Microfinance CEO Working Group

May 22, 2013

Dear Reader:

Below you will find a report outlining our insights from "beta testing" the Social Performance Task Force (SPTF) Universal Standards for Social Performance Management in 21 partner and affiliate MFIs of the Microfinance CEO Working Group.

This report was initially drafted for the secretariat of the SPTF to inform their work going forward. However, in reviewing our findings we felt that our experiences and lessons learned may be useful to other microfinance initiatives interested in standard-setting, networks hoping to support their partner MFIs, and MFIs looking to begin the process of applying the Standards.

This report is meant to be a tangible manifestation of our strong support of the Universal Standards for Social Performance Management. While we have recommended adjustments to any future versions of the Standards, we believe they represent a major step forward on the journey to understanding, managing, and fulfilling our social missions. We plan to build on this experience by further embedding these standards across our networks, and we encourage all double bottom line MFIs to do the same even as they share their learnings, insights and suggestions. We welcome feedback on this report as well as on the "Road Map for the Microfinance Industry" and the "Global Appeal for Responsible Microfinance" that we have published previously.

We would like to thank the staff of the 21 MFIs that agreed to be part of this process, as well as the social performance leads in each of our organizations who have directed this effort and engaged with our secretariat to share their findings.

Sincerely,

The members of the Microfinance CEO Working Group

ACCION
Michael Schlein,
President and CEO

FINCA
Rupert Scofield,
President and CEO

Freedom from Hunger
Steve Hollingworth,
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Grameen Foundation
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Insights from "Beta Testing" the Universal Standards for Social Performance Management

Working Paper

As of May 22, 2013

Contents

Executive Summary

In June 2012, the Social Performance Task Force (SPTF) launched the "Universal Standards for Social Performance Management" (USSPM), consisting of 99 Essential Practices (EPs) in six areas. These Universal Standards are considered applicable to any MFI pursuing a double bottom line.

Over the past year, the Microfinance CEO Working Group worked with 21 MFIs to "beta test" the Universal Standards. The term "beta test" refers to an analysis of an MFI's practices related to all of the EPs, intending to understand the process of an assessment and the status of an MFI's current social performance management, and also elicit any concerns or issues with the Universal Standards as they now stand. Beta tests were conducted with a variety of partner and affiliate MFIs of the Microfinance CEO Working Group, reflecting a wide range of institution sizes and geographic locations.

Feedback on Process

- Members utilized a variety of methodologies, but learned that a full assessment is an in-depth undertaking that requires significant planning and multiple parties.
- All assessment methods have relative strengths and weaknesses, but ultimately the correct approach depends on the institution's intent (e.g., increasing awareness about social performance management best practices versus preparing for a social audit or rating).
- While the assessments were time consuming, participating MFIs found them to be valuable, often reporting that the assessment provided education on social performance management best practices. Many institutions also created action plans for improving their practices over time.

Feedback on Compliance with the USSPM

- Results indicate that, on average, MFIs believe that they are already compliant with 78% of the 99 Essential Practices, indicating a high degree of confidence in their current practices.
- MFIs reported highest compliance on Section 4 (*Design Products, Services, Delivery Models and Channels that Meet Clients' Needs and Preferences*) and Section 5 (*Treat Employees Responsibly*).
- Challenges vary by institution and country context, but on average MFIs struggled most with Section 1 (*Define and Monitor Social Goals*), and had the most concerns with Section 6 (*Balance Financial and Social Performance*).

Feedback on the Universal Standards and Recommended Adjustments

- Our results suggest that the USSPM are, on the whole, practical and achievable for MFIs. MFIs also found the USSPM to be largely relevant to their organizations.
- However, we believe there are some important issues that should be addressed. These issues are applicable across the USSPM, but most especially in Section 6:
  - Simplify EPs that contain multiple concepts, and remove duplication of concepts between EPs.
  - Use clear and simple language, add explanatory examples, and develop a guide that can support MFIs in their assessments.
  - Ensure the measurability of EPs.

Note that our work began before the launch of the SPTF's Indicators Working Group, which aims to develop indicators for each of the 99 Essential Practices. In most cases, participants believe that the release of indicators will help address the above issues, though some have concerns they could add additional confusion. Exceptional care should be taken to make the USSPM clear and accessible to institutions of all kinds. This will be vital to make the USSPM approachable for the majority of MFIs, not just those that are already steeped in social performance management.

While we vary in our level of suggested adjustments, we believe the USSPM are an important step forward for the industry. Moving forward, we would encourage the SPTF to further communicate their ultimate goals for the USSPM to MFIs and the broader microfinance community. A clear vision of what the SPTF wants to accomplish is crucial for understanding how MFIs – and the organizations that support them – should approach the Standards, and how we can help the SPTF be most effective.

1. Background and Beta Test Goals

In June 2012, after several years of development, the Social Performance Task Force launched its comprehensive "Universal Standards for Social Performance Management." These Universal Standards, consisting of 99 Essential Practices in six areas, are applicable to any MFI pursuing a double bottom line, and fulfillment is considered necessary for an institution to have strong social performance management practices. The Standards were developed through broad industry consultation and draw on the best practices and knowledge available. However, at the time of their launch, the complete set of Standards had not yet been analyzed in a large number of MFIs. Thus, the SPTF asked for assistance in "beta testing" the full set of Universal Standards, and the members of the Microfinance CEO Working Group, collectively with their lead social performance staff members, committed to this effort.

In using the term "beta test," we refer to an analysis of an MFI's practices against all of the Essential Practices of the Universal Standards. This effort intends to understand the process of an assessment and the status of an MFI's current social performance management practices, and also elicit any concerns or questions about the USSPM.

This effort hopes to provide insight into several practical questions:

Process of Assessment

- What does it take to conduct an assessment?
- Are certain methods of assessment more effective than others?
- How do we use the information that an assessment reveals to improve practices?

Social Performance Compliance

- How do MFIs view themselves vis-à-vis the Standards?
- Are some Standards harder to comply with? Easier?

Perspectives on the Universal Standards and Any Recommended Adjustments

- Are the Universal Standards relevant, achievable, measurable, and understandable?
- Are any language adjustments warranted?

We hope that our efforts will help inform any future revisions to the Universal Standards, identify Essential Practices or Standards for which MFIs may appreciate additional education or training, and shed some light onto what it would take for an institution to understand its practices – and then go about making them better. Note that after our efforts began, the SPTF launched an Indicators Working Group intended to develop precise indicators for each of the 99 Essential Practices. We recognize that the addition of such indicators may impact the process of assessment for future MFIs and may address some of our current concerns with the Universal Standards; however, we encourage the SPTF to view refining the USSPM as an iterative process that will necessarily take some time.

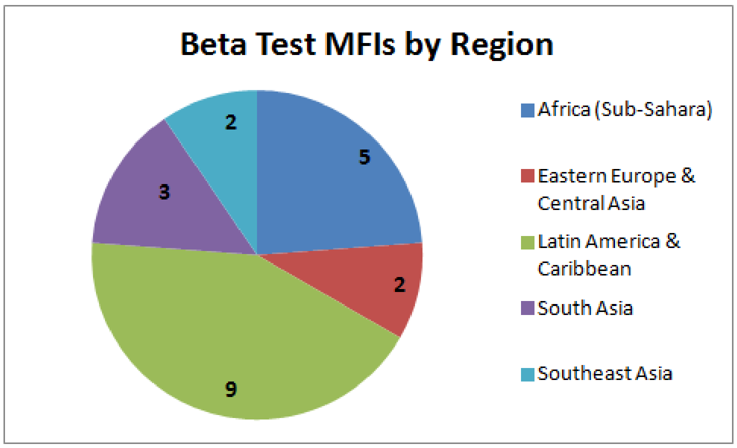
The effort was coordinated by the lead social performance directors of the Microfinance CEO Working Group, a collaborative effort by eight leading microfinance organizations: Accion, FINCA International, Freedom from

Hunger, Grameen Foundation USA, Opportunity International, Pro Mujer, VisionFund International and Women's World Banking. Please find the participating representatives from these organizations in Exhibit 1.

2. Participant MFI Overview

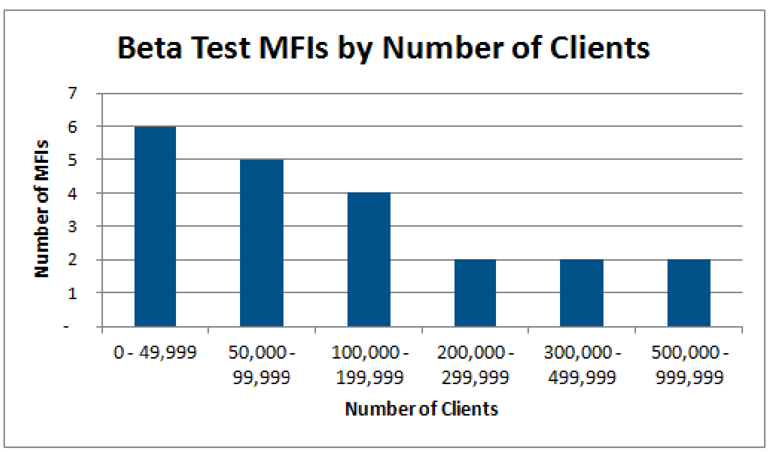
A total of 21 beta tests were conducted with partners or affiliate MFIs of the Microfinance CEO Working Group organizations. A full list of participating organizations can be found in Exhibit 2. Beta tests were conducted in Eastern Europe & Central Asia, Latin America & the Caribbean, South Asia, Southeast Asia, and sub-Saharan Africa, providing a global perspective. In addition, Opportunity International also distributed self-assessments to nine partners in Africa and Eastern Europe.

Figure 1: Beta Test MFIs by Region[1]



Tests included a variety of sizes of MFIs, both extremely small and very large. The smallest MFI counts approximately 4,000 clients, while the largest serves just under 1 million clients. The average number of clients of participating MFIs is 192,000, with the median 87,000.

Figure 2: Beta Test MFIs by Number of Clients[2]



[1] Chart does not include the self-assessments that Opportunity received from seven sub-Saharan African MFIs and two Eastern European MFIs.
[2] Excludes Opportunity's self-assessments.

While the participating MFIs ranged in their familiarity and level of prior engagement with social performance management, the majority of these institutions have demonstrated a higher-than-average interest and engagement with social performance (e.g., many are members of the SPTF, have received a social rating or social audit, or have participated in pilots or assessments by the Smart Campaign or the Seal of Excellence). Thus, their experience may not be representative of the "average" MFI.

3. Process of Assessment

Methodologies used

Given the differing nature of relationships between each Working Group member and MFI partner and the variations in available resources and interests, multiple approaches were utilized. Microfinance CEO Working Group members also reported on the success of their methodologies on a rolling basis, with other members then adjusting their approaches accordingly. Methodologies included:

- **Self-assessment:** Often, multiple staff members (or a social performance manager or champion) individually filled out an Excel spreadsheet about an institution's current status and any issues or concerns. In several cases, the results and areas of difference/alignment were then reviewed in a facilitated session, as outlined below.
- **Facilitated Sessions:** Most members incorporated some form of facilitated session, which ranged from small group meetings on specific sections of the Standards to daylong assessments of the entire USSPM with more than a dozen staff members. Sessions typically incorporated staff from multiple departments and different levels of the institution and were led by a representative from the Microfinance CEO Working Group organization with extensive experience in social performance management.
- **Quasi-Audit**: In a few instances, an institution contracted with an outside consultant who, in addition to the above, performed one-on-one interviews, conducted client focus groups, and analyzed documentation.

See a more in-depth discussion of a sample of methodologies in Exhibit 3.

What methods of assessment are the most effective?

The appropriate methodology will vary by organization and depends on intent: whether an MFI wishes to simply get started with the USSPM or prepare for a social rating. In testing different methodologies, we learned significant pros and cons to the various approaches and identified some overarching lessons for organizations considering conducting an assessment.

Figure 3: Pros and Cons of Methodologies

Approach	Network Utilizing this Approach	Pros	Cons
Self-Assessment	• Accion • FINCA • Grameen • Opportunity • VisionFund	• Least time consuming for the organization (typically between two and six hours for an individual review, depending on level of verification/data utilized) • No external facilitator required • Review of all USSPM provides a holistic view of an organization's practices	• Easy to view the Standards as a "checklist" and not think deeply about performance • No external guidance if there are questions • Especially without indicators, responses can be subjective; there is a tendency to overestimate

		• Provides initial familiarity with USSPM	compliance • Few staff members are knowledgeable about all sections
Group Facilitated Assessment	• Freedom from Hunger • FINCA • Grameen • Opportunity • Pro Mujer • VisionFund • Women's World Banking	• Provides a group forum where staff at all levels can discuss views, highlight any divergence in opinion, and in some cases come to consensus • Serves as an information session on social performance management in general • Offers opportunity to dialogue about prospective action items • Offers opportunity to call on facilitator's expertise	• Process is extremely time consuming (especially when reviewing all 99 EPs at one time). Members typically reported from one to five days for a full review, excluding action planning • Not all sections are relevant for all staff (e.g., a loan officer may not know about the Board's activities and so should not be scoring its performance)
Quasi-Audit	• Opportunity • Pro Mujer	• External parties may be able to ask tough questions (and identify gaps) that would be difficult for the MFI's staff to address on its own • Offers an opportunity to triangulate information and verify findings – to ensure that policies are actually being implemented • In addition to providing external expertise, the consultant can bring additional value by interpreting an institution's performance as compared to other MFIs	• Most expensive and time-consuming (five to seven days of on-site work)

As demonstrated above, a self-assessment may be appropriate as a tool to begin conversations and increase familiarity, while a more intensive, data-based audit might be more appropriate for a very advanced MFI. We would expect that scores on assessments would vary depending on the methodology selected – not all methodologies ensure the same level of critical thinking and data analysis as others. Further, there is a difference between adherence to an Essential Practice on a policy level versus an implementation level. (There may be latitude for a standardized tool that asks whether a practice is implemented always, sometimes, or never.)

Our general lessons learned include:

- In general, many MFIs do not presently have the familiarity with the USSPM to fully lead the process on their own. At this stage, **most MFIs require additional support on assessments**, whether in the form of an expert facilitator or a written guide. Because of this, responses from self-assessments (in which respondents filled out the sections themselves, without any guidance) look insufficient in most cases. **However, self-assessments were found to be helpful as an introductory tool**, providing guidance into an MFI's relative strengths and weaknesses and opening the door for further discussion.
- While most members utilized approaches that brought together MFI staff from multiple departments of the institution for group discussion, **it is recommended that the executive director not be a part of group conversations** in order to promote openness and candor.
- In addition, the tests found that **different people needed to be consulted for different topic areas**. Most staff members cannot be expected to be familiar with each of the Standard sections. Opportunity International suggests following the table in Figure 4 as a guideline:

Figure 4: Opportunity International's Suggested Consultation Breakdown

Staff / Section	Board	CEO	COO	CFO	R&D /SPM	HR	Training	MIS	Internal Audit	Grievance Redressal	Company Secretary	Field Teams	Product Dev.	Clients
Section 1	X	X	X	X	X	(X)	(X)	X	X	(X)	X	(X)	(X)	
Section 2	X	X	X	X	X	X	X	X	X		X			
Section 3			X		X		X	X	X	X		X		X
Section 4					X							X	X	X
Section 5					X	X	X			X		X		
Section 6	X	X	X	X	X									

(X) – If compliance with Standard 1A is strong, then Section 1 is also relevant to these departments.

Feedback on Assessment Process

Participating MFIs and Working Group members acknowledge that it is an intensive process to review the USSPM. It regularly took multiple days, and numerous staff at many levels, to assess an institution's practices. Multiple MFIs reported fatigue at the length of time it took to review the Essential Practices, which could impact the quality of responses. We heard that not all participants were thinking deeply about a practice and whether it could be improved, but rather viewing the USSPM as a checklist.

The ultimate question, here, is whether such fatigue 1) simply requires "coping" mechanisms to minimize burnout, such as introducing the Standards gradually, or inviting staff to respond to only a few sections of the Standards, or 2) demands adjustments to the Standards themselves to reduce the number of EPs or prioritize them. Most members believe that the former is the correct course of action rather than the latter, though it should be noted that uptake could be affected if MFIs are "scared away" by the density of the USSPM. While many of the participating MFIs had higher-than-average familiarity with social performance management, some nonetheless felt overwhelmed. Efforts should be made to make the Standards approachable and accessible to a broader audience.

That said, the participating MFIs felt that the assessment was a good learning experience – both to learn about their institution's practices, and about social performance management itself. In this way the assessment provided "training" of sorts to a variety of MFI employees about what constitutes good social performance management. Those employees are now better equipped to recognize and implement good practices.

Action Planning

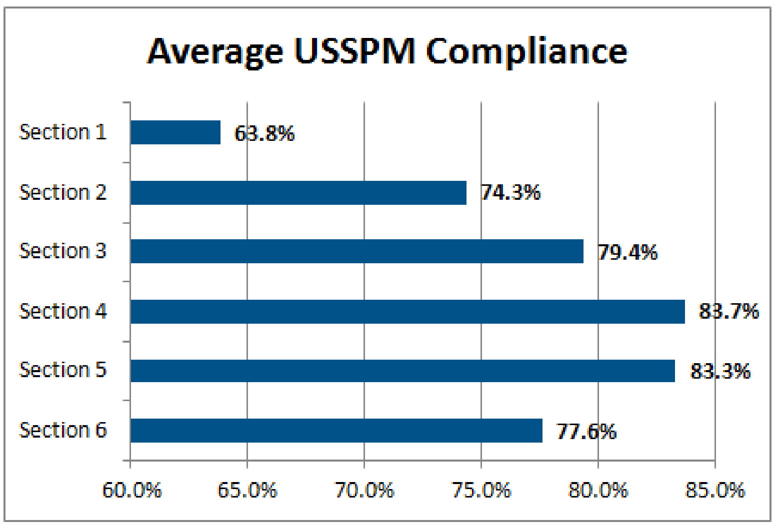
The assessment of an MFI against the USSPM provides an opportunity to determine how an organization can improve its practices. Opportunity International noted that their assessments "resulted in a detailed action plan endorsed by the MFI management. The action planning (addressing those EPs that needed to be reviewed or were not compliant) was a helpful exercise that enabled the organization to have a clear road map of activities, persons responsible, time frames, and costs. This resulted in a positive response from the three MFIs and a strong willingness to become compliant, plus a formal commitment to do so."

As we will demonstrate later, challenges in compliance with the USSPM vary greatly by institution, so solutions must be designed for the individual MFI. There are significant variations in challenges based on country and regulatory context. However, we can make some overarching suggestions for "quick wins":

- Soon after an assessment, **conduct gap analysis and action planning**. Use the momentum from the assessment to create clear plans for improvement.
- **Move from strategy to implementation**. Some EPs are at a more conceptual level, while others require significant operational overhaul. Further, these conceptual or strategic EPs must be in place before implementation can begin.
- **Ensure policies are codified**. Multiple MFIs responded saying "We had not realized we hadn't formally written down our strategy!" In particular, organizations noted that increased documentation around HR policies would be necessary.
- **Step up internal communication**. In several instances, a practice was in place, but it wasn't commonly known. Sharing information about the Board's activities, for example, can increase trust in their work.

4. Social Performance Compliance[3]

Figure 5: Average USSPM Compliance[4]



- *Section 1: Define and Monitor Social Goals*
- *Section 2: Ensure Board, Management, and Employee Commitment to Social Goals*
- *Section 3: Treat Clients Responsibly*
- *Section 4: Design Products, Services, Delivery Models and Channels that Meet Clients' Needs and Preferences*
- *Section 5: Treat Employees Responsibly*
- *Section 6: Balance Financial and Social Performance*

On average, the beta test institutions reported that they were already compliant with 78% (or 77 out of 99) of the Essential Practices. This reflects a very high confidence in the beta test MFIs' current social performance practices.

[3] We utilize the word "compliance" throughout this document, which is perhaps a misnomer for a voluntary process. We have used it for consistency. It is intended to indicate that the MFI considered itself to currently meet or fulfill the EP as written.

[4] Average USSPM compliance percentages are an average of reported compliance across beta test MFIs, which utilized different methodologies for arriving at these numbers. Therefore, reported results should not be considered a scientific analysis of performance, but can nonetheless provide macro-level perspective on areas of strength and weakness. Excludes Opportunity's self-assessments.

The institutions reported the highest levels of compliance around Section 4 (*Design Products, Services, Delivery Models and Channels that Meet Clients' Needs and Preferences*), with Section 5 (*Treat Employees Responsibly*) close behind. Institutions reported lowest levels of compliance for Section 1 (*Define and Monitor Social Goals*), though they had the most issues and challenges with the EPs in Section 6 (*Balance Financial and Social Performance*). However, in all cases the MFIs demonstrated some variation in their areas of relative strength and weakness (see Box 1). Those EPs to which an MFI does not currently "comply" could be:

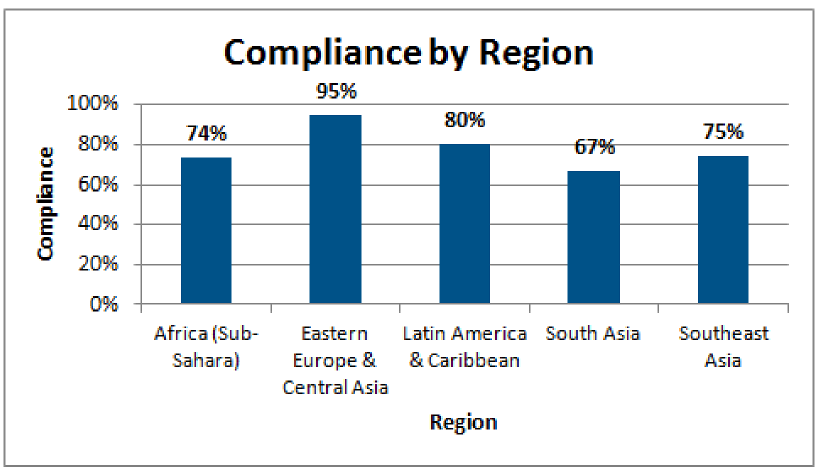
- Not yet complete or currently in progress (expected to be completed in some time frame, usually one or two years)
- Found to be irrelevant for the institution
- Found to be confusing, unclear, immeasurable or otherwise problematic

Detailed comments and feedback on all sections can be found in Exhibit 4.

Since the majority of beta tests were conducted at MFIs with demonstrated interest in social performance management, we would expect that these results would be higher than would be seen across a random selection of MFIs globally. Additionally, we tend to believe that this reported compliance level is artificially high: several assessors reported that many Essential Practices were vague enough that the institutions felt they were "complying" with the EP based on a high-level practice or policy, when in fact they may not comply based on more precise criteria or in implementation. We are hopeful that with the development of indicators for the Essential Practices, MFIs will be able to better assess current practice and determine areas of improvement. The overall compliance percentage would be likely to decline once precise indicators are introduced.

Figure 6 shows variation in compliance by region; however, keep in mind that sample size is quite small (e.g., two MFIs for Eastern Europe).

Figure 6: Compliance by Region[5]



We also analyzed compliance based on MFI size (as measured by number of clients). Contrary to what one might expect, we did not find a trend that larger MFIs report a higher level of compliance.

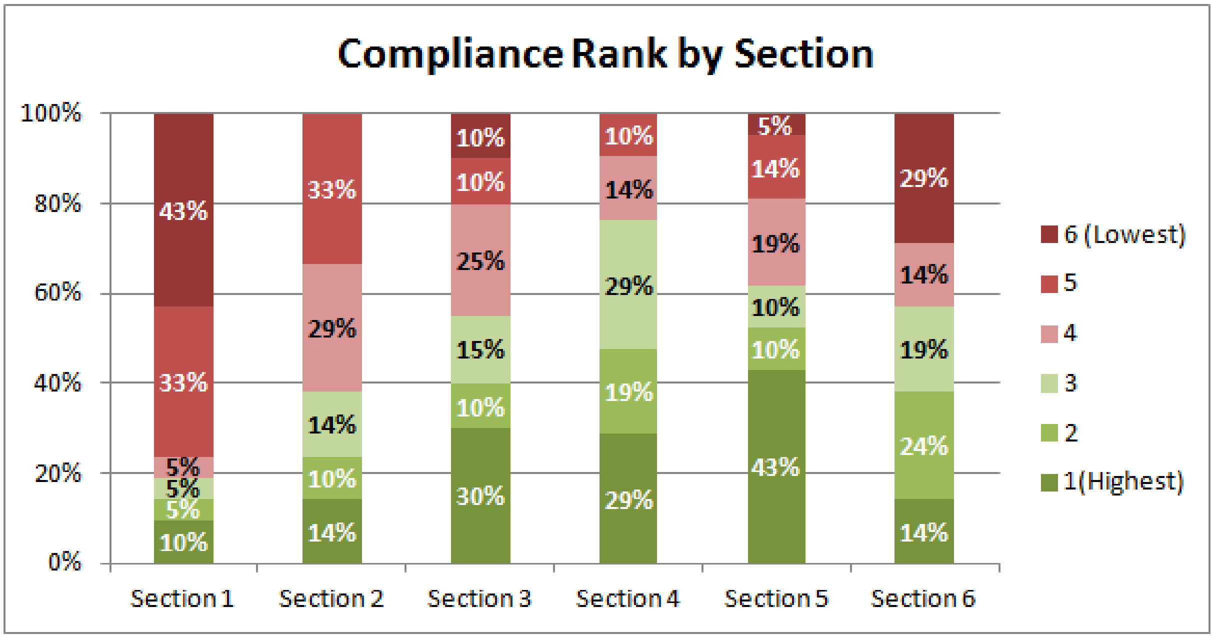
[5] Excludes Opportunity's self-assessments.

Box 1: Dispersion of Results

Aggregate results, as shown in Figure 5 above, demonstrate that on average, MFIs performed best on Sections 4 and 5 and worst on Section 1. However, this summary data obscures important individual variations. The below charts reveal the relative ranking of each section (out of six), based on the reported compliance scores. They indicate a range of patterns. For example, even in Section 1, which had the lowest overall score, a few MFIs scored very high. Further, Section 6 logged a high number of "lowest" scores, even though the average score for Section 2 was lower.

These charts demonstrate that MFIs vary greatly in the areas in which they need work – no one section is universally easy or difficult.

Figure 7: Compliance Rank by Section



For reference:

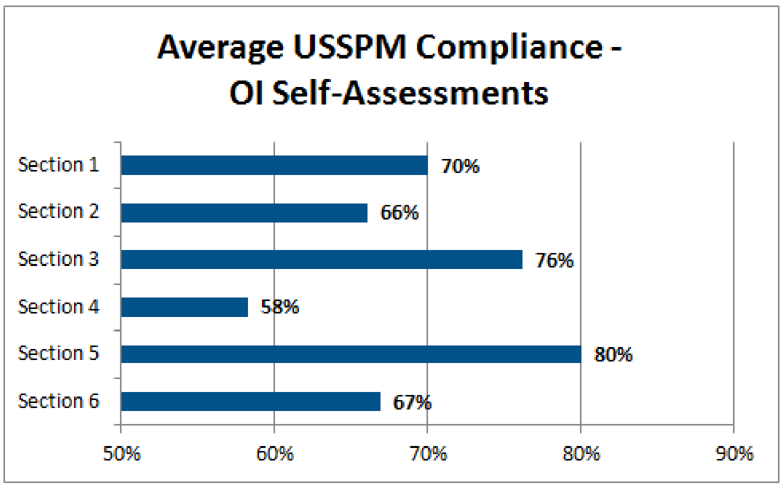
- *Section 1: Define and Monitor Social Goals*
- *Section 2: Ensure Board, Management, and Employee Commitment to Social Goals*
- *Section 3: Treat Clients Responsibly*
- *Section 4: Design Products, Services, Delivery Models and Channels that Meet Clients' Needs and Preferences*
- *Section 5: Treat Employees Responsibly*
- *Section 6: Balance Financial and Social Performance*

Box 2: Opportunity International's Self-Assessments

In addition to full beta testing with three partners (described in Exhibit 3), Opportunity International used a self-assessment tool on a stand-alone basis with nine African and Eastern European partners. They used this tool to support training and engagement on best practices. The assessments were completed by the MFIs' social performance management champion, who was asked to consult the relevant staff and management when populating the results.

Because these were considered to be a separate process, these results were not incorporated in the overall compliance scores above.

Figure 8: Average USSPM Compliance of OI Self-Assessments



The Opportunity International MFIs reported overall compliance of 69%. Like many of the beta test MFIs, they scored highly on Section 5 (*Treat Employees Responsibly*). However, in contrast to other results, these institutions reported weakest performance on Section 4 (*Design Products, Services, Delivery Models, and Channels that Meet Clients' Needs and Preferences*). African and Eastern European partners do not appear confident in tailoring their products to their clients' needs and preferences, and many indicated a need for external support to implement the EPs in this section. Feedback on specific Essential Practices from these institutions has been incorporated into Exhibit 4.

Like the beta test MFIs, there was no clear correlation between the size of the self-assessed MFI and its reported compliance. Also like the beta test MFIs, scores were higher for the Eastern European MFIs than the African MFIs.

5. Perspectives on the USSPM and Recommendations

MFIs reported compliance with 78% of the Essential Practices. We consider this to reflect positively on the USSPM: *yes, they are achievable*. Participating MFIs also had a positive opinion of the Standards as a whole, noting that they cover the right areas. Most of the Essential Practices were viewed as relevant, with a few exceptions.

By far, Section 6 proved most problematic. Not only did MFIs report lower levels of compliance for this section, but there were a host of issues about measurability, complexity, intent, and relevance. The vast majority of Essential Practices found to be not universally applicable were from this section, and institutions often had difficulty understanding the EPs and knowing how to respond. We are thus thrilled that the SPTF has acknowledged these issues and is working to revise and improve this section.

However, we believe there are some important issues that still need to be addressed. There are concerns that some of the Essential Practices are confusing, complicated, or immeasurable. While there are specific comments on many of the EPs (please see Exhibit 4), our overall suggestions are as follows:

- **Simplify EPs that contain multiple concepts** at once. At present, some EPs are too densely written.
- **Clarify any technical language**, adding explanatory footnotes as needed (and take care to ensure translation is correct across languages).[6] In general the EPs should be as clear and simple as possible. We would also recommend the **development of a guide** that can support MFIs with their assessments, ensuring that all participants share the same understanding of language and removing subjectivity.
- **Add explanatory examples**, though care should be taken to ensure they are applicable to the local environment.
- **Ensure the measurability of EPs** (the addition of the indicators will likely help on this front).
- **Remove duplication** of concepts between EPs.
- In assessments, **do not "penalize" institutions** that do not meet an EP if it is not relevant in that institution's context.

We encourage the SPTF to view refining the USSPM as an iterative process that will necessarily take some time as the industry matures and advances.

In general, participating MFIs and Working Group members have a high opinion of the USSPM overall (with varying levels of recommended adjustments). Still, opinions fall along a spectrum, with a few harboring significant concerns that the USSPM are too complex and confusing for the average MFI – and that the addition of indicators will only add a further layer of confusion. The adjustments outlined in the bullets above will go a long way in terms of helping, but thinking clearly about how to introduce the USSPM in a clear and perhaps sequenced way is also necessary. Also important for MFI uptake is alignment with the other industry initiatives and efforts, such as the Smart Campaign.

Despite these issues, we found MFIs excited and motivated about the USSPM and working to improve their practices. The USSPM are timely and there is an opportunity to seize this enthusiasm. In order to take advantage of this momentum, we would also recommend further communication from the SPTF on their vision for the Universal Standards and how they will be used in the future. (Questions include: Will the USSPM be added to social ratings in full? Will there be a certification? Are there benchmarked levels of compliance?) Communicating these goals to the SPTF membership is essential for clarity of purpose, to ensure common understanding, and for the development of appropriate tools and educational materials.

[6] For example, there is a Russian translation error in 5.a.3: клиентов should be "employees" (сотрудников), not "clients". Two beta tests conducted in Spanish reported some issues with language around outputs and outcomes, as well as some awkward sentence structures.

Appendices

Exhibit 1 – Coordinators of the Beta Test Efforts

Organization	Contact
Accion	Micaela McCandless Donella Rapier
FINCA	Katie Torrington
Freedom from Hunger	Lisa Kuhn Fraioli Bobbi Gray
Grameen Foundation	Mary Jo Kochendorfer Steve Wright
Opportunity International	Tatiana Peralta Kate Saunders Calum Scott
Pro Mujer	Jenny Dempsey
VisionFund International	Lisa Jackinsky
Women's World Banking	Jaclyn Berfond Celina Kawas Rebecca Ruf

In addition, the group received coordinating and staffing support from Meghan Greene of the Microfinance CEO Working Group.

Exhibit 2 – Participating MFIs

MFIs taking part in this exercise were:

- ASKI, Philippines
- Contactar, Colombia
- ESAF, India
- Finance Trust, Uganda
- FINCA Honduras
- FINCA Kyrgyzstan
- FINCA Zambia
- Fundacion Delamujer, Colombia
- Genesis Empresarial, Guatemala
- Grameen Koota, India
- Mibanco, Peru
- OISL, Ghana
- Pro Mujer (HQ level)
- Pro Mujer Nicaragua
- SEF, South Africa
- Sogesol, Haiti
- Ujjivan, India
- VisionFund AzerCredit, Azerbaijan
- VisionFund Cambodia
- VisionFund Nicaragua
- VisionFund Zambia

In addition, ESPOIR in Ecuador conducted a preliminary beta test in the spring of 2012, before the USSPM were finalized. Opportunity International also collected self-assessments from seven African and two Eastern European MFIs.

Exhibit 3 – Methodology Examples

Below please find in-depth descriptions about some of the methodologies used.

Freedom from Hunger
Freedom from Hunger used their Sextant methodology, in which two trained, external facilitators guide users through a series of group activities designed to elicit experiences and concrete examples. After each activity, users reflect on how the insights generated relate back to the Standards. Then, the Essential Practices are scored (using a scale of 1–10) on four dimensions related to organizational effectiveness: Knowledge (skills and information), Motivation (desire), Work Context (systems and structures) and Performance (behavior). Individual assessment team members score each item anonymously. These results are then aggregated at the organizational level. Assessment is followed by planning and implementing change initiatives that address priority findings.

The participant group should have between 8 and 15 members that are representative of the organization (from most or all levels of the hierarchy, from most or all departments). Ideally, the assessment and planning sessions should take place back-to-back. Freedom from Hunger budgeted 10.5 hours to review all phases, not including meals or breaks.

After conducting its beta tests, FFH determined that their current methodology is likely too intensive for the Essential Practices as they now stand. Their block of 10.5 hours was too short a time frame to come to a common understanding about the indicators – likely two to five days would be required. They recommend reducing the measures of Knowledge, Work Context, and Motivation – measuring first and foremost on Performance, then drilling deeper as needed. Freedom from Hunger has developed an extensive training guide for institutions interested in using this methodology for their own analyses.

Opportunity International
Opportunity International utilized a self-assessment, followed by an intensive on-site visit by an independent consultant who conducted one-on-one interviews, focus groups with various parties, and a document review. Responses were then triangulated to ensure that policies were being carried out by loan officers and other staff. This visit took approximately five days.

Afterward, the consultant produced a report, which was discussed during a group meeting at a second visit. During this large group discussion, the group agreed upon the findings and determined what resources would be needed to meet the Standards.

Opportunity felt that this two-stage process worked very well:

- The first visit started the process of reflection and identified specific gaps and areas for improvement.
- The first visit and the report laid the groundwork for the second visit, as they provided the MFI with a chance to reflect on the discussions and on the issues identified, which in some cases may be new to them.
- The second visit, after a period of a few weeks, then worked well for action planning.

Opportunity stressed the importance of reviewing data and reports (Board minutes, client data reports) in order to add substantive evidence.

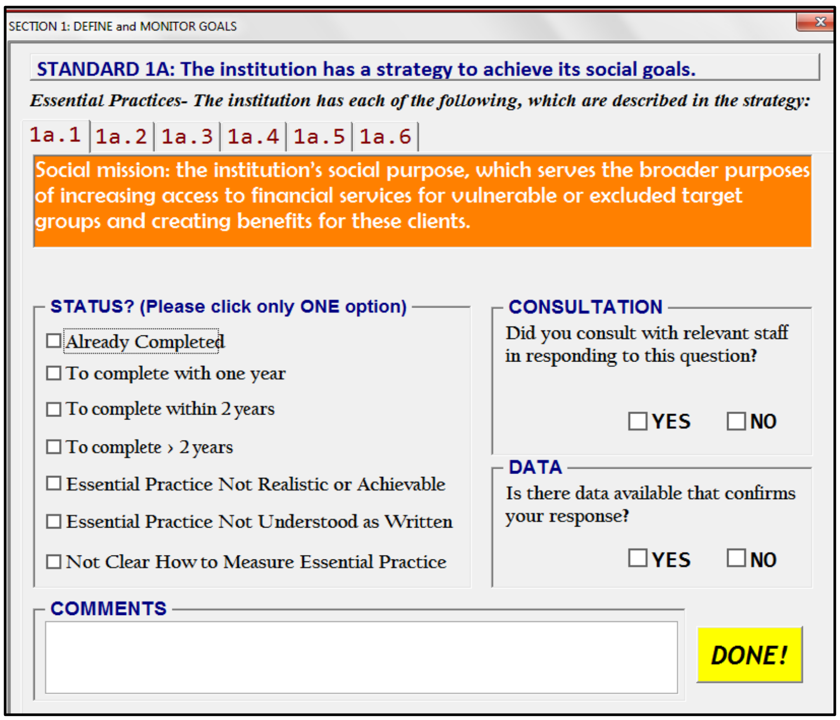
VisionFund
VisionFund developed an Excel self-assessment tool that included all Essential Practices. Each respondent was asked to report on the status of each EP, along with comments and backup information. See Figure 9.

A month before the visit, the tool was sent to each MFI. Each was asked to:

- Select 10–12 respondents from different roles: credit officer, senior leadership, Board member, branch manager, HR, IT, social performance, finance, etc.
- Coordinate submission of participant responses a week before the visit
- Host the on-site discussion facilitated by VisionFund network staff

Once the responses were submitted, 25–30 EPs without a clear majority response were selected for on-site facilitated discussions. These discussions aimed to achieve clarity on those EPs. Starting the discussion on every EP were the staff directly responsible for it. Other respondents were then enjoined to share their perspectives. After approximately 15 minutes, respondents were asked to vote so the majority agreed to a final response to represent their institution.

Figure 9: Sample Question from VisionFund's Survey Tool



VisionFund, and other organizations utilizing this tool, reported that it provided great utility in guiding the process of assessment and standardizing responses. However, respondents should not be asked to review to all sections, given time and department-specific knowledge, and VisionFund recommends that the CEO should not be part of group discussions.

Exhibit 4 – Commentary by Section

Note: the below table only identifies Essential Practices that were repeatedly identified by participating MFIs or especially notable – it does not list all comments and feedback received.

1. Define and Monitor Social Goals
Overall Comments on this Section With an average overall completion rate of 63.8%, and a standard deviation of 27%, this section ranked last in

terms of compliance. This indicates that, in many regards, additional and concerted effort is needed on the part of MFIs.

However, the Essential Practices are seen as applicable and achievable given some time, and MFIs reported that they were able to measure their status by looking at the mission, strategic goals, and policies and procedures of the organization.

Specific Practices of Note (easiest, most difficult, inapplicable, confusing, etc.)

MFIs found the Essential Practices related to setting strategy and mission easiest to achieve (especially 1a1 to 1a3, "The institution has a social mission. . . ," "The institution has target clients. . . ," and "The institution has social goals. . ."), while more difficult were those that required setting specific indicators and targets, and using data to monitor these goals. In particular, 1a4 ("The institution has social indicators. . .") and 1a5 ("The institution has social targets for outputs and outcomes. . .") stood out as challenging, which had a ripple impact on the Essential Practices in 1b (involving collecting and reporting on such data). This may suggest necessary sequencing for education or phasing-in the EPs. A few MFIs also reported confusion about the language in 1a3 to 1a5, suggesting a need for clarification about outputs and outcomes. Collecting data on outcomes is also more difficult than doing so for outputs, so these EPs could potentially be broken into two to recognize this challenge.

MFIs found the most challenging EP to be 1b5, "If the institution states poverty reduction as one of its social goals, it monitors the poverty levels of its clients using a poverty assessment tool." While MFIs find this EP important, they also believe it requires significant time and resources. This could be an area in which MFIs need additional support and guidance.

2. Ensure Board, Management, and Employee Commitment to Social Goals

Overall Comments on this Section

With an average overall completion rate of 74.3% and a standard deviation of 25%, this section ranked fifth of six in terms of compliance.

Multiple organizations struggled with knowing how to assess themselves against some of EPs: many participants said they "don't know" if their organization had achieved the EPs in this section. In general there was a lack of knowledge from staff about what goes on at the Board level, suggesting 1) a need for improved internal communications, 2) the need to target questions in this section to knowledgeable individuals, and 3) that some EPs need to be clarified (are currently too vague). We hope that the addition of indicators will assist with clarity.

Although organizations struggled to respond to this section, the EPs were seen as applicable and achievable.

Specific Practices of Note (easiest, most difficult, inapplicable, confusing, etc.)

As noted, many MFIs reported "don't know" responses for a variety of reasons. One EP that stood out as especially vague was 2b4 ("The Board prevents institutional mission drift during changes in ownership structure and/or legal form").

Some of the issues outlined in Section 1 trickle down to Section 2. MFIs reported that they struggled with specific social indicators in Section 1; therefore there are issues with the EPs in Section 2 that deal with the Board analyzing such data. Additionally, MFIs that were confused about indicators/outcomes/outputs in Section 1 again experienced challenges with EPs like 2c2 ("Senior management analyzes social performance data, including data on client-level outcomes, to compare the institution's actual performance against its stated social targets").

Other EPs that were commonly listed as difficult were:

- 2d1 "Employee job candidates are screened for their commitment to the institution's social goals, and their ability to carry out social performance related job responsibilities, when applicable,"
- 2d2 "The institution evaluates employees on how they perform both the social performance and financial performance responsibilities related to their position," and
- 2d6 "Managers and supervisors review ethical behavior, professional conduct, and the quality of interaction with customers as part of employee performance evaluations. The institution's incentive system does not put loan officers in a 'conflict of interest' with the clients at the time of collection, and rewards ethical behavior."

It was also commented that some individual Essential Practices (especially those stemming from the Smart Campaign's Client Protection Principles) contain multiple concepts, making it difficult to determine adherence. For example, 2d6 (listed above) contains multiple concepts. It also does not seem to match directly to one Client Protection Principle, instead pulling from multiple.

Finally, certain EPs (see Section 2d, "Employees are recruited, evaluated, and recognized based on both social and financial performance criteria") involve some repetition of concept: 2d2 says "The institution evaluates employees on both social and financial performance. . . ," a general concept, while 2d6 says "Managers review ethical behavior, professional conduct, and quality of interaction with customers . . . as part of employee performance evaluations," a more specific (though multifaceted) requirement.

3. Treat Clients Responsibly

Overall Comments on this Section

With an average overall completion rate of 79.4%, and a standard deviation of 20%, this section ranked third of six in terms of compliance.

Reported compliance with this section depends greatly on the country context. In some countries with strong regulation, MFIs reported with confidence that they already meet these EPs. In addition, many MFIs reported significant familiarity with the concepts in this section, citing the Smart Campaign.

That said, there is the general sense that the EPs in this section are too "complicated" – that they involve multiple parts and concepts at once. In some situations, this resulted in confusion and the suggestion that language could be clarified and simplified.

Specific Practices of Note (easiest, most difficult, inapplicable, confusing, etc.)

Given regulatory variations, issues with specific EPs varied by country. For example, 3a3 ("When available, the institution checks a Credit Registry or Credit Bureau. . .") was seen to be prohibitively expensive in South Africa.

A surprising number of beta test participants reported that parts or all of Section 3b (regarding transparency) were irrelevant. Multiple institutions thought that APRs are not the best way to communicate interest rates to clients, which could suggest the need for financial education about fee structures for clients and staff.

Multiple institutions thought that that EP 3c1 ("In group lending, the institution provides clients with awareness-raising sessions about the concept of solidarity loans, the need to cover for co-borrowers in case of late payment, and on the repayment capacity that is not to be exceeded") was inadequate and that additional essential practices for this topic should be added. Others considered, however, that this was not applicable for MFIs who do not provide group lending.

4. Design Products, Services, Delivery Models and Channels that Meet Clients' Needs and Preferences

Overall Comments on this Section

With an average overall completion rate of 83.7%, and a standard deviation of 15%, this section ranked first in terms of compliance, with the smallest standard deviation. This suggests that organizations have a high opinion of their current products, services, delivery models, and channels.

The Essential Practices in this section were seen as applicable and achievable, though there were some suggestions (outlined below) to improve clarity and measurability.

Specific Practices of Note (easiest, most difficult, inapplicable, confusing, etc.)

The EPs in 4a ("The institution understands the needs and preferences of different types of clients") were generally seen as more difficult to achieve. In addition, some MFIs reported that they did not know how to measure compliance against these EPs. The indicator release may be helpful in this regard.

Additionally, 4b2 ("Loan repayment schedules correspond with the expected cash flows of borrowers") was often cited as more difficult for institutions to achieve.

There appears to be some repetition in the EPs in 4b with other areas of the USSPM, for example:

- 4b2 "Loan repayment schedules correspond with the expected cash flows of borrowers" could be considered to be part of 3a: "The institution determines that clients have the capacity to repay. . ."
- 4b4 "Products are affordable to clients, meaning clients will not have to make significant sacrifices to their standard of living or business affairs. . ." is encompassed in Section 6: "Pursuit of profits does not undermine . . . client well-being."

The EP identified as problematic by the most institutions was 4b9: "The institution has two credit policies in place: 1) a policy describing acceptable pledges of collateral – including not accepting collateral that will deprive borrowers of their basic survival capacity, and offering an explanation of the role of guarantors; the policy guarantees clients receive a fair price for any confiscated assets; and 2) a policy to actively work out solutions for rescheduling loans/writing off on an exceptional basis for clients who have the 'willingness' to repay but not the capacity to repay."

One MFI was confused by what "acceptable" collateral would entail (because, according to the MFI, institutions serving the very poor must accept collateral that could deprive clients of basic survival if they are to serve them at all. Further, they cannot guarantee market price because they need to sell quickly). Other MFIs thought that one or more parts of this EP were not universal. In general this EP has too many concepts in it and should be simplified.

Additionally, there was some confusion about:

- 4b6 "Product terms and conditions are easy for clients to understand and compare" was seen as hard to measure. What constitutes easy from the client's perspective?
- 4b7 "Changes to the product (cost, terms, conditions) are minimal and infrequent" needs to be clarified since some product changes are necessary and driven by demand.
- 4c2 "Providing timely access to sufficient money and services that allow clients to reduce their risk and cope with common emergencies. . ." should define "timely access" and "emergencies."

5. Treat Employees Responsibly

Overall Comments on this Section

With an average overall completion rate of 83.3%, and a standard deviation of 17%, this section ranked second of six in terms of completed EPs. Several of the participating institutions proudly reported easy compliance with this section, while others noted more challenges.

Specific Practices of Note (easiest, most difficult, inapplicable, confusing, etc.)

The EPs in 5c ("The institution monitors employee satisfaction and turnover") were found to be more challenging for a few of the participating institutions, especially 5c2 ("The institution monitors the rate of employee turnover and understands the reasons for employee exit"). In particular MFIs felt that it was difficult to identify *reasons* for employee exit. The SPTF could consider breaking this into two, since several organizations seem to monitor the rate of turnover but not yet the reasons.

Other EPs commonly listed as requiring additional effort are:

- 5a3 "The institution accepts and responds to employee grievances through a formal and confidential grievance system. . ."
- 5a5 "The institution assesses the health and safety risks that employees face on the job and provides to employees, free of charge, the training and equipment necessary to mitigate those risks"

No EPs were found to be inapplicable, though some language clarification is recommended on a few EPs:

- While 5a2, "Employee compensation levels constitute a living wage for employees" discusses a living wage, this should be defined further, referencing appropriate local sources. This EP was found to be confusing at present for several institutions.
- In 5a4 "The institution neither employs nor benefits from forced or compulsory labor. . .," it is unclear whether the EP is referring to the MFI or its clients' businesses. Further, terms like "forced labor" and "threats of penalty" should be clarified, referencing appropriate local legislation.
- 5a5 "The institution assesses the health and safety risks. . ." needs to be clarified because at present it is too broad. The examples should be made relevant for the audience.
- Regarding 5a6, "The institution documents, reports, and investigates all occupational accidents, injuries, or diseases," one MFI did not understand the meaning of "occupational disease."
- 5b3 "Each employee understands how his/her performance will be evaluated and rewarded by the institution" was found to be "impossible to measure" with certainty unless each employee is polled.

6. Balance Financial and Social Performance

Overall Comments on this Section

With an average overall completion rate of 77.6% and a standard deviation of 16%, this section ranked fourth of six in terms of completed EPs. While it did not garner the lowest score overall, MFIs clearly had the most issues and struggles with this section in general.

This section garnered *by far* the most comments. MFIs thought this was the most complicated section, with the most subjective, confusing, and complex EPs. Institutions who reported high compliance percentages also tempered that information by stating that by this time in the assessment the participants were tired and more likely to rapidly move through the Practices.

Several participating institutions commented that this section was written from the perspective of a more commercial MFI, which is not always relevant for very socially minded organizations or nonprofits without investors, for example. These comments are detailed further below.

Many participants logged a very high number of "don't know" answers (especially in areas 6b, 6c, and 6d) indicating that 1) many of the issues in this section require specialized finance knowledge and 2) the language needs to be clarified further. Others found that they could not respond adequately because some of the EPs were difficult to measure or contained too many concepts (e.g., 6a1, 6a2, and all of 6b and 6c).

Given that some EPs were found to be important for many institutions, but not all MFIs universally, future assessment scores should not penalize an institution for not "complying" with an EP that does not apply to that institution.

Specific Practices of Note (easiest, most difficult, inapplicable, confusing, etc.)

Below we have outlined EPs identified as not universally relevant by one or more institutions. The most common issues are in bold.

- 6a2 "The institution manages the risks associated with growth by 1) assessing market conditions to ensure that neither long-term sustainability nor client well-being are jeopardized by pursuit of short-term growth, and 2) setting and verifying compliance with growth related policies across all departments/branches" – Not all departments in an MFI have growth-related policies.
- **6b1 "The institution and its investors align up front their desired level of returns and how those returns will be allocated. . ."– Not relevant for all organizations (e.g., nonprofits, organizations without investors, with regulatory restrictions).**
- 6b2 "The Board establishes desired ranges for risk-adjusted return on assets (ROA), risk-adjusted return on equity (ROE) and other relevant profitability ratios, and has a rationale for how those target ranges balance financial and social goals" – Not applicable for organizations where numbers are not set by the Board.
- **6b3 "The institution works with investors whose expected time horizons and exit strategies are aligned with the institution's social goals and stage of development" – Not relevant for organizations without investors or with regulatory restrictions; in addition investors dictate time horizons and many local lenders do not have socially related goals.**
- 6b4 "The institution considers its total cost of capital when deciding on a financing structure. . ." – Not relevant for all institutions.
- **6b6 "The institution's funding model protects client savings and cash collateral" – Not relevant for organizations that can't keep savings.**
- 6c2 "Do not pass on cost of inefficiency to the client" – Not relevant for all institutions.
- **6d2 "The institution calculates the difference between the average compensation of its top level executives and its field employees, and evaluates whether this spread is consistent with the institution's mission. . ."– Not universally relevant given the many factors that impact compensation.**

While in general we recommended that EPs be adjusted to disaggregate multiple concepts, clarify complex language, and incorporate measurability, we'd like to point out specific language adjustments for the following:

- 6a1 "The institution sets sustainable target growth rates for all branches/regions and for all products, considering both internal factors (e.g., staffing, information systems, financing) and external factors (e.g., competition, market saturation, client overindebtedness" – EP asks about too many concepts and should be broken down.
- 6a2 (see above) – Includes multiple concepts of varying levels of difficulty. The language is confusing.

- 6b2 (see above) – Asking about financial and social goals simultaneously is confusing.
- 6b4 (see above) – There is confusion about the meaning of "total cost of capital." Further, an institution could “consider” the cost of capital and still pass on a lot of cost to the client.
- 6c6 “The institution establishes a loan-officer-to-client ratio that promotes high service quality for clients” – Consideration of such a ratio is subjective.
- 6c3 “Allow the institution to earn a rate of return to support operations and grow, that does not deviate significantly from the peer group” – Clarification is needed on the phrase “deviate significantly.”

Finally, while most of the beta test institutions did not look at the “Additional Good Practices,” one that did had the following comments:

- 6a6 “The institution reports to MIX and/or a microfinance association on its portfolio (clients, loans, savings) and portfolio quality (including PAR) for each geographic area/administrative unit in the country, so that data can be computed against population numbers for that area” – MIX and the local network do not request data by region, so it doesn’t apply. More important is reporting this information to the credit bureau.
- 6b8 “The financial institution invests a portion of its profits to increase value to customers, such as lowering interest rates or adding or improving products and services” – It could always be argued that reinvested profits increased value to customers; this EP is very general.