

# Scaling up SPM one member at a time: Case study on CMF (Nepal)



## EXECUTIVE SUMMARY

The experience of the Centre for Microfinance (Nepal) within the MFC<sup>2</sup>-managed Social Performance Start-up Fund for Networks is a story of overcoming challenges. CMF's strategy to scale-up SPM among its members was met with a range of hurdles, from language and capacity barriers to national political unrest. CMF met these challenges with a highly individualized approach to member assistance, which allowed it to tailor its message and support, understand and respond to member needs, and ultimately over-deliver on its targets around member social reporting.

## INTRODUCTION

This case presents the experience of the Centre for Microfinance (CMF) and its work with the Social Performance Start-up Fund project (see Box one), which aimed to support members to manage and report on their social performance.

The Centre for Microfinance in Nepal was established in 1998 by the Canadian Centre for International Studies and Cooperation (CECI). CMF was registered as a private company in 2000, at which time its Board of Directors decided that CMF's profits should be used for the development of the microfinance sector and poverty alleviation programs.

CMF's mission is to promote and strengthen microfinance services through networking, capacity building, training, knowledge management, research, policy advocacy and advisory services with mutual trust and cooperation among member MFIs, services receivers, practitioners and stakeholders. CMF's work with its members has a particular focus on strengthening outreach and service to poor and excluded communities, including women. CMF's members include microfinance development banks, associations, individuals, financial intermediary NGOs and women-owned and -governed

cooperatives or credit unions. Its members represent about 56 per cent of the formal Nepalese microfinance sector.

### Box one: The MFC SP Start-up Fund

The MFC Social Performance (SP) Start-up Fund for Networks<sup>1</sup> supports 13 national networks from Asia, Africa and Eastern Europe (with limited or no SPM experience) to implement one-year country-level projects on social performance management (SPM). Grantee networks engage local stakeholders around microfinance and social performance, increase sector transparency and help members align internal processes to facilitate more effective fulfilment of their social goals. Supported by the Ford Foundation, the Fund is managed by the Microfinance Centre (MFC), a microfinance resource center and network serving the Europe and Central Asia region and beyond.

<sup>1</sup> More information can be found at [www.mfc.org/en/content/sp-start-fund](http://www.mfc.org/en/content/sp-start-fund)

<sup>2</sup> MFC – Microfinance Centre is a regional network for Europe and Central Asia with headquarters in Poland. Since 2005, MFC has provided SPM and social reporting capacity building to over 30 microfinance networks and 150 MFIs. MFC is a member of the *Imp-Act* Consortium and the Social Performance Task Force. For more information visit [www.mfc.org.pl](http://www.mfc.org.pl)

<sup>3</sup> The development of this case benefited from the input and insights of Katarzyna Pawlak (MFC), Kinga Dąbrowska (MFC), and Mr. Jagadish Babu Tiwari (CMF Nepal).

CMF's involvement in the SP Start-up Fund tells the story of a network promoting and supporting SPM in spite of a difficult political environment, coupled with the challenge of members' poor organizational infrastructure, including weak information systems. Despite these barriers, they are one of the most advanced Start-up Fund project partners in terms of achievements, due in no small part to their careful individual approach with members.

### MAIN STORY

#### Context for SPM in Nepal

In terms of integrating an SPM lens into the Nepali microfinance sector, CMF saw both opportunities and challenges. The predominant focus on financial performance in the sector had resulted in little knowledge of, or priority given to, the social mission of microfinance. Indeed, a rapidly-growing sector saw MFIs focusing on short-term sustainability, at the expense of the well-being of their clients. Reminded of the client crisis in nearby India, CMF recognized a number of "red flags", including the reluctance of clients to participate in MFI meetings, multiple borrowing without productive investment, high exit and arrears rates, and increased pressure on clients — especially female heads of household. More worryingly, CMF saw the agendas of donors and investors pointed firmly towards financial sustainability and high returns.

Despite this, a significant number of larger MFIs were becoming increasingly interested in building their "social image" by bringing their social and financial performance into balance. Within this space, CMF saw a clear role for itself in terms of building members' capacity to manage and report on their social performance. By raising awareness and equipping its larger, more established members with the tools needed for SPM and client protection, CMF's hoped to create a "demonstration" effect, whereby its smaller members would understand the benefits and means of following suit. More broadly, CMF hoped that its work with partners would spark the required changes in the national regulatory environment that would incentivize a long-term, balanced approach to microfinance — a vision that was firmly focused on the clients themselves.

#### Project overview

CMF's overall aim for the project was to:

- Increase the number of members reporting to MIX on their social performance to 50 per cent of members
- Have 20 cent of MFIs using the social performance information in their decision-making process
- Have at least 25 per cent of MFIs include social performance in their design and strategic plan

They also focused on improving client protection by providing trainings and assessment to MFIs. The specific aim was to help MFIs complete self-assessments of the status and effectiveness of their client protection policies.

To achieve these aims, the project unfolded in a series of linked activities (see Table one), including:

**Table one: CMF's project plan**

STEPS	WHEN
Kick-off workshop delivered by MFC	Oct 2011
Materials translation	Nov-Dec 2011
Awareness-raising workshops	Dec 2011
Social reporting workshop	Jan 2012
Social report preparation/ verification	Jan-Feb 2012
Client protection training and self-assessment by MFIs	March 2012
Reporting lessons learned workshop	April 2012
SPM support to members	Mar-Sept 2012
Project lessons learned meeting	Oct 2012



**Kick-off workshop:** All networks participating in the Start-up Fund project came together in the Philippines in October 2011. This event was designed to build each network's capacity to train/support on SPM and social reporting, as well as to equip them with the tools required to successfully manage their projects.

**Translation of materials into Nepali:** At the kick-off workshop, networks received copies of training and support materials that they could use with their MFI partners. To facilitate ease of understanding, they translated most of the materials into the local language.

**Awareness-raising:** CMF held a series of 2-day workshops for members to promote social performance management and reporting, and to build basic capacity. These events provided an introduction to concepts of SPM and client protection, reviewed the new Universal Standards for SPM, introduced social reporting to the MIX, and covered SPM diagnosis, mission deconstruction and developing social goals. Participants completed action plans for SPM improvement. CMF followed up on these through individual visits to MFIs.

**Reporting training:** Following the promotional workshop, CMF organized a two-day social reporting workshop for project partners. Participants came prepared with their internal strategies and policies, and worked on filling out the reporting template in the workshop setting. Participants identified data gaps and planned how to address them, and also described areas for SPM improvements based on their data gaps. After this event, SPM champions returned to their home institutions to start filling out the template, with support from CMF.

**Client protection survey and training:** As a first step towards mainstreaming a focus on client protection among members, CMF carried out an assessment of actual practice among a sample of members. Based on the strengths, weaknesses and gaps identified, CMF designed a two-day workshop to introduce the client protection principles. It shaped this event not only on the state of members' practice, but also on a case study on the recent Indian client over-indebtedness crisis, as well as stories emerging in Nepal (for example, when clients demonstrated against an MFI and expressed their inability and refusal to repay their loans).

## Experience in detail

### **Raising awareness**

Of the 41 of MFIs that participated in the awareness-raising workshops, 22 committed to improving and integrating SPM in their institutions. They had initially hoped for an SPM uptake rate of 20-25 per cent — so this result exceeded expectations. For the remaining participants, CMF was satisfied with exposing them to the topic in general. However, CMF did find that combining different types of members (cooperatives, financial intermediary NGOs and microfinance banks) in a single awareness-raising event meant trying to accommodate different levels of institutional maturity and staff capacity within one workshop design. To address this, they relied a lot on individual follow-up visits to make sure the SPM message got through.

In addition to its SPM promotional events, CMF has also integrated SPM and client protection topics into its regular "Microfinance Management Training" curriculum. Doing so has allowed CMF to get non-project members interested in social performance issues, convince them of the urgent necessity for a more balanced approach to microfinance, and ultimately encourage those members to become involved in CMF's SPM work in future.

### **Appealing to self-interest: making the case for SPM**

Beyond a clear focus on clients, CMF understood that effective SPM has the potential to improve conditions for MFIs "internal clients" — i.e. for staff. Social responsibility to staff means a happier more productive workforce — and this was a message that CMF drove home in its communication with members when it was promoting the idea of SPM. Within a context of staff strikes in different institutions over conditions and remuneration, CMF found that the message resonated particularly well.

### **Addressing reporting challenges**

One of the key challenges faced by CMF in this project was the poor quality of member infrastructure — particularly around management information systems. Where members did not have data in an electronic format, CMF found that it had to visit each member at least once, and manually collect the data required to complete the reporting template. From an efficiency perspective, they

tried to build these visits into other standing visits with members. A number of interesting reporting challenges arose for CMF and its members, including:

- The complexity and language of the report was a consistent problem for MFIs, especially the less-educated staff of cooperatives. For this reason, CMF found that it needed to take extra time to communicate the meaning of the various documents such as the MIX reporting formats, the client protection self-assessment formats.
- As the MIX reporting formats contain formulae and linked cells that are un-protected, the risk of someone accidentally deleting the formula/link is high.
- MFIs encountered numerous data and information gaps when completing the MIX reporting formats for social and financial performance.

Despite these, CMF eventually collected over twice the expected number of member social reports (43 versus a targeted 17). They credit this success not only with their effort to promote and support good reporting practice, but also the growing interest around transparency by MFIs and local/international development organizations.

### **Providing on-going SPM support to members**

Following the initial SPM training, CMF visited each member in the field to provide on-site guidance and support in on-going SPM implementation. The basis for this was the “quick wins” guidelines developed by the Microfinance Centre for its grantee networks<sup>4</sup>. Being able to create quick wins is important in CMF’s view, because it understands that the degree of social performance transparency, and duration of an MFI’s commitment to SPM, both depend on whether they can see the benefits.

In the event, these visits revealed that almost all workshop participants had shared social performance issues within their institutions. Boards and senior management were generally committed to SPM, and a small number had even taken some initial steps to improve their SPM. These included: adding non-financial services such as health or education, increasing transparency, and improving the staff-client dynamic. Beyond this, however, CMF found that increased awareness had not yet translated into improved practice. To facilitate this,

CMF is committed to developing more intensive and targeted training packages for members.

### **Benefits and next steps**

#### **Benefits**

From CMF’s perspective, this project has benefited them on a number of levels. First and foremost, they have built their own internal capacity to support and assess social performance, client protection, and transparency. It has also enabled them to strengthen their relationship with their members, based on a fuller understanding of their strengths and needs. Indeed, they also attribute a recent increase in the number of members (from 27 to 37, increasing by a further 8 by July 2013) to their strengthened “member focus”.

Demand for CMF’s other training courses has also increased, where organizations have found weaknesses in key management processes as a result of their assessment and reporting processes. In response, CMF has integrated an SPM lens into its regular training curricula, to ensure that each training course they deliver enables members to balance their management approach.

This project has also helped CMF to build its image within the industry as a socially-focused network. In this way, CMF has been able to build (or strengthen) its relationship with external agencies that can provide training and technical assistance to CMF and its members, including CERISE (for social performance assessments) and the MIX (around reporting). Increased exposure to international good practice resources will also strengthen CMF’s own capacity to support its members.

#### **Next steps**

#### **Using social reporting data to inform the network’s future strategy**

While the number of MFIs that underwent social reporting through this project is small in relation to the total number of MFIs in the country, it was a useful exercise from the perspective of providing an insight into the state of SPM practice in Nepal. In conjunction with the client protection assessment report, CMF will be able to use the data to inform and shape their future strategy as a network, and provide targeted support to their members.

<sup>4</sup> To download the “quick win” guidelines visit [www.mfc.org.pl/en/content/sp-start-fund](http://www.mfc.org.pl/en/content/sp-start-fund)



### **Creating a national social performance task force**

At the reporting lessons learned workshop, participants recognized the need for future coordination and strengthening of the sector's SPM efforts. To this end, they agreed on the foundation of a national social performance task force, to be chaired by microfinance experts, with CMF playing a coordinating role. The task force's proposal to the central bank that micro-lending organizations be evaluated not only on financial health but social performance was met with broad approval by the supervisory body. Task force representatives will include microfinance development banks, cooperatives, financial intermediary NGOs, the central bank, and CMF.

### **Creating broader visibility for SPM in Nepal**

Realizing the importance of social performance management, CMF is organizing 'Microfinance Summit Nepal 2013' during February 14-16, 2013 with main theme Socially Responsible and Sustainable Microfinance. The event will bring together stakeholders from the national sector (including regulators), as well as international guest speakers. These external experts will serve to strengthen the message about the global importance of SPM, which should increase visibility and buy-in at the national level.

## KEY LESSONS

### **Involving a broad range of stakeholders**

CMF's took an innovative approach to promoting the importance of SPM: it brought on board a range of different actors, from financial service providers to networks, government organizations, local NGOs, development organizations, and the central bank. By demonstrating to its members the importance of SPM to each stakeholder group, CMF created a "choral effect", whereby members could put SPM into a broader context.

### **Communication, communication, communication**

CMF relied heavily on individual engagement with members throughout this project as a way of addressing a number of issues: from capacity challenges, language barriers and security problems. While time-consuming, this strategy provided CMF with a deep insight into the needs and challenges of each member, and allowed it to tailor its language and approach accordingly. It also helped them to reach out within each organization to a broader range of stakeholders to deliver the SPM message. This approach was especially important, because successful SPM integration requires buy-in at different levels (even MFIs' clients and lenders), which needs both effort and time to secure.

### **Conclusion:**

In a context where all microfinance stakeholders (not just MFIs) had a primary focus on short-term and financial benefits to the clients and institution, CMF's SP Start-up Fund project successfully introduced to local stakeholders the concept and universal importance of social performance. Its partners now understand that SPM is the key to effectively satisfying the needs of clients, staff and society as a whole — while at the same time ensuring reasonable financial returns. All stakeholders involved in this project have expressed not only their commitment but their vision for taking their SPM work forward in future. A key challenge facing all partners will be not only to realize their plans, but maintain good practice in the long-run.

For CMF, the challenge is to apply lessons learned from their "SPM pioneers" to the rest of the membership, and scale-up their promotional/support activities until SPM makes the important transition from "new concept" to "standard business practice" in Nepal.