



MicroFinance
Network



ABA - Egypt

Compliance with Universal Standards for Social
Performance Management (USSPM)

Dimension 2

“Ensure Board, Management, and Employee
Commitment to Social Goals”

Document prepared for the Social Performance Fund Project
by the MicroFinance Network

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MICROFINANCE CENTRE



Basic data about institution

- Year of establishment: 1988
- Mission: Providing financial and non-financial services to the neediest people in society, to achieve a decent life for them, their families while maintaining the balance between social and economic performance.
- Target group: 80% ultra poor (<\$0.70 per person per day), 18% poor (<\$1.5 per person per day), 2% low income population
- Main products: Micro loans (group and individual) and SME loans, with free credit life insurance
- Working on SPM since: 2008

Key performance indicators

Area	2012	2013
Loan Clients	234,371	262,453
Loan portfolio (US\$)	60,929,049	64,114,499
Savings clients	NA	NA
Savings portfolio (US\$)	NA	NA
PAR% (<30 days)	0.59%	0.68%
Client exit (%)	32.48%	37.02%
Outreach to women (%) - borrowers	53.24%	51.04%
Outreach to rural clients (%)	28.83%	29.48%
Staff (total)	1,202	1304
Staff turnover (%)	10%	8.5%

Summary: Standard 2a

Members of the board of directors hold the institution accountable to its mission and social goals.

#	Essential practice name	Level of compliance
1	The institution provides board members with an orientation on the social mission and goals and the board's responsibilities related to the social performance management of the institution.	Full
2	The board reviews social performance data, including: mission compliance, performance results, human resource policy, social performance related risks, client protection practices, growth, and profit allocation.	Full
3	The board uses social performance data to provide strategic direction, taking into account both social and financial goals.	Full
4	The board incorporates social performance management criteria into its performance evaluation of the CEO/Managing Director.	Full
5	The board has a documented strategy to prevent institutional mission drift during changes in ownership structure and/or legal form.	N.A.

Standard 2a – Practice 1

Board members have a good understanding of ABA's social mission. They take one full day to discuss and approve the strategic plan, which includes revision or confirmation of the mission and the organisational core values. They agree on specific strategies to realise the mission and the values, such as implementation of social projects, non-financial services, and good treatment of staff and clients. The Board members have participated in social rating and smart assessment meetings. 2 of the 5 Board members have received 2 days of SPM training.

Standard 2a – Practice 2

The Board meets monthly, and the members receive the full monthly report including social performance data. They discuss SPM issues about every three months, unless there is something urgent. Monthly meetings usually last 4 hours. The monthly report includes all the indicators based on the annual plans (achievement on financial activities, non-financial activities, and internal audit reports).

Standard 2a – Practice 3

In recent years, one of the most important Board discussions has been how to allocate the growing profits for the clients, especially at the annual planning meeting. The Board has discussed and approved bringing down the interest rates, introducing free insurance, using credit bureau paid for by ABA, etc. The Board has also recently established a committee that oversees all social projects offered by ABA.

Standard 2a – Practice 4

There are about 25 indicators in the annual evaluation format for the CEO and Directors. 70% deal with financial indicators (disbursement achievement including outreach, number of active clients and loan portfolio, and profitability). The other 30% involve achievement in social projects, adherence to organisational core values, and personal skills.

The loan portfolio is not only evaluated by the total size, but also by outreach to the target population. The goals are to decrease trading business, increase agriculture, increase youth (>30 years old) to 45% in 3 years, and maintain women around 60% of clients.

Standard 2a – Practice 5

Not Applicable.

ABA has not gone through change in ownership structure nor legal form.



Summary: Standard 2b

Senior management oversees implementation of the institution's strategy for achieving its social goals.

#	Essential practice name	Level of compliance
1	Senior management integrates the institution's social performance goals into business planning.	Full
2	The institutional culture raises awareness and concern about fair and responsible treatment of clients.	Full
3	Senior management analyzes social performance data to compare the institution's actual performance against its stated social targets.	Full
4	Senior management analyzes and addresses social performance-related risks.	Full
5	The CEO/Managing Director holds senior managers accountable for making progress toward the institution's social goals.	Full

Standard 2b – Practice 1

Senior management develops an annual plan and a 3-year strategic plan at a 2-day retreat using input from each branch and department. These plans include social aspects such as non-financial services, social projects, organisational values, client protection and satisfaction, and fair staff treatment.



Standard 2b – Practice 2

ABA's code of ethics consists of 10 principles, including fair and responsible treatment of clients. The code is made visible everywhere: it hangs in every branch and meeting room; it is in the official folders the staff uses everyday; it is mentioned in presentations for external audiences. In addition, staff receive training on the code of ethics. (see 2c.2)



Standard 2b – Practice 3

The senior management reviews progress on plans monthly, weekly, and even daily for some indicators. This information is available at any time in the MIS.

Full progress reports are produced monthly and shared among the senior management team and with the Board.

Standard 2b – Practice 4

ABA proactively monitors its social performance through internal sources (monthly reports, internal audit reports, staff satisfaction survey, client satisfaction survey, etc.) and external sources (social ratings and SMART client protection assessment). Client exit is measured semi-annually. The internal audit committee, which monitors all policies and procedures including client protection principles, is convened monthly, and it reports to the Board.

Standard 2b – Practice 5

The CEO provides close supervision to the senior managers on their performance against the plans and established policies. Social and financial indicators are monitored monthly, weekly, or even daily. ABA provides monthly staff awards for excellent performance (5 staff monthly and 10 at the annual Breakfast in The Holy month of Ramadan). Senior managers receive a semi-annual evaluation using the same format as that of CEOs, which includes social indicators (see 2a.4).

Summary: Standard 2c

Employees are recruited, evaluated, and recognized based on both social and financial performance criteria.

#	Essential practice name	Level of compliance
1	Employee job candidates are screened and hired for their commitment to the institution's social goals, and their ability to carry out social performance related job responsibilities.	Full
2	The institution provides training and evaluates employees on both social performance and financial performance responsibilities related to their position.	Full
3	The institution implements policies to promote ethics and prevent fraud.	Full
4	The institution incentivizes quality loans.	Full

Standard 2c – Practice 1

Before employment is offered, final candidates for employment receive 3 days of training which includes an introduction to ABA, its social mission, organisational values, and the code of ethics.

During this training, finalists are evaluated for their commitment and ability to carry out social performance-related job responsibilities. The training is held monthly.

In addition, since 2014, all final candidates take a computer-based test to have their personal values, professional capabilities, and training needs assessed.

Standard 2c – Practice 2

ABA provides extensive training to staff (40,000 hours per year in total). Highlights of the training program include:

- Loan officers receive 6 months of on-the-job training
- All employees receive a 1-day refresher course every 6 months (which includes ABA's mission, core values, and the code of ethics)
- Small-group training on customer service, human resource management (leadership), and marketing is given twice a year by the CEO.

Incentives for the field staff are based on social indicators such as customer service, loan portfolio quality, and outreach to target population. Total amount of portfolio is not part of staff incentives. Consideration for the monthly staff award includes attitude with clients and participation in social projects.



Standard 2c – Practice 3

Collection practices by loan officers are closely monitored by branch managers and the internal audit department. Issues are reported to the Board and the senior management.

The collection policy is clearly defined and communicated among staff. Violation of the collections policy results in sanctions. These include transfer to other locations, bonus cut, and termination of contract. Any fraud will lead to termination of contract, and immediate action is taken in such cases.

Standard 2c – Practice 4

Senior management closely monitors data to ensure loan quality. Monitoring is performed monthly, weekly, or even daily, and it includes PAR, client outreach per age, industry, gender, region, etc.

Incentive system for the field staff values portfolio quality.

With rigorous monitoring, PAR has been less than 1% in recent years, whereas it was once 11% back in 2003.

ABA Egypt

Compliance with Universal Standards for Social
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Dimension 6

“Balance Financial and Social Performance”

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Summary: Standard 6a

The institution sets and monitors growth rates that promote both financial sustainability and client well-being.

#	Essential practice name	Level of compliance
1	The institution establishes a policy on sustainable target growth rates, approved by the board, for all branches/regions and all product types, considering the institution's growth capacity and the markets being targeted.	Full
2	The institution analyzes growth rates and market saturation to assess whether growth policies ensure both financial sustainability and client well-being.	Full
3	The institution monitors whether its internal capacity is keeping pace with institutional growth in number of clients and amount of loans and deposits, and enhances that capacity as needed.	Full

Standard 6a – Practice 1

Strategic and annual plans approved by the Board establish target growth rates for all branches and products. The plans consider external and internal factors such as penetration rate and human resources.

For example, the growth target in the total number of clients has been around 20% in the recent years.

To increase outreach and counter the low penetration rate in Egypt, ABA has targeted to open 5 new branches every year, including expansion into new regions.

Standard 6a – Practice 2

Both the Board and senior management monitor the growth-related indicators monthly. They discuss the need for adjustment to growth targets whenever necessary, especially when risks go up, such as the political and social crises in 2011. However, adjustment in the growth targets has not been necessary often at ABA; even in 2011, the change made was relatively small considering the level of the crises.

Standard 6a – Practice 3

Internal capacity indicators for sustainable growth are monitored quarterly. In particular, the “clients per loan officer” ratio is rigorously monitored. The supervisory structure for loan officers is also reviewed to ensure that it is appropriate. Recently, the “Assistant Operation Manager” post was created to supervise 6 to 7 Branch Managers, in parallel to the Operation Managers who supervise 11 to 12 Branch Managers.

An institutional revision exercise is performed about every 10 years by an external consultant to update the organisational structure, job descriptions, products and services, etc. to ensure so they suit the evolving environment and changing clients’ needs.

Summary: Standard 6b

Equity investors, lenders, board and management are aligned on the institution's double bottom line and implement an appropriate financial structure in its mix of sources, terms, and desired returns.

#	Essential practice name	Level of compliance
1	The institution has clear policies, consistent with its social goals, on its desired level of returns and on how those returns will be used.	Full
2	The institution engages with funders whose expectations for financial returns, timeframe and exit strategies are aligned with the institution's social goals and stage of development.	N.A.
3	When deciding on funding sources, the institution considers how cost of capital is passed on to the client.	Full
4	The institution minimizes financial risk as it relates to its obligations to clients, such as savings and cash collateral.	N.A.
5	The institution has a transparent financial structure, as reflected in its annual audited financial statements that incorporate any off-balance sheet sources of funding into leverage ratios.	Full

Standard 6b – Practice 1

The Board-approved 3-year strategic plan and annual plan have clearly defined guidelines and targets on profitability and use of profits. The current plan defines target ranges of profitability at 8.25% for ROA and 13.5% for ROE.

ABA plans to balance financial and social goals by actively expanding its product range, regional coverage, and social (charity) projects. New products include youth loans and micro-pension. ABA is also shifting its clientele to non-trading (such as agriculture) enterprises that are underserved in the market. ABA believes that good social performance will attract new clients or will improve client loyalty, thus leading to good financial performance. A large portion of profits (12% of net profit in 2013) is spent in social projects, such as free microinsurance to loan clients, food distribution program, ultra-poor community program, etc.

Standard 6b – Practice 2

Not Applicable.

ABA does not have any external donors, equity investors, or shareholders.



Standard 6b – Practice 3

ABA has been receiving loans from the Social fund of Egypt and a couple of major local commercial banks. Its funding cost has been lower than that of its peers by 1.5 or 2 points, which allows ABA to offer the lowest interest rates in the market, plus free micro insurance (credit life) equivalent to 1.5% interest rates.

In order to further reduce interest rates, ABA strives to improve efficiency, for example by introducing par code, electronic signature, credit scoring, and partnership with post office.

Standard 6b – Practice 4

Not Applicable.

ABA does not have savings or insurance products where the institution needs to protect its liabilities to the clients. ABA will consider this standard for the micro pension product that will be launched soon.

Standard 6b – Practice 5

ABA transparently manages its financial reporting. There are no hidden off-balance sheet items. Financial reports are produced monthly, audited quarterly, and reported to the MIX Market annually.

Summary: Standard 6c

Pursuit of profits does not undermine the long-term sustainability of the institution or client well-being.

#	Essential practice name	Level of compliance
1	Products and services offer value to the client for the price.	Full
2	The institution offers market-based, non-discriminatory pricing.	Full
3	The institution has efficiency ratios aligned with peers.	Full
4	The institution does not charge excessive fees.	Full
5	The board monitors whether the institution's pricing levels are consistent with the institution's policies on returns.	Full
6	The institution establishes a field-officer-to-client ratio that promotes high service quality for clients.	Full

Standard 6c – Practice 1

ABA offers the cheapest loans among its peers in Egypt, and it is always keen to improve the value of its products and services. ABA has continued to bring down the interest rates for the past years even when they were already the cheapest.

Clients value ABA's loan services for their disbursement speed, size, term, and price, as expressed through internal and external client satisfaction surveys. ABA monitors the competitors' price continuously in the market (APR basis) and quarterly via the MIX Market (EIR basis).

Standard 6c – Practice 2

When setting product prices, ABA always tries to offer the lowest in the market while ensuring the institution's sustainability.

ABA's prices are set by product and are non-discriminatory.

Standard 6c – Practice 3

ABA is considered the most efficient MFI among its peers in Egypt. With lower interest rates by almost 4 percentage points (compared via the MIX Market on EIR basis), ABA's financial return is higher than the peers.

ABA's operating expense efficiency ratio is 2% below the average of its peers.

Standard 6c – Practice 4

ABA charges almost no fees, except the penalty fee which is not excessive.

Even the cost of the credit bureau recently introduced in Egypt is not charged to the clients.

Standard 6c – Practice 5

3-year strategic plans, which are discussed and approved by the Board, establish the policy and goals on pricing and profitability, with a balance between the financial and social returns. Actual profit levels are monitored against annual plans, quarterly by the Board and monthly by the senior management.

No corrective action has been needed so far as the net profit has usually been consistent and steady; however, in 2011 during the political and social crises, there was a need to revisit the business plan and to lower the profit target of the year, though not as low as it could have been considering the level of the crises.

Standard 6c – Practice 6

ABA does not set a rigid field-officer-to-client ratio. However, loan officers are closely monitored by the branch managers, the operational audit, and the internal audit to ensure good performance. For efficiency, managers and auditors concentrate their efforts on checking the best and worst performers.

If a quality issue is detected, the loan officer's portfolio is to be reduced and distributed to other loan officers.

Summary: Standard 6d

The institution offers compensation to senior managers that is appropriate to a double bottom line institution.

#	Essential practice name	Level of compliance
1	The board ensures that compensation of the CEO/Managing Director and other senior staff is in line with the institution's social goals.	Full
2	If senior management compensation is in part incentive-based, the incentives take into account the evaluation of the manager's social and financial performance.	Full
3	Upon request, the institution transparently discloses compensation to regulators, auditors, raters, donors, lenders, and investors.	Full
4	The institution calculates the difference between the average compensation of its top level executives and its field employees, and analyzes whether this spread is consistent with the institution's mission.	Full

Standard 6d – Practice 1

The Board establishes the salary levels of the CEO and senior management. Since ABA is an NGO and because of its social mission, the compensation level of the senior managers is less than half that of commercial banks. When the current CEO took the job, his salary went down by half, and it was a similar case with some senior managers. ABA's salary structure is close to that of the government officers (not the governmental banks).

Standard 6d – Practice 2

30% of the senior managers' annual evaluation indicators concern social performance, such as achievement in social activities, adherence to organisational core values, and personal skills. The amount of the annual bonus and salary increase depends on the annual evaluation.

Another incentive related to social performance is the monthly staff award. Any staff can nominate anyone other than him/herself. There are usually 80 to 90 nominations per month, out of which 5 final awardees are selected. The award has served to incentivise the staff's efforts to contribute to the institution's social mission. (see 2b.5)

Standard 6d – Practice 3

Upon request, ABA is ready to disclose compensation to regulators, raters, donors, etc. ABA has participated in compensation surveys of Sanabel and USAID that asked such disclosure.

Standard 6d – Practice 4

When establishing the compensation level of the senior management and staff's annual bonus, the Board considers the difference in compensation between senior management and the lowest paid employees.

ABA is committed to bringing down the salary difference between the highest and the lowest paid staff. In 2011, during the political and social crises, ABA had a salary increase twice. In one, the lower level staff received £500 increase, whereas the higher ones received £250 increase, and the CEO, £158. In the other, the lower level staff received an 150% increase, and the CEO received less than a 1% increase.

Future Plans

In order to better balance financial and social performance, ABA has recently established a new Board committee in charge of charity. The goal is to make charity programmes one of the main pillars of ABA's operation, with a larger budget and a deeper contribution.

The Board has already approved the budget for offering a Takaful-like fund to clients for medical services.