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**MICROFINANCE CENTRE**

# **SP Start-up Fund for Networks Kick-off Workshop**

**Manila, Philippines, November 2011**

## ***Kick-off workshop objectives***

By the end of the training participants will have:

- Understood the network role and strategy ;
- Built capacity of participants in working with members;
- Reviewed the project plans and ensured the quality of project management and monitoring.



# Kick-off workshop agenda

Handout: detailed agenda

1. Introduction day  
2. Study tour: visit to MFI

3. Study tour: visit to regional network  
- lessons learnt

Day off

Days 4.-8. Training of Trainers

Project plans  
- presentations

Dinner

Sight-seeing



Board Member  
SPM Coordinator  
Consultants



SPM Coordinator  
Consultants



## Session 2



## ***Session objectives***

By the end of the session participants will have:

- Examined the background and broader context of SP
- Reviewed the definition of SP
- Examined the SP Pathway
- Learnt the examples of good practice in SPM
- Brainstormed the benefits of SPM for MFIs and the industry



# What is the promise of microfinance?



## 7 ***Commonly Accepted Social Goals***

- Serving increasing numbers of poorer & excluded people
- Improving financial services through assessment of clients' needs
- Increasing clients' social capital, assets, income, and access to services
- Reducing clients' vulnerability
- Improving social responsibility of the MFI



## *Living up to the promise?*

**In Bangladesh, FRANCE 24 reporters find that far from alleviating poverty, microcredit has been plunging people deeper into debt.**

**Government to write to Central Bank citing the questionable recovery methods by MFIs**

### **What is Wrong With Microfinance?**

**Public uproar over 20 suicides in two months has forced the Andhra Pradesh government to act to regulate micro-finance institutions**

**Making money out of poor people?  
Some banks are charging interest rates of 100 per cent or more from their customers**

**MFIs accused of forcibly enrolling poor women in the rural areas.  
Some District Collectors' reports cite intimidation, manhandling of women**

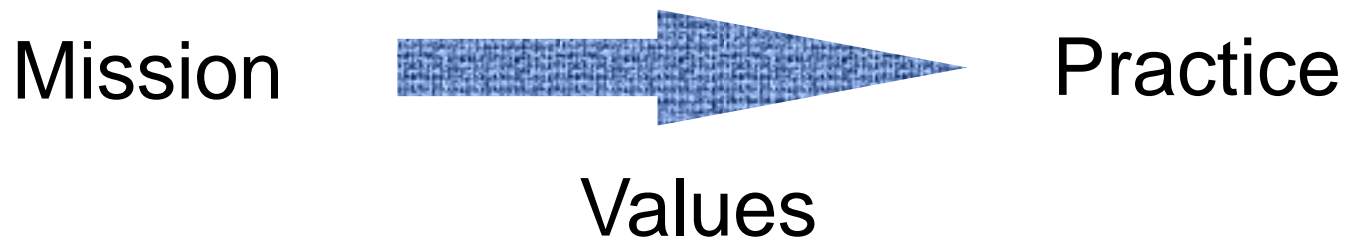


# Debt Collection

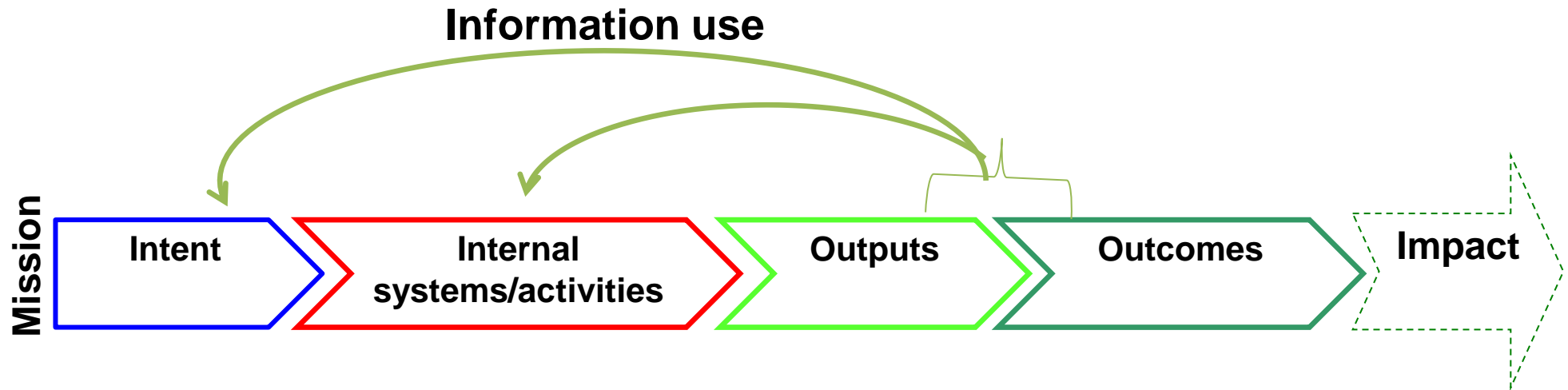


# *What is Social Performance?*

The effective **translation** of an institution's mission into practice in line with accepted social goals



# SOCIAL PERFORMANCE PATHWAY



## Strategy

- Goals/objectives
- Values & policies (including social responsibility)
- Governance
- Business planning
- Products/services
- Human resources
- Risk management
- MIS/market intelligence
- Internal audit

## Achievement of social goals

- Reaching target clients
- Meeting target clients needs
- Change



## ***Knowing the needs of clients: Bosnia***

### **Men**

- Fast service
- Simple procedures
- Good information about products to compare

### **Women**

- Relationship with Loan Officer
- Trust in advice
- Safety

# 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



## 14 ***Integrating SPM into daily operations: NWTf on Philippines***

- Context: operating in rural & semi-urban settings, strong market competition
- (2006) Diagnosis of gaps in SPM indicated lack of attention to attracting target clients
- Solutions:
  - *Client-targeting means test* **replaced by PPI**
  - Set up of ***Impact Maximization Unit*** for client training
  - **SPM committee** for the SP buy-in across the organisation
- Importance of the research department for SP implementation



## **Session 3**



## ***Session objectives***

By the end of the session participants will have:

- Examined the background for SPS Reporting
- Reviewed the SPS indicators
- Examined the relevancy of SPS indicators for their country/MFI
- Discussed the roles of the network in SPS Reporting.





# Rationale

- Transparency
- Focus on achieving social & financial goals
- Global positioning
  - *Awards for transparent MFIs*
- Founders and raters requests
- Clarifies strengths and weaknesses

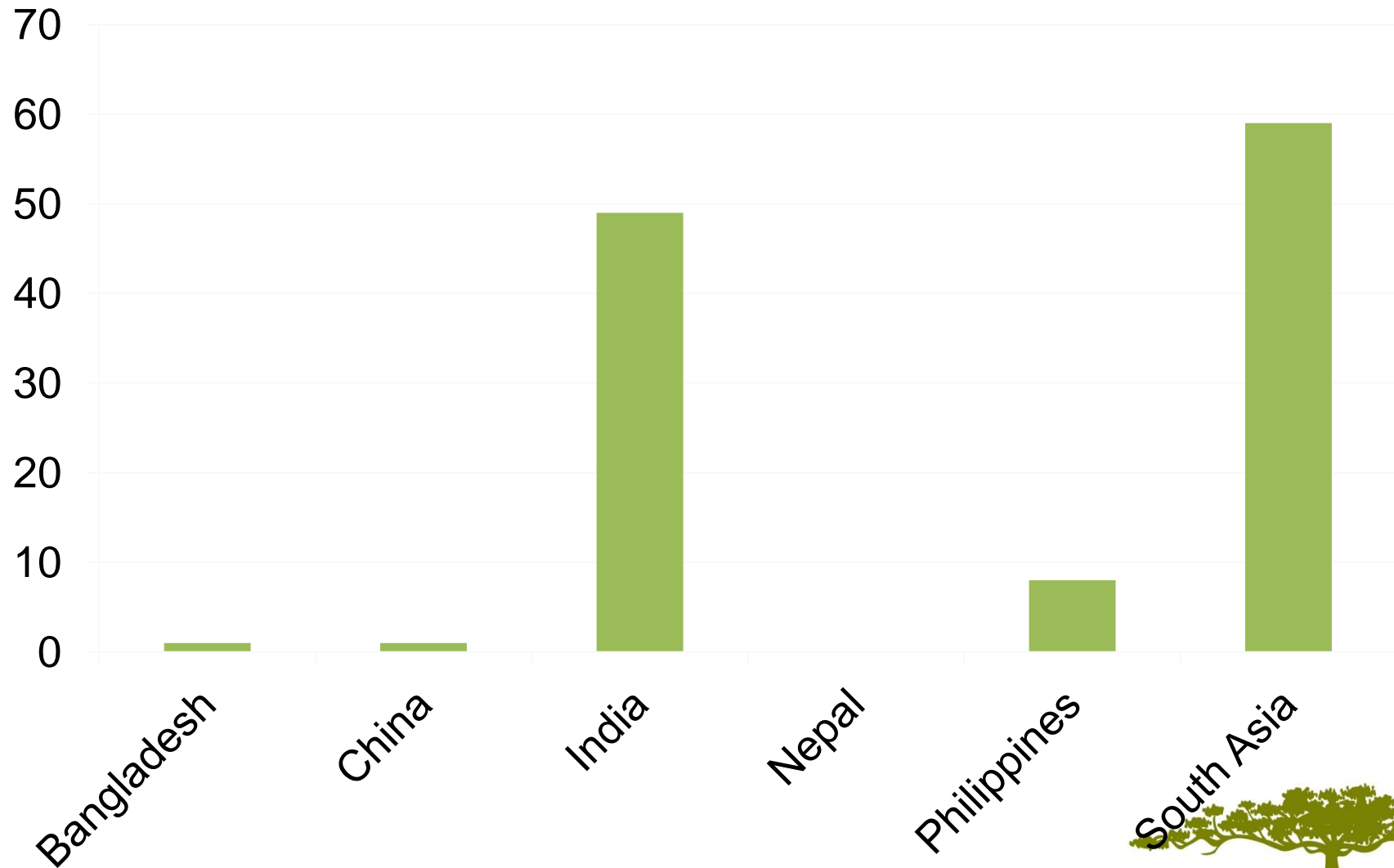


# What is SPS Reporting?

- Developed by SPTF
- 11 indicators
- Standard indicators for everyone
- Reported to MIX Market
  - *MIX as a tool for industry transparency*
- 57 MFIs reported in 2010 (41 in 2009).



# 2010 Reporting



## ***Users of SPS Reporting data?***

- Investors for due diligence scorecards
- Raters for social ratings
- Certification initiatives
- Local stakeholders



## *Refined Indicators*

1. Mission and social goals
2. Governance
3. Range of products and services
4. Client outreach by lending methodologies
5. Client retention
6. Social responsibility to clients
7. Transparency of costs of services to clients
8. Human resources and staff incentives
9. Employment creation and enterprises financed
10. Social responsibility to the environment
11. Poverty outreach



## **Exercise**

- Which of the indicators are relevant for your members, which are not? Why?
- Which indicators can be immediately reported by your members, which cannot? Why?



# *Key challenges of MFIs*

- Understanding of indicators
- Required data collection
- Data quality
- One person versus team reporting



## ***Network role in SPS reporting***

- Promoting reporting to the MIX
- Coordinating reporting to the MIX
- Producing country level reports
- Ensuring quality reporting

Awards for  
networks





# *Client Protection Principles*

## Session 4



## ***Session objectives***

By the end of the session participants will have:

- learnt the seven principles of client protection
- discussed the good and bad practices of MFIs in relation to compliance with the seven principles
- discussed the role of the network in client protection.



## ***7 Client Protection Principles***

1. Appropriate product design and delivery
2. Prevention of over-indebtedness
3. Transparency
4. Responsible pricing
5. Fair and respectful treatment of clients
6. Privacy of client data
7. Mechanisms for complaint resolution



# *Appropriate product design and delivery*



Business loan with flexible terms



Regular market research



MFI does not adapt products for new target group



Lower interest rate if bigger loan taken



## ***Prevention of Over-indebtedness:***



Internal auditor reviews practices leading to over-indebtedness



Training program for clients on debt management



MFI aims at market dominance at any price



Wife as guarantor in the culture when she cannot say no to husband



# *Transparency*

- 😊 Loan officers ensure that the client understands the contract
- 😞 MFI does not inform clients about hidden fees
- 😞 MFI does not inform clients about mobile banking
- 😞 Charges for account balance check

## *Responsible pricing*



MFI seeks savings internally



Good profits with prices over average

## ***Fair and respectful treatment of clients***

 Staff incentives encourage ethical behaviour

 Staff receive training for job specific ethical dilemmas

 Clients not clean enough to enter the office

 Collection officer breaches cultural norms



## ***Privacy of client data***



Lack of privacy while discussing deals



Training for clients on how to use PINs



## ***Mechanisms for complaint resolution:***



Internal auditor checks if clients are informed about complaints and **obligation** to complain



Free telephone line



No effectiveness of complaints boxes



# Good practices in MFIs

- More examples at [www.smartcampaign.org](http://www.smartcampaign.org)

**smart notes**  
Putting the Principles into Practice  
NUMBER 3 | MAY 2010

**Responsibility for avoiding over-indebtedness rests with both client and institutions.** For clients, this means making prudent decisions and judging their repayment capacity. For institutions, this means carefully assessing a client's ability to repay.

Partner Microcredit Foundation promotes itself as its clients' "partner for a better life."

Lending in a highly competitive microcredit market, Partner Microcredit Foundation avoids client over-indebtedness by recognizing that a risk for the client is a risk for the institution. To mitigate these risks, Partner performs rigorous credit analysis of its new borrowers before issuing a loan and follows up with audits to verify proper staff behavior and discover why clients are not able to meet their obligations. Proactive measures like financial-literacy programs and client loyalty efforts complement analysis and audits to create a robust system to avoid client over-indebtedness.

**Facing Over-indebtedness at Partner Microcredit Foundation**

In a vibrant and competitive microfinance sector, Partner Microcredit Foundation employs a multi-faceted system to prevent, detect, and correct over-indebtedness among its clients. Management views avoiding client over-indebtedness as an institutional responsibility and has built a robust system that functions throughout the lending process.

Partner was started by Mercy Corps in April 1997 as a non-profit organization with a long-term goal of establishing a microcredit company to eventually transform into a bank. As of 2009, the institution has 54,572 active loans in a nearly \$100 million portfolio.

**OPERATING IN AN OVERHEATED MARKET**

Since 2007, managers at Partner have expressed increased concern about over-lending in the Bosnian market and the threat of a financial market crisis. They recognize that financial institutions and their practices bear the burden of responsibility for current client debt levels.

Partner has chosen to take on the over-indebtedness challenge with a simple philosophy: a risk for the client means a risk for the institution. Management has worked to integrate this philosophy into a strong organizational culture that already values excellent professional services and client satisfaction, while building the systems and procedures necessary to support this integrated approach.

**RIGOROUS ANALYSIS AND APPROVAL**

Avoiding over-indebtedness begins with the earliest client interactions. Risk management during the loan-application process requires a number of analyses beyond just a guarantor requirement.

Loan officers conduct a business analysis during the application process, which includes field visits to the client's place of business and consists of diagnostics like a cash flow analysis and income projections. All

[www.smartcampaign.org](http://www.smartcampaign.org)



# *Exercise*

- Assign examples to the principles



## *Two initiatives*

- Smart Campaign
- Invites all stakeholders
- Seven Principles
- Awareness raising
- Smartcampaign.org
- Microfinance Transparency
- Transparent pricing
- Tools for individual MFIs
- National analysis
- Mftransparency.org



Keeping clients first  
in microfinance



the  
**smart**  
campaign

Keeping clients first  
in microfinance

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## tools & resources

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Tools & Resources

## embedding smart microfinance in our organizations

**Discover tools and resources that will help turn the principles into action.**

The Smart Campaign is working with microfinance professionals to develop and provide tools and resources that reflect best practices around the world.

### microfinance institution toolkit

[Client Protection Principles Training »](#)

Use these seven presentations and presentation guides to train your members and/or employees on the importance of client protection in microfinance...

[Getting Started Questionnaire: Client Protection Self Assessment for Microfinance Institutions »](#)

The Getting Started Questionnaire helps microfinance institutions begin to investigate their client protection practices within their organization...

[How to Develop an Institutional Code of Ethics »](#)

This guide is intended to assist microfinance institutions in

### network & association toolkit

[Client Protection Principles Training Series »](#)

Use these seven presentations and presentation guides to train members of your network or association on the importance of client protection in microfinance...

[See all tools & resources in this toolkit »](#)

▶ [Search by Series](#)

▶ [Search by Principle](#)

▶ [View all Tools & Resources](#)

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English

Español

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Русский

[http://org2.democracyinaction.org/o/6214/t/9230/questionnaire.jsp?questionnaire\\_KEY=303](http://org2.democracyinaction.org/o/6214/t/9230/questionnaire.jsp?questionnaire_KEY=303) stitutional ethics

The screenshot shows the website's header with the logo and tagline "Promoting Transparent Pricing in the Microfinance Industry". A navigation menu includes "Home", "News", "Resources", "Endorsements", "Sponsors", "About", "FAQ", "Blog", and "Country Data". Below the menu are links for "Understanding Interest Rates", "Need for Transparency", "Independent Study Course", "The MFT Approach", and "Pricing Certifications".

## Understanding Interest Rates

*En español*

It's all about interest rates! You've come to the right place to learn more about how interest rates are really calculated and how to understand the difference between quoted prices and transparent prices.

Below you'll find a list of resources that are useful in understanding interest rates. Look through our compilation of tools, presentations, papers and blog posts. All resources have been coded according to their complexity:

- a green box indicates basic information,
- a yellow box will provide you with a resource that goes beyond the basics, and
- a red box is a comprehensive or advanced article on interest rates.

Use these links to jump directly to what you're looking for, or simply scroll down to view our full library:

**Tools**

**Presentations and Videos**

**Papers**

**From the Blog**

[//www.mftransparency.org/](http://www.mftransparency.org/)

**Highlighted Items**

- Calculating Transparent Prices Tool
- APR vs Total Cost of Credit
- Putting Transparency Into Practice
- The Challenge of Understanding Pricing

**Live Countries**

- Azerbaijan
- Bolivia
- Bosnia and Herzegovina
- Cambodia
- Ecuador
- India
- Kenya

**Search for:**

**Search**

Use of Materials : Rights and Permissions

## *How they work with networks*

### Smart Campaign

- Promotional materials
- Training of Trainers and Training of Assessors
- Certifies assessors

### MicroFinance Transparency

- Partnership in promotion data collection and publishing
- Coaching in tools use



Keeping clients first  
in microfinance





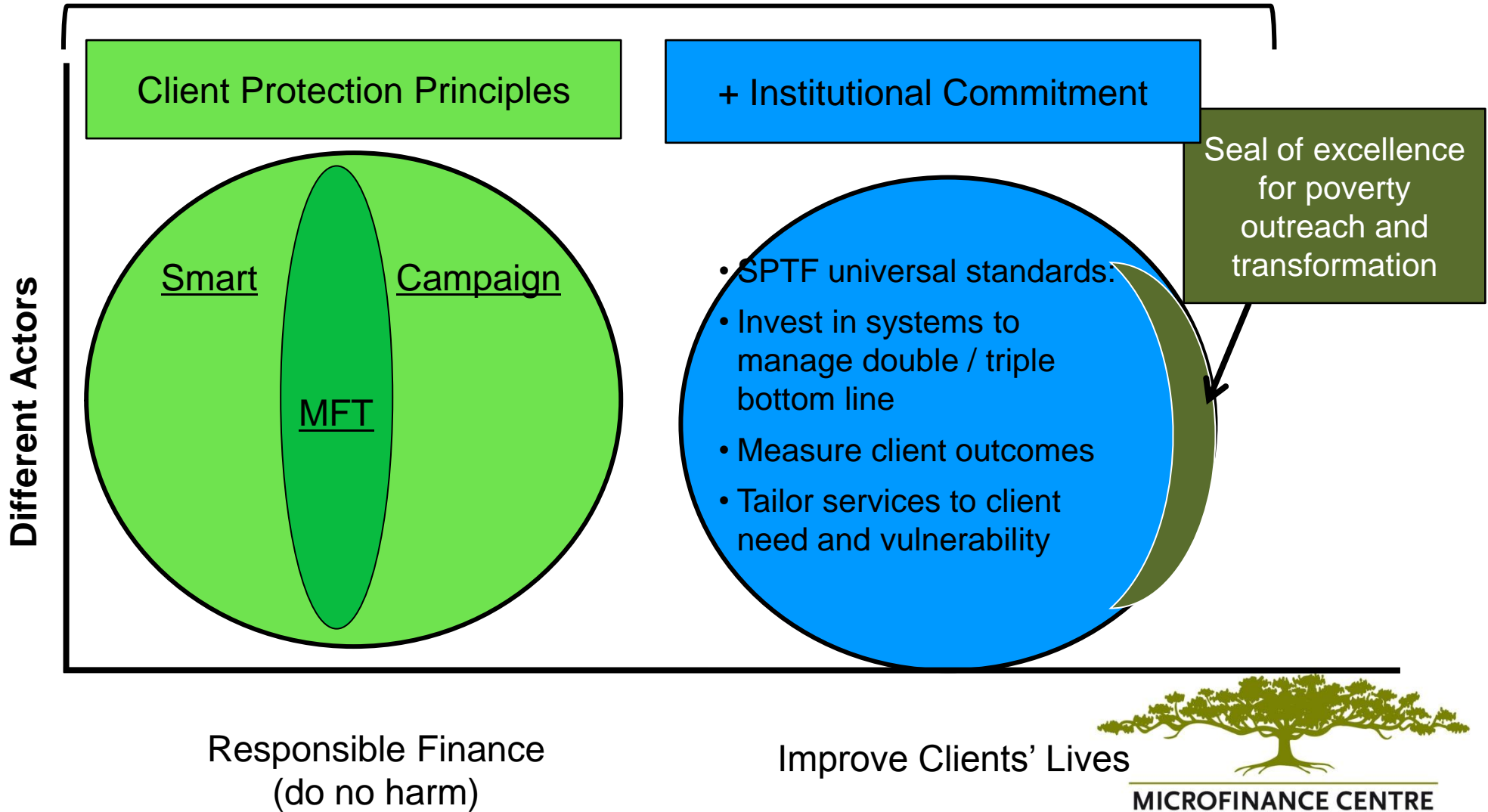
# *Client Protection Certification*

- Objective: to differentiate MFIs, acknowledge good practice
- Quality stamp
- Launch in 2012



# Certification & standards initiatives

## Social Performance



# *Host network example*



## ***Role of networks***

- Identify the issue
- Promote client protection
  - *Endorse the Smart campaign & principles*
- Promote transparency
- Work on code of conduct
- Advocate for prevention of overindebtedness
  - *Credit bureau, ombudsmen, regulation*
- Promote Financial Education





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**Thank you!**



**MICROFINANCE CENTRE**