



MICROFINANCE CENTRE
for Central and Eastern Europe and the New Independent States

MICROFINANCE

in Central and Eastern Europe and the New Independent States

Strengthening your social arm: New thinking, new results

Katarzyna Pawlak, Dorota Szubert

Social Performance Management – What is it and what purposes does it serve?

Many MFIs began as NGOs that initially entered the financial business for social reasons. To achieve success MFIs first adapted financial management tools that had been already effectively used by the commercial world. This was a long process, the success of which we may observe now. Most MFIs have an excellent portfolio quality envied by colleagues from the traditional banking sector and are on their way to sustainability or have already reached it. Effective and efficient financial measurement and management systems have become the hygiene factor in microfinance.

MFIs have become more professional as businesses, however, they cannot be considered ends unto themselves. They are well-tuned “social enterprises” that exist to professionally serve a diverse range of development purposes expressed in their missions. Moreover, considering the growing competition among financial providers for clients and capital, pursuing social goals and avoiding “mission drift” is a good way for MFIs to

Welcome to the autumn edition of the MFC Newsletter!

The MFC Newsletter has been published since 1997. For the past three years it has been released not only in English but also in a Russian language version.

We are very happy that this issue is also published in Bosnian/Serbian/Croatian for the dynamic microfinance sector in the Balkans, where 21% of all NGO MFIs in the region of C&EE and the NIS have a significant 52% ratio of their portfolio in the region. In addition, microfinance banks in the Balkans comprise 41% of microfinance banks in the region. Their portfolio share is the highest in the region (31%).

In total, MFIs in the Balkans serve 301,000 active borrowers.

differentiate themselves and build a sustainable strategic advantage around their social performance. Of course, pursuing social goals needs to be done in a sustainable and professional manner for continuity of action to be ensured. But for the time being, the majority of us know how to keep pace with the highest business standards, while our missions have only been translated into such declarations as “reducing poverty” or “empowering women.” There has not been much intentional effort to convert them into real action.

The question therefore becomes, how can MFIs become more deliberate in their organizational drive toward the fulfillment of social goals in a sustainable manner? This is where **Social Performance Management (SPM)** can be helpful. SPM is a practical approach that helps an MFI look at itself through a social lens. It guides us in adapting our management systems and organizational processes so that they help us achieve our missions in a sustainable manner. SPM stimulates us to translate our “lofty missions” into specific, measurable, realistic and time-specific social-performance objectives that provide us with tangible benchmarks against and towards which we can manage our performance. SPM helps institutions adapt their information systems so that they can use existing information to monitor and assess their social performance. It functions as an early warning system to inform management whether they go out of their social-performance track and shed light on the reasons for success or failure. This helps introduce the necessary changes, communicate them across the organization and align activities to reach expected results.

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Test Your MFI – Imp-Act Six Social Performance Management Questions:

Commitment to social mission:

- 1) What is your MFI mission and what are your social goals? How do you plan to achieve them?

How do you know you are achieving your mission?

- 2) Reaching target clients: Who uses and who is excluded from using your services?
- 3) Meeting client needs: How do clients use your services? Are their needs met? Why do some leave/become inactive?
- 4) Client change: How does client status change? What changes are unexpected?

Ongoing improvement and learning:

- 5) How can you use this information to improve your services and the way you operate?
- 6) How do you improve your systems through which you answer these questions?

To learn more about practicalities of **Social Performance Management consult Social Performance Management Guidelines for Microfinance** or take part in **Social Performance Management Training** in January 2006. For more information contact Ewa at ewa@mfc.org.pl

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To ensure practicality and cost-effectiveness, SPM was developed through an experimentation process led by MFIs themselves. It builds on existing internal systems of MFIs (management, information, HR, marketing systems, decision-making processes, etc.) and integrates available microfinance client assessment tools (MicroSave, SEEP/AIMS, etc.) to support MFIs' learning and decision-making with respect to their double bottom line.

What does SPM result in? First of all, it stimulates MFI leaders to be visionary, social-change professionals committed to making a real difference in their societies. And by making a real difference it helps MFIs effectively differentiate themselves as valid social enterprises in the eyes of clients, competitors, investors, regulators and communities.

Social Performance – Do you know that ...

... Although a relatively recent part of the microfinance agenda, it **has a long history outside the industry**. Ironically, perhaps, much of the activity and progress is taking place in the private sector. Strategic management guru Micheal Porter said in 1999 that *“corporate social responsibility is becoming an ever-more important field for business. Today's companies ought to invest in corporate social responsibility as part of their business strategy to become more competitive.”*³... Regarding how to implement social goals into an organization's strategies, business leaders are being instructed in prestigious business schools like Harvard Business School. This interest is supported by a number of initiatives providing the corporate world with social-performance reporting standards including the Global Reporting Initiative and AccountAbility 1000. Follow these links for more: www.globalreporting.org and www.accountability.org.uk.

... Microfinance is no longer a topic interesting to microfinance practitioners only. **It has recently gained importance and prominence in the wider microfinance industry**. Only recently, a coalition of MFIs, donors, investors, rating agencies, and microfinance networks circulated and signed a statement committing themselves or their organizations to promoting social performance in microfinance. The Microfinance Centre joined a group of more than 35 microfinance practitioners, donors, raters and investors to endorse a common statement of principles in support of social performance. Follow this link to read and/or sign on to the initiative: www.triasngo.be.

... In March 2005, the **International Task Force on Social Performance (ITFSP)** was launched in Paris. The Argidius Foundation, the Ford Foundation and CGAP brought together leaders from various social performance initiatives in the microfinance industry to come to an agreement on a common social-performance framework and to develop an action plan to move social performance forward (the Microfinance Centre was also invited to take part in the meeting). A nine-point action plan promises to see increased coordination and collaboration of action to ensure greater social focus and transparency in performance management and reporting in microfinance. The meeting articulated the view that the internal management of social performance by MFIs needs to be the starting point. Industry standards for the definition, assessment, comparable reporting, auditing and rating of social performance will build on this. The meeting emphasized that social performance is both a process – by which an institution translates its social goals into practice – and the benefits that result. These benefits are broadly defined in five areas:

- Serving increasing numbers of poor people sustainably;
- Improving the quality and appropriateness of financial services available to poor people;
- Improving the lives of poor people and their families;
- Widening the range of opportunities for communities; and,
- Socially responsible operations.

The next ITFSP meeting will take place in Washington in October 2005

to inform the industry on the progress and achievements in social-performance agenda as well as to develop a strategy for promoting a stronger social-performance focus in the microfinance industry.

... **Rating agencies have been experimenting with various tools for external social performance assessment**. PlaNet Rating tested out the CERISE SPII framework during its last rating mission to Prizma in April 2005. McCrill has tried out a social development audit during its rating mission to Bullock Cart Worker's Development Association in India. In parallel, there has been work under way on a social-performance scorecard and audit by AMAP and Accion. Together they are working on common social reporting and rating standards within a ratings and reporting subcommittee of the ITFSP.

Social Performance Management: Want to Learn MORE..?

Social Performance Management Training. MFC in cooperation with ImpAct Programme and different practitioners around the world have developed a training course on Social Performance Management. The course was pilot tested last October and delivered at World Vision Summer Academy in London this year. The first regional course delivery will be held in January 2006. The course will be cofinanced by the “Advancing Social Performance in C&EE and the NIS” Programme.

Social Performance Management Guidelines. Now you can develop your own SPM with ImpAct/MFC Social Performance Management Guidelines. This step-by-step practical guide for developing a social-performance management system is available for a free download from www.mfc.org.pl/research or www.imp-act.org.

Social Performance Resource Centre with access to various documents, information on social performance-related events and progress on initiatives will be launched soon at the CGAP Microfinance Gateway.

Advancing Social Performance in the region of C&EE and the NIS. The Microfinance Centre will launch a regional program on advancing social performance in the region. The program will invite all regional practitioners committed to their social mission that would like to develop SPM systems and experiment with effective SP strategies. The program will consist of three tier activities:

- A regional working group of committed MFIs willing to experiment with social-performance enhancing solutions and share their lessons learned with other like-minded MFIs;
- Capacity-building program to assist regional MFIs in developing their SPM systems will include:
 - Social-performance management training;
 - Tailored, follow-up assistance to selected MFIs;
- Action research to develop new management tools and approaches to support SPM including strategic planning for social goals and social auditing.

The program is supported by the ICCO, Ford Foundation and IFAD. More information on the program as well as a program application will be circulated within a few weeks.

* Source: Michael Porter, <http://www.ebfonline.com/debate/debate.asp>

Developing Poverty Assessment Tools

The USAID research sponsored project, which is implemented worldwide by the IRIS Center at the University of Maryland (September 2003-September 2006) has entered into its second phase: Poverty Assessment Tools Practicality Test. KLF(Kazakhstan), Demos – Loan and Savings Cooperative (Croatia), EKI and Prizma (Bosnia and Herzegovina) as well as the Microfinance Centre were selected to test the tools in C&EE and the NIS. The objective is to test poverty assessment tools so that they can be used in a cost-effective way by practitioners to collect, use and report the information on the proportion of very poor clients receiving their services. ■



CREDIT SCORING FOR MICROFINANCE: A BRIEF INTRODUCTION

Octavio Santa Gadea and Mark Schreiner

Introduction:

Credit scoring quantifies the repayment risk of loan applicants by analyzing the historical relationships between the characteristics of borrowers and their repayment performance. Although scoring is relatively new to microfinance, it is widely used in North America and Western Europe, particularly for credit cards, car loans, and home loans. In these countries, scoring benefits from extensive credit bureaux as well as borrowers who have wage jobs in the formal sector. Of course, microlenders in Central and Eastern Europe and in the New Independent States lend to self-employed people who rarely have histories recorded in credit bureaux. Even so, credit scoring can still help.

Scoring relates risk with characteristics. In this sense, scoring is not really new to microlenders. After all, when a loan officer applies credit policy and/or makes a subjective judgment about an applicant's creditworthiness, risk is being related with characteristics. Quantitative scoring complements the current process in several ways:

- It is explicit rather than implicit
- It is consistent across loan officers and across time for a given loan officer
- It forecasts risk as a quantitative probability rather than just as „more or less”
- It considers all the microlender's experience, not just the loan officer's experience
- Its relates risk with characteristics based on data, not prejudice or belief

How Scoring Works:

A scorecard is a mathematical formula that adds up the weighted characteristics of an applicant to produce a risk forecast. The weights and the characteristics that enter the scorecard are derived from the analysis of the historical relationship between characteristics and repayment performance. For example, suppose that among past loans, each loan that an applicant has had was associated with a 1-percentage-point decrease in risk. Furthermore, each additional member of the applicant's household is associated with a 2-percentage-point increase in risk. The simple example scorecard is thus:

$$\text{Risk} = -1 \times (\text{Number of past loans}) + 2 \times (\text{Number of household members}).$$

In the example of an applicant with 2 previous loans and a 6-member household, scoring's risk forecast would be 10 percentage points, because $-1 \times 2 + 2 \times 6 = 10$. In practice, scorecards include 30 to 100 characteristics, and their weights are derived from the analysis of the specific lender's data base of historical loans.

How Scoring is Used

Scoring forecasts the likelihood of a “bad” outcome. Each microlender defines “bad” for itself based on the point—such as 30 days of arrears—at which repayment problems make a loan unprofitable.

A microlender who uses scoring evaluates applications exactly as it always has. If the loan officer or credit committee reject the application, it is rejected, regardless of the score. If, however, the committee provisionally approves the application by its traditional standards, then the score comes into play. If the score indicates low or average risk, then the case is approved just as it would be without scoring. If the risk is high (but not too high), then the case is sent back for further evaluation. Finally, if risk is very high, then the case is rejected. About 75 percent of provisionally approved cases have low or average risk, 15 percent receive further evaluation, and about 10 percent are rejected. Thus, scoring has no effect at all on the vast majority of cases. All scoring does is highlight high-risk cases that the credit committee would have missed.

Using scoring reduces the approval rate, but it should increase the total number of approvals. By screening out the highest-risk cases and by highlighting high-risk cases for further evaluation, the lender reduces the time required to dun delinquent borrowers. Because loan officers spend less time in collections, they can spend more time in marketing and in evaluating new applicants. This increases loan-officer productivity and so increases market share and profitability. The greater certainty in risk evaluations also allows the lender to reach poorer market segments.

Scoring does not approve or reject applications, and scoring does not replace credit policy, the loan officer, nor the credit committee. Rather, scoring is an additional voice in the credit committee, an additional hurdle that applications must pass. While scoring excels at evaluating quantitative characteristics, only loan officers can evaluate qualitative character. A microlender who relies only on scoring is walking the road to ruin.

How to Do a Scoring Project

Scoring depends on the amount and quality of information in the microlender's data base. While some microlenders are ready to start using scoring, most must first accrue a sufficiently large number of loans in their data bases to support scorecard construction. In the meantime, they should start to improve the quality of their data. Once data is adequate, a typical scoring implementation would follow these steps:

- Check readiness; scoring will not fix fundamental problems with the organization nor rescue an existing lending method that cannot evaluate applicant risk well
- Plan and manage like any large-scale change project
 - Get management buy-in
 - Assign a “scoring manager” and a inter-departmental guiding committee
- Define the “bad” outcome for which scoring will forecast risk
- Construct scorecard from data base (requires knowledge of microfinance, of scoring, and of the specific organization's lending process)
- Test scorecard's predictive power with historical data
- Integrate software “scoring module” which automatically produces scores and management reports without increasing load on loan officers
- Train branch managers and loan officers in use of scoring
- Run pilots in 2–3 branches for 6–12 months, and make adjustments from feedback
- Expand to all branches and continue training and follow-up.

NEWS



„Microentrepreneur of the Year”

The „Microentrepreneur of the Year” competition has been held by UNDP and Citigroup in 32 countries. Nominated businesses may contain up to five employees. The most significant criterion for the jury is not only business acumen, but also influence on the local community and job creation. The competition's key objective is the promotion of entrepreneurship as well as encouragement of social investors to finance micro enterprises and MFIs. The promotion of microcredit and microfinance is a key to realizing the United Nation's Millennium Development Goals until 2015.

Establishment of AAMI

Seven Microfinance Institutions operating in Albania have established the Albanian Association of Microfinance Institutions (AAMI).

25th October: Micro Finance Investors Conference (MFIC) took place in Yerevan, Armenia

The purpose of the MFIC was to help increase capital flow to the Armenian and Georgian microfinance sectors by providing an easy and cost effective way for investors to learn about the leading Armenian and Georgian MFIs. Both the Armenian and Georgian microfinance markets have evolved greatly over the past few years and there are several MFIs from both countries that will need to secure commercial sources of debt and equity in the near term in order to maintain their high level of growth. For further information please follow the website: www.medi.am/mficonference

MFC Training Program 2006 **(Open Enrollment Courses)**

If the course that you are interested in is not included in this training calendar, you may request it for your organization individually or in cooperation with other organizations from your region

24-27 January 2006; Tashkent, Uzbekistan
Effective Human Resource Management in MFIs
(Russian)

7-10 February 2006; Krakow, Poland
Effective Human Resource Management in MFIs
(English)

21-24 March 2006; Almaty, Kazakhstan
Financial Services in Rural Areas (Russian)

4-7 April 2006; Budapest, Hungary
Delinquency Management and Setting Sustainable Interest Rates in MFIs (English)

25-28 April 2006; Bishkek, Kyrgyzstan
Strategic Marketing for MFIs (Russian)

12-15 September 2006; Bratislava, Slovakia
Strategic Marketing for MFIs (English)

26-29 September 2006; Almaty, Kazakhstan
Operational Risk Management in MFIs. Internal Control and Audits (Russian)

24-27 October 2006; Dushanbe, Tajikistan
Staff Incentive Systems for MFIs (Russian)

7-10 November 2006; Warsaw, Poland
Financial Analysis for MFIs (English)

28 November-1 December 2006; Bishkek, Kyrgyzstan
New Product Development for MFIs (Russian)

NEW MFC TRAINING OFFER!

“Making Microfinance Work: Managing for Improved Performance”, a 10-day, middle and top management training course designed by ILO.

The vast majority of MFIs have yet to reach financial sustainability and many do not provide services that meet the needs of their clients. How can MFIs provide better services to more low-income people? How can MFIs succeed in covering the full costs of their operations? What lessons are there to learn from international experience in this fast-changing field? How can MFI managers improve the performance of their organizations? The new course is addressing these questions. ■

MFC MEMBERS CORNER

The Association of Micro-Finance Organizations in Tajikistan (AMFOT) has joined the MFC network, increasing the number of MFC's members to 95.



AMFOT is an association of non-commercial organizations implementing microfinance programs, officially registered in January 2004 and is one of the first organizations of its kind in Central Asia. At present AMFOT groups 19 local and international MFIs. In terms of geography, the activities of the AMFOT's members cover nearly all the towns and regions of the Republic of Tajikistan for a consolidated portfolio of \$5.24 million and 28,643 active clients.

Integra's 10th anniversary!

Since it was founded in 1995, Integra has worked with more than 70 small companies in Slovakia, Romania, Croatia, Hungary, Bulgaria, Ukraine, Russia and Poland. Working for community impact, Integra has offered training, consulting and small loans for socially responsible small and medium enterprises (SMEs). Integra has helped specifically women at risk and underskilled youth by microfinance and entrepreneurship training for socially excluded and at-risk groups.

NOA receives ISO 9001: 2000 certification

NOA is a specific type of Savings and Loan Cooperative - the first of its kind in the Republic of Croatia - established to encourage small entrepreneurs and family farmers whose activities meet the standards of Norm ISO.

AKIA authorized to implement the Rural Finance Component in Azerbaijan

The government of Azerbaijan has authorized the Azerbaijan Credit Unions Association (AKIA) and its Credit Implementing Agency to implement the Rural Finance Component in the country. The plan envisages the AKIA functioning as an autonomous non-governmental organization with objectives to promote the development of a nationwide network of credit unions.

Celebration of International Credit Unions Day in Baku, Azerbaijan Republic.

The First Conference of Azerbaijan Credit Unions Association (AKIA) was devoted to International Day of Credit Unions. It was arranged and performed by AKIA with the support of Implementing Credit Agency and State Agency on Agricultural Credits under Agriculture Ministry.



Integra opens fair trade shop in Bratislava

TEN SENSES is the first shop in Slovakia to specialize in selling fair trade products. Opened in the summer of 2005 in historic central Bratislava, the store has been quick to attract the attention of locals as well as visitors to the city. TEN SENSES is run by Integra that has supported disadvantaged entrepreneurs since 1995. Responding to the growing need of local small producers to place their products in a competitive retail market saturated by cheap, mass produced items, Integra developed its Market Access Program focused on finding and creating sales channels for disadvantaged producers and helping them with product development and design.

TEN SENSES offers a wide range of fairly traded products – clothes, handicrafts, homeware, delicious food and more. Substantial shelf space has been given to Slovak, Czech and Polish small producers. Integra fully endorses the notion helping to develop markets for disadvantaged producers from both southern and northern European countries. Soon Integra will import fairly traded products from Kenya and Armenia.

TEN SENSES has the ambition to become not only a place where people can shop for fairly traded products, but also as a central spot for spreading information about the issues the fair-trade movement addresses. In September, the shop served as the official information center for the „Make Poverty History“ campaign in Slovakia.

Soon more TEN SENSES fair-trade shops are expected to arrive in countries such as Bulgaria and Romania.

Women Professionals in Microfinance in C&EE and the NIS

Dorota Szubert, Agnieszka Talma

This article opens a series titled "Women in Microfinance," which will be covered in upcoming issues of MFC's newsletter. The series' main objectives are to discuss the following:

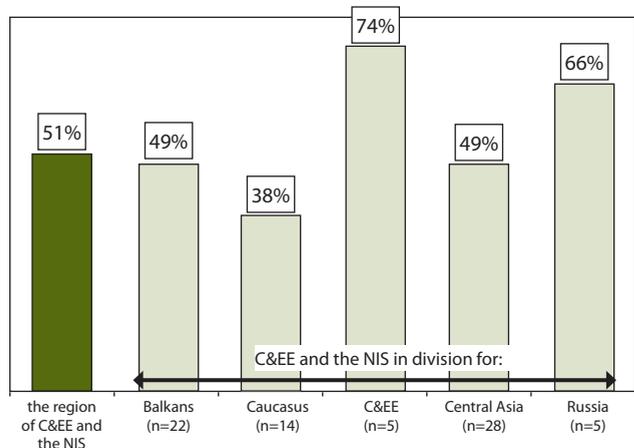
- How women contribute to microfinance development in Central and Eastern Europe and the New Independent States, and
- How the microfinance industry helps women through the provision of financial and non-financial services.

The series will also present success stories of microfinance women clients and professionals, discuss techniques of how to serve women clients, and introduce innovative projects focused on women. The aforementioned objectives are not comprehensive and as the newsletter's publisher, MFC is open to suggestions.

To begin, the situation of women professionals in microfinance is presented based on:

- The results of "Microfinance Industry Mapping and Benchmarking" – an MFC research project conducted with practitioners in the region on annual basis. The study investigated the employment of women in microfinance in the region;
- Outcome of the meeting titled "Women Advancing Microfinance in Central and Eastern Europe and the New Independent States (WAM)." The meeting was conducted during the 8th Annual Conference of Microfinance Institutions in C&EE and the NIS (Bucharest, Romania) for professional women. The meeting dealt with practices in tackling the main challenges facing women's lives.

Figure 1: Share of women among all employed



According to "Microfinance Industry Mapping and Benchmarking" women comprised 51% of the workforce in the C&EE and the NIS* in December 2004.

When analyzing the differences between financial institutions, there were fewer women employed in banks than in non-governmental microfinance institutions, credit unions, and microfinance banks. In addition, more women were employed in microfinance institutions that had been in existence longer. Women were more often employed in Central and Eastern Europe (74% of women among all employees) and Russia (66% of women among all employees). At the other end of the spectrum, just 38% of employees in Caucasus were women.

Also, there were more than 300 female managers in microfinance institutions in C&EE and the NIS, accounting for 44% of all managers employed. The number of female managers was relatively high in Russia and Central and Eastern Europe (59% and 50% of female

managers respectively). Contrary to stereotypes, the share of female managers in Central Asia remained relatively high (49%).

Microfinance institutions that served female clients more often hired women for the position of loan officer. On average, 49% of field staff were women. This ratio is highest in Central and Eastern Europe (76%).

As managers, women often have considerable decision-making power. It has been revealed that 38% of board members of microfinance institutions are women, who are charged with organizational governance and set strategic directions. The share of women on boards was the highest in Central Asia (49% of board members were women).

In sum, women have an opportunity to contribute significantly to microfinance development through their professional work. To continue to advance and tackle challenges, women have managed to work out and test several effective strategies.

With this context, let us now turn to how women tackle the main challenges of professional life. Several primary challenges and strategies were discussed at the WAM in C&EE and the NIS meeting in Bucharest, which was facilitated by Katarzyna Pawlak (MFC), Deborah Burand (IFC) and Dorota Szubert (MFC).

The challenges raised included how to find a balance between work and family life. The participants suggested such methods as self-discipline (making a plan of work that needs to be done); family support; priority setting; remembering that one does not have to be perfect; promoting balance at work; delegating a portion of one's work; promoting productivity (not working overtime), holding productive meetings, and, remembering the rule that during just 20% of the work day, 80% of the output is produced.

How to reach a high level of self-esteem was another significant challenge facing professional women. The participants worked out the following strategies: starting from self-esteem, professional development through public speaking and leadership-skills development, mutual mentoring relationships (a mentor may be from inside as well as from outside of one's institution, woman or man, but must be a reliable person), self-marketing (regularly updated CV, including personal details and newly acquired skills), and requesting feedback in one's professional and private life.

The third challenge discussed was how to increase one's credibility in the workplace. The methods for dealing with this challenge stressed: an analysis of the workplace culture, only volunteering for the right things (volunteering for tasks that contribute to one's professional development), development of a leadership role outside the institution (to raise one's visibility), maintaining passion, building on competencies, and thinking about others.

If you would like to join this discussion and share your point of view with other women professionals, please feel free to write your own article and e-mail it to Agnieszka Talma: agnieszkata@mfc.org.pl. You can also join the WAM list serve: wam@mfc.org.pl.

* Numbers given in this article refer to those institutions which responded to the study and sent filled out questionnaires before May 2005.

Pro-Poor Innovation Challenge

CGAP Announces Launch of Pro-Poor Innovation Challenge (PPIC) Round Eight.

CGAP is especially interested in small, less well-known microfinance institutions and institutions committed to launching or expanding a specific service line tailored to the very poor.

The PPIC awards, of up to \$50,000 each to five institutions, can be used for technical assistance and other expenses related to the specific pro-poor program. For further information please visit the website: www.cgap.org/projects.PPIC/ppic_apps.html

