
SPI4, the Universal Standards and Operations

Webinar

April 28, 2016

SP Fund 3rd round

CERISE

- 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

First calls for proposals since January 2016

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

Objectives of this webinar

1. **Discuss the key issues around Operations in SPM**
2. **Understand the key indicators related to Operations in the Universal Standards (and SPI4 filtering option)**
3. **See examples on how to improve practices on Operations**
4. **Identify technical resources**

What are the key issues around Operations in SPM?

Dimension 1 : Define and monitor social goals



- **The institution creates management reports that include client level data, at least once a year.**
- **The institution discloses social performance data through one or more of the following channels:
Mix, national network, annual report, etc**

Dimension 3: Products that meet clients' needs



- Adequate products: Operations Department has to work with most of the Essential Practices identified on the Standard 3b "The institution's products, services, delivery models and channels are designed to benefit clients, in line with the institution's social goals."

Dimension 4: Treat clients responsibly



Product Management ensures that client protection policies and procedures are put into practice during the delivery of products and services.

It concerns all the Standards in Dimension 4

Key client protection responsibilities:

Standard 4a/ CPP 2. Prevention of Overindebtedness

- Enforce the FI's policies on client repayment capacity analysis.
- Facilitate reporting client information to the credit bureau.
- Enforce the FI's policy on how and when to consolidate or reschedule loans for clients who are willing but unable to repay.
- Include the above policies in a credit manual.

Standard 4b/ CPP 3. Transparency

- Enforce the FI's policies on: 1) disclosing the total amount that the client pays for the product, 2) communicating all the prices, terms, and conditions of all financial products, prior to signing a contract, 3) giving adequate time for review before signing a contract, 4) communicating in a way that facilitates client understanding, 5) providing proof of payment.

Key client protection responsibilities (con't):

Standard 4C/CPP 5. Fair and Respectful Treatment of Clients

- Enforce the FI's policies on: 1) acceptable/unacceptable debt collection practices, and provide them to employees in writing, 2) informing clients of the main aspects of the Code of Conduct, particularly those related to clients' rights and how they can make complaints to the FI.

Standard 4D/CPP 6. Data Privacy

- Ensure employees get written consent to share client information or photos with any external audience. Ensure that this consent form is included in the product contract.
- Ensure clients are instructed on their responsibilities for keeping data private.

Standard 4E/CPP 7. Complaints Resolution

- Use complaints information to understand product/service design and delivery problems, and make corrections.

How to assess practices on Operations?

How to assess Operations issues with SPI4?

- Quick demo of filtering option for Operations: we find the key issues listed above.

The screenshot shows the Microsoft Excel interface with the 'Révision' (Review) tab selected. A red box highlights the 'Révision' tab, and another red box highlights the 'Ôter la protection de la feuille' (Remove Sheet Protection) button in the ribbon. A red arrow points from the 'Révision' tab to the 'Ôter la protection de la feuille' button. The dialog box 'Ôter la protection de la feuille' is open, displaying the following text:

Ôter la protection de la feuille

Empêche que des modifications indésirables soient apportées aux données d'une feuille en spécifiant les informations qui peuvent être modifiées.

Par exemple, vous pouvez empêcher que certains utilisateurs modifient les cellules verrouillées ou la mise en forme du document.

Vous pouvez spécifier un mot de passe pour désactiver la protection de la feuille et autoriser ces modifications.

Appuyez sur F1 pour obtenir de l'aide.

The background shows a questionnaire form with a progress bar indicating steps 1 through 6. The form includes sections for 'Welcome ! Please fill out the questionnaire', 'LINE AND MONITOR SOCIAL GOALS', and 'Institution has a strategy to achieve its social goals.'.

Questions/Confusing or challenging indicators?

Examples on how to improve practices on Operations

1. Adequate products: knowing the reasons for drop out: Peru

- Context: MFI operating in rural areas
- High-drop out of clients from remote areas
- Solution: branch opening hours change



Any question on Product?

Experience to share ?

2. Prevention of over-indebtedness - FI policies support good repayment capacity analysis

Can you answer YES to
following questions?

-
- Is the loan repayment capacity analysis done for each loan?
 - Does the credit committee decision look at repayment capacity first before taking into account guarantees (co-signers, guarantors or hard collateral)?
 - Does credit methodologies include collecting information on client cash flows and assessing repayment capacity?
 - Does evaluation of the client's cash flows consider business and family expenses?
 - Does the evaluation of the client's cash flow consider the income, expenses and outstanding debt of the household?
 - Does the evaluation of the client's cash flows consider liabilities from other sources?
 - Does the institution apply more conservative installment / disposable income threshold for higher risk loans (e.g., start-up, consumption, higher loan amounts to a more vulnerable segment)?
 - Does evaluation of the client's cash flow include (with a discount) the loan for which the client is a guarantor?
 - Does the institution apply a discount to volatile income sources (e.g. remittances)?
 - Does the institution have a policy that specifies the need to consult a credit bureau for all loan cycles?
 - Does the institution check client repayment history prior at each loan cycle?
 - Do you report your clients' repayment history to the credit bureau?

Concrete example on Prevention of overindebtedness

EFSE tool to assess capacities to take a loan in foreign currency

Cash-flow tool

Monthly cash-flow

Cash-flow in AMD	
Cash inflows in AMD	20 000 000 AMD
Cash outflows in AMD	16 000 000 AMD
Net AMD cash-flow	4 000 000 AMD
cash-flow in USD	
Cash inflows in USD or indexed in USD	3 000 USD
Cash outflows in USD or indexed in USD	1 000 USD
Net USD cash-flow	2 000 USD
Additional cash outflow in USD for planned new USD loan	8 700 USD
New monthly net USD cash-flow	-6 700 USD

Fill in the light blue cells with your own monthly business data and the tool will calculate the impact of taking out a USD loan on your monthly liquidity situation. Please remember that you incur a high risk if you have to convert more than 70% of your net monthly AMD cash-flow to USD to cover your foreign currency liabilities.

Impact on your cash-flow - current fx rate

Transparency vs. Currency risks

- Communicate currency risks to client
 - ❑ Interest rates for indexed loans may create confusion in clients minds by appearing lower than they are
- Do not promote indexed loans as cheaper than local currency loans.

Definitions

What is an exchange rate?
An exchange rate is the price you pay for a foreign currency. Exchange rates are affected by several aspects out of your direct control, like money supply, trade balance, inflation, speculation. These exchange rates are unpredictable. The number of Leu needed for one Euro can suddenly increase or decrease.

What is a Foreign Exchange (FX) Loan?
A loan denominated in a foreign currency, such as Euro, Dollar or Swiss Franc.

Repayment:
Your monthly payments to the bank are in Euro. If you don't have an income in Euro, you need to convert Leu into Euro each month.

What is an FX indexed loan?
A loan denominated in Leu but tied to a foreign currency, such as Euro, Dollar or Swiss Franc.

Repayment:
Your monthly payments to the bank are in Leu. However, when the exchange rate between the Leu and the foreign currency changes, your monthly payments in Leu are also affected.

FX Loans: Five important considerations

A foreign exchange loan is a risky product. The best way to avoid the risks is taking a loan in local currency. If you do decide to take a foreign exchange loan, do consider the following:

1. **Don't blindly focus on interest rates.**
Often, foreign exchange loans have lower interest rates than loans in local currency. But remember that interest rates are just one side of the story. Increasing exchange rates may affect your monthly payments.
2. **Be prepared for unpredictable exchange rate changes.**
Do not count on the exchange rate to remain stable as it will not! No one – not even banks – can predict future exchange rates.
3. **Borrow sensibly.**
Make sure you can afford your monthly payments to the bank, even if the local currency drops for example by 20% or more. Use the calculator inside this brochure.
4. **Foreign exchange income is not a guarantee.**
An income in the same foreign currency as the foreign exchange loan reduces your risk. If exchange rate fluctuations cause an increase of your monthly payments, the same fluctuations lead to increased foreign exchange income. But, a foreign exchange income (for example sent by family members abroad) is often not a stable source of income. Ask yourself whether you want to rely on these incomes for repaying your loan.
5. **Don't take a foreign exchange loan if you do not understand the risks.**
In this brochure the exchange rate risk is explained. If you do not understand this completely, please do not hesitate to ask for more information.

FX loans: know what you borrow
Loans denominated in Euros, Dollars, Swiss Francs or another foreign currency often seem attractive, as interest rates are usually lower than loans in your local currency. However, these loans are risky: your monthly payments can increase when the exchange rate changes. Are you considering taking a foreign exchange loan? Please read this brochure to understand the risks of foreign exchange loans. As an introduction you will find some basic terms and definitions below and opposite.

Banks offer FX loans
You can take a loan from the bank in your local currency. But banks also offer loans in foreign currencies (FX loans) or loans that are tied to foreign currencies (FX indexed loans).

Monthly payment: principal and interest
Your monthly payment consists of two elements: the principal payment, being the repayment of the original sum of money that you borrowed, and the interest, or the costs of borrowing money, often calculated as a percentage of the amount borrowed.

Risks of FX loans
Often, banks charge lower interest rates for FX loans. But, these loans may not always be cheaper! For FX (indexed) loans, your monthly payments in local currency depend on the exchange rate between your local currency and the foreign currency. The exchange rate between the local currency and the Euro, Dollar or Swiss Franc is unpredictable. Therefore, the monthly payments of an FX (indexed) loan are also variable. If your local currency devaluates, you need more money to repay your monthly installments. These increased monthly payments may even be higher than your monthly income. If you take a loan in your local currency, your monthly payments are fixed. The monthly payments of these loans do not depend on the exchange rate. You will find more information inside this brochure, with practical examples and a tool to help you calculating your FX risks.

Let's have a look at the story of Drago and Victor.

Note that in this brochure all examples are made under the assumption of fixed interest rates.

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EFSE Financing Advice, 2016-04-09, 3.indd 1-4

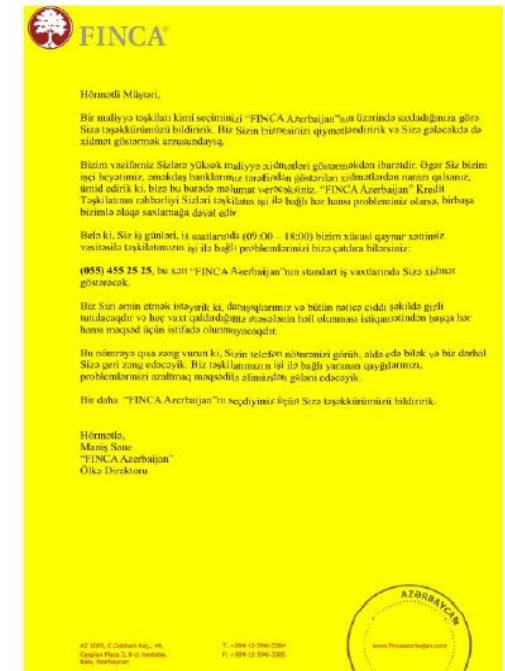
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Any questions on prevention of over-indebtedness or transparency?

Experience to share ?

Effective examples from the field

- FINCA, Azerbaijan provides each client with special letter (on yellow paper) so it is distinguish from other documents
- SIS Credit, Bulgaria -special business card with account number to pay a loan on one side and phone number, email on other side with information that clients can use it to contact institution for any matter.



List of questions which LO/or somebody else in branch should ask the client to verify client understanding prior to signing an agreement

- What is the total cost of loan?
- What is the monthly installment?
- What is the date of monthly installment?
- How you can repay the loan (e.g. in the branch, transfer through bank, etc)?
- What are the fees?
- What are the penalties?
- Did you read the contract?
- Do you know who to contact if you have questions or problems?

Technical resources for Operations department

Where to find SPI4 and related resources?

www.cerise-spi4.org



FAQ

Support

Funding

Publications

Contact



DOWNLOAD SPI4



CONDUCT AN AUDIT



GET TRAINED



SPI4 IN NUMBERS

version 1.3 released FEB 2016

NEWSLETTER ALINUS
SPI4 FOR INVESTORS

SPI4 BENCHMARKS OCT
2015

QUALIFIED AUDITORS LIST

Consult the SPTF Resource Center!

The screenshot shows the SPTF Resource Center website. At the top, there is a navigation bar with the SPTF logo, a 'Contact Us' button, a 'Sign Up / Register / Inscrivez-vous' button, a 'Select Language' dropdown, and a search bar. Below the navigation bar is a 'Featured Items' section with four items: 'Universal Standards Implementation Guide', 'Human centered design toolkit', 'Microfinance index of market outreach and saturation', and 'SP14 Assessment Tool'. Below this is a section with four dimensions of social performance, each with an icon and a list of resources:

- Dimension 1: Define and monitor social goals**
 - 1. Strategic management toolkit handbook
 - 2. Imp-Act Indicators practice note
- Dimension 2: Ensure board, management, and employee commitment to social goals**
 - 1. Governance guidance
- Dimension 3: Design products and services that meet clients' needs and preferences**
 - 1. Portfolios of the poor
- Dimension 4: Treat clients responsibly**
 - 1. Avoidance of over-indebtedness: Guidelines
 - 2. Calculating transparent pricing tool
 - 3. Client complaint

<http://sptf.info/resources/resource-center>

Specific resources for Operations

- **Universal Standards Implementation guide**
 - <http://sptf.info/spmstandards/universal-standards>
- **Smart operation:** see chapter on Operations: Appropriate roles for 11 areas of microfinance operations.
 - <http://www.smartcampaign.org/tools-a-resources/796>
- **EFSE tool:** <http://www.efse.lu/studies-publications/publications/page/2/>

Specific resources for Operations

- *SP Fund has developed a number of case studies for Operations and product development*
<http://www.mfc.org.pl/en/content/sp-fund-case-studies>
 - ❑ *Al Majmoua (Lebanon) Client Satisfaction and Client Exit Survey*
 - ❑ *Peoples Bank of Caraga (Philippines) listens to Members: Customer satisfaction survey*
 - ❑ *AMK Cambodia: Using client data to inform the strategy*
 - ❑ *Arvand Tajikistan: Using mystery shopping to understand clients*
 - ❑ *FINCA Azerbaijan: Transforming clients' complaints into loyalty for life*
 - ❑ *UGAFODE Uganda: Listening to client complaints*
 - ❑ *Muktinath Bikas Bank group (Nepal) training manual: Supporting informed client decisions*

If you need help ...

- SP Fund can offer off site TA in English, Spanish and Russian e.g.
 - Provide guidance in conducting an audit, understanding the indicators
 - Suggest existing tools which can help reduce SP gaps

Next webinar **SPI4 – Internal verification data** (for Internal Audits Managers)

- 19th May 9.30am CEST – ENG
- 19th May 16.00 CEST – SP
- 24th May 9.30am CEST - RUS

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