- Health and Safety Risks to be mitigated through provision of appropriate training.
- Incident Reporting mechanism improvised via development of Loss Data Framework.
- Employee Satisfaction and turnover being reviewed regularly. Action plan presented to the management and the board on regular basis to combat employee attrition.



Dimension 6:

Balance Financial and Social Performance

- With the establishment of Market Research Unit, bank will be able to make better informed decisions by **setting growth targets aligned with peers in terms of productivity & efficiency, market saturation, market potential, high risk market etc.**
- Internal control/Internal audit capabilities considered while considering growth, systems etc. have also been assessed in relation to growth targets.
- Growth targets aligned with respect to internal capabilities.

** Most challenging actions highlighted above*

Overcoming Challenges

Challenge	Ways of Overcoming (step by step)
Securing 100% Board and management buy-in. Considering diversified backgrounds	Creation of board / management level committees Orientation to Board Members Linking social with financial performance
Differing views when assessing current practice. E.g. Checking if institution uses high pressure aggressive sales tactics (this has different interpretations)	Setting realistic sales targets depending on industry. Consultation with field specialists to reach an accord Customer feedback loop created to check aggressive sales
Assessing Client Level Outcome The utilization of loan proceeds is difficult to be monitored. Difficulty to assess whether the changes are due to the financial service provided. Non-availability of system based cash flows Introducing a Poverty Scorecard	Assess change in income level via cash flows of client through system development Embedding poverty scorecard in client surveys for a start.
Development of Audit Test Sheets. Updating Audit Test Sheets in the light of SPI4 indicators. Capacity Building	Training for audit officers on SPM
Activities/analysis not showing direct financial impact. It is difficult to convince the skeptics regarding the importance of SPM as direct financial return is not evident. Therefore, this activity is considered as a cost center, due to lack of buy-in for such activities.	The skeptics are convinced by: SPM is cost effective if embedded with existing procedures and programs Effective SPM leads to better financial performance Attracts social investors as it helps to negotiate cheaper funding lines Helps ensuring regulatory compliance
Balancing Financial and Social Performance e.g. compliance with CPPs is necessary for field staff, however employees are also rewarded on recoveries and sales targets which may mean exerting pressure on clients	Continuous emphasis and training on Code of Conduct and Collection Ethics to ensure that sales targets do not result in staff compromising on these standards Service Quality/social indicators added in recruitment and performance appraisal documents

CONVINCING STAKEHOLDERS TO OVERCOME CHALLENGES

Social & financial performance are intertwined like strands of DNA.

Good SPM practices led to following improvement from 2013 to 2015:

	2013	2015
Outreach		
Active Clients	674,061	1,128,901
Active Borrowers	409,010	520,517
No. of Branches	118	129
Sustainability		
Return on Assets	1.8%	3.4%
Return on Equity	8.0%	20.2%
Operational Self Sufficiency	114.8%	127.8%
Financial Self Sufficiency	107.8%	126.0%
Efficiency/Productivity		
Operating Expense Ratio	21.0%	16.6%



For more information see [“Convincing the Skeptic”](#)



Questions?



Next webinar: Green microfinance



27 Oct 9.30am CEST

– ENG

27 Oct 4.00pm CEST

– SP

15 Nov 9.30am CEST

– RUS

Thank you!

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