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May 4, 2011

Is Microfinance Ready for Social Performance Certification?

Elisabeth Rhyne
Smart Campaign



Sam Daley-Harris
Microcredit Summit Campaign



Leah Nedderman Wardle
Social Performance Task Force



Is Microfinance Ready for Social Performance Certification?

Leah Nedderman Wardle, SPTF

Elisabeth Rhyne, Smart Campaign

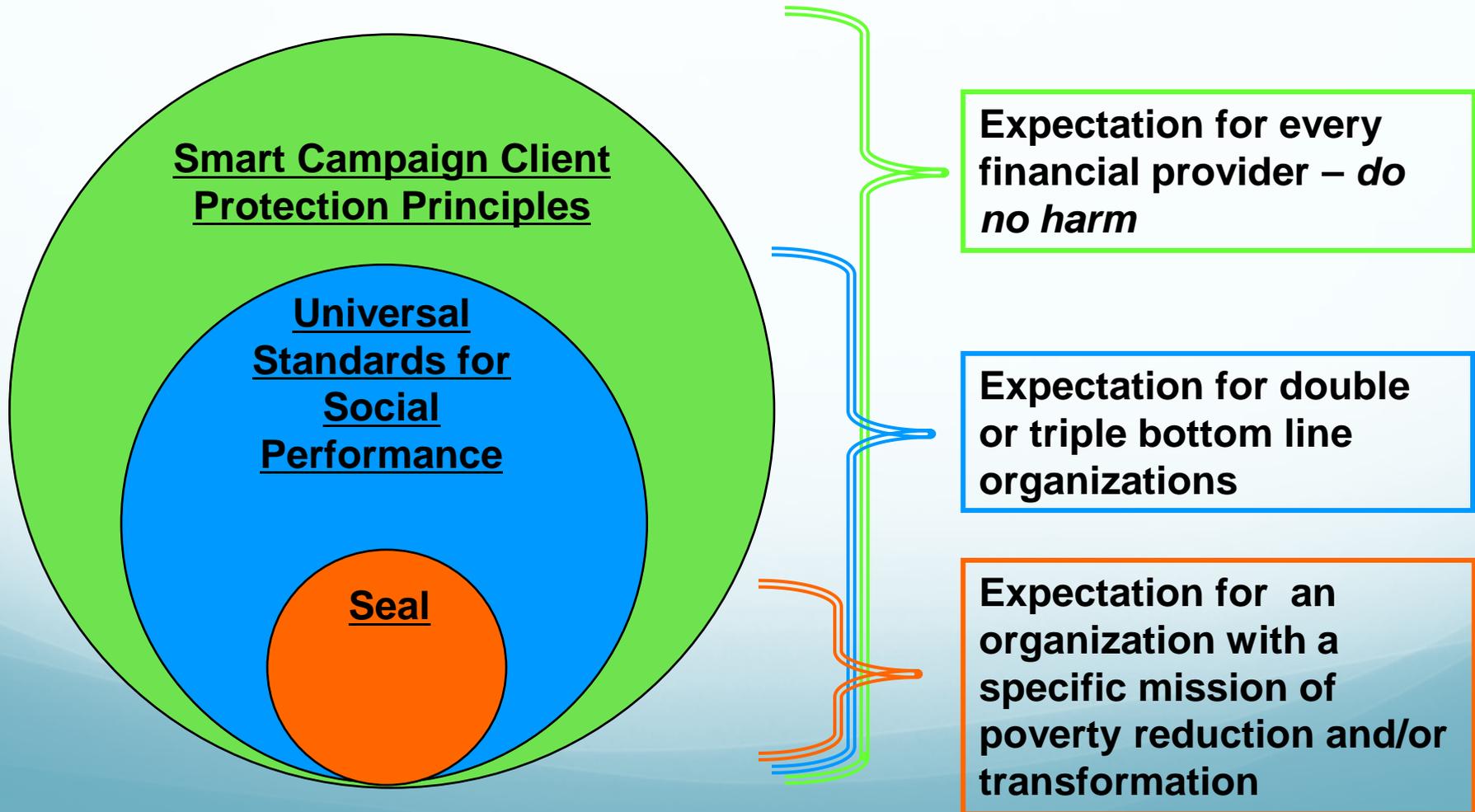
Sam Daley-Harris, Microcredit Summit

USAID After Hours Series, May 4th, 2011

The Social Performance Landscape

- Social performance: The effective translation of an institution's mission into practice.
- Current social performance landscape: Diversity of stakeholders, interests, levels of engagement. Serious about collaboration.
- Questions:
 - Can we hold the industry to “universal” social performance standards?
 - Beyond standards, where do we set the benchmarks for social performance? Are there “universal” benchmarks?

Different initiatives apply to different financial service providers



The SPTF Universal Standards for Social Performance

- Standards to which any institution claiming a double- or triple-bottom line should be held.
- Origin: The MIX Social Performance Standards Report, social raters, social auditors, investors, and other SP initiatives.
- Status: Draft—Public comment begins mid-May.



Six Key Categories of Standards

1. Governance and staff commitment to social goals
2. Client protection
3. Products and services that meet client needs
4. Social responsibility to staff
5. Client monitoring
6. Responsible financial performance

Six Key Categories of Standards

- 1. Board knows social goals, monitors social performance. Staff are trained on, and incentivized for social performance.
- 2. Adopt the standards of the Smart Campaign.
- 3. Offer multiple & flexible products based on market knowledge.
- 4. Responsible HR policies, low staff attrition.
- 5. Monitor explicit social goals.
- 6. Responsible growth, returns, and efficiency (maybe compensation).

More than Standards

Standard	Objective	Benchmarks/ Guidelines	Indicators	Tools for Strengthening Performance
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Example

Standard	Objective	Benchmarks/ Guidelines	Indicators	Tools for Strengthening Performance
<p>Staff is trained on the institution's social goals, and on the systems for monitoring the achievement of social goals.</p>	<p>To make social goals meaningful, staff must internalize these goals and know how to monitor the institution's progress toward and achievement of those goals.</p>	<p>Each staff member receives X hours of training on social goals and social performance monitoring per year.</p>	<p>Number of hours of training on social performance per staff working on microfinance operations during the reporting year.</p>	<ol style="list-style-type: none"> 1. MFC's From Mission to Action: Strategic Management Toolkit 3. Imp-Act SPM Practice Guide 4. SPM Toolkit from MicroSave 5. SPI Tool by CERISE 6. Social Performance Assessment (SPA) by EDA Rural Systems 7. Quality Audit Tool (QAT) by MicroFinance Centre (MFC)

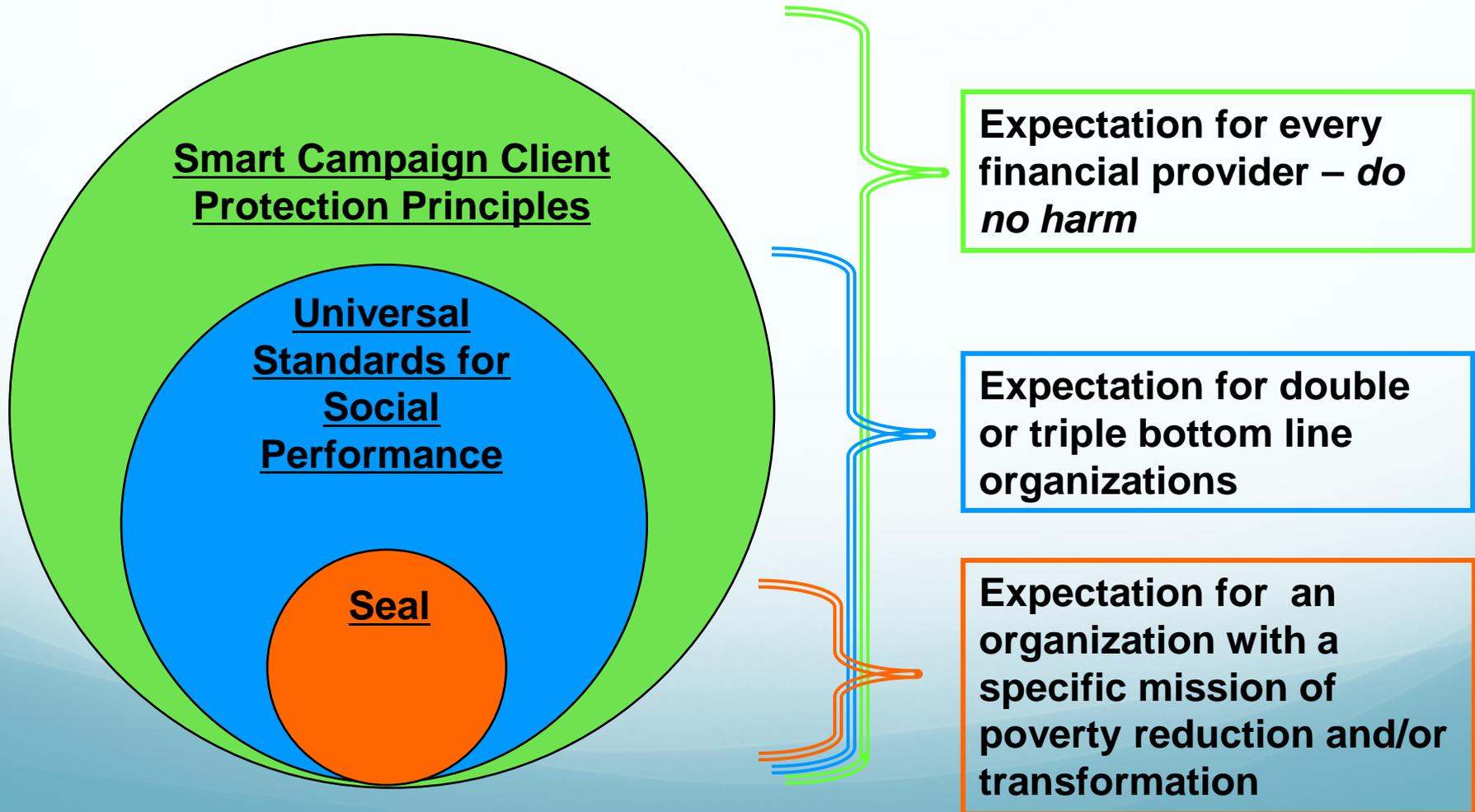
Is the industry ready for certification?

- Along with standards, the SPTF is working to create benchmarks where they don't already exist.
- Standards → Benchmarks → Certification.

Stakeholders

- Investors & Donors
- Networks & Associations
- Social raters & social auditors
- Financial Service Providers
- Public

Different initiatives apply to different financial service providers





Goals of the Smart Campaign

Ultimately, to protect 50 million – and more – clients of microfinance

- Raise awareness and commitment – client protection in the DNA of microfinance
- Develop norms, standards, and guidance – and get them into use
- Build capacity of networks to support client protection with their members and in their markets
- Create certification process for MFIs

The Client Protection Principles

1. Avoid over-indebtedness
2. Transparent & responsible pricing
3. Appropriate collections practices
4. Ethical staff behavior
5. Mechanism for redress of grievances
6. Privacy of client data

News Flash~

The principles will be revised next month to incorporate the full range of financial services (beyond credit) and to address non-discrimination



Keeping clients first in microfinance

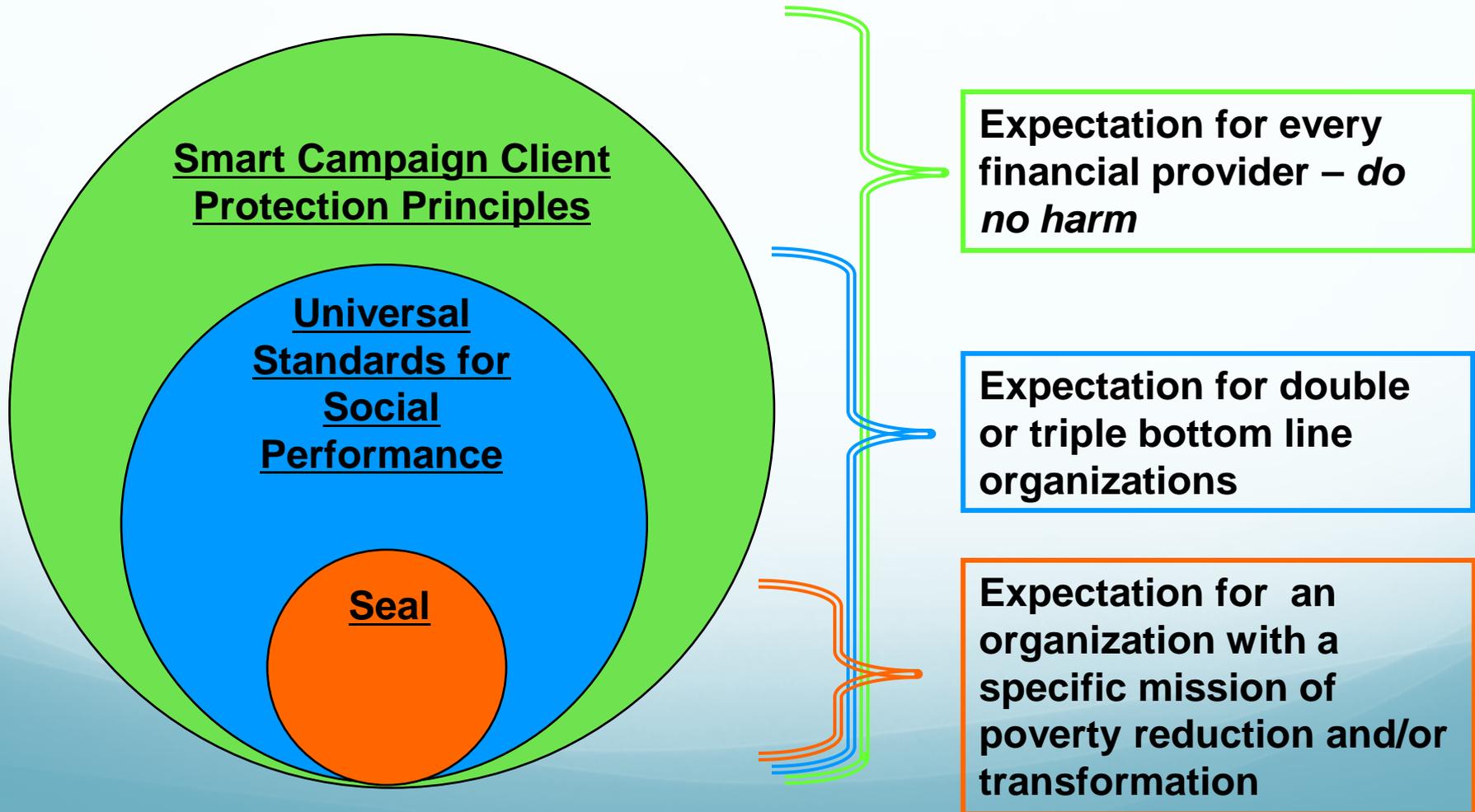
The Smart Campaign Main Activities

- Endorsements: To date – 1800 endorsers from 130 countries, 540 MFIs
- Tools and Resource Center: www.smartcampaign.org is a resource center with many tools and resources for MFIs, associations, and investors on implementing the CPPs
- Training and Assessments: The Campaign works through 30 national MF associations to train trainers and assessors, and then collaborates with training and assessments of member MFIs. Many tools are available and more are in development.
- Certification: The Smart Campaign is currently developing criteria and a process by which MFIs can be recognized for meeting client protection standards, to be launched at the start of 2012.

Client Protection Certification

- The Smart Campaign's Certification Task Force is a multi-stakeholder group with a core technical **committee**, including all the specialized microfinance rating agencies. It began work in August 2010.
- The certification process will enable microfinance institutions (MFIs) worldwide to demonstrate their adherence to the Client Protection Principles as verified by third-party certifiers, licensed by the Smart Campaign.
- The certification process will be modular – it can be applied as part of a social or a financial rating, or as a stand-alone exercise.
- The microfinance rating agencies will be the initial licensees, based on their contributions to the development of the methodology.
- Certification will be launched at the start of 2012, after a period of field-testing, public comment, and final design.

Different initiatives apply to different financial service providers



Seal of Excellence for Poverty Outreach and Transformation



MICROCREDIT SUMMIT CAMPAIGN

A Project of RESULTS Educational Fund

- Seal is an initiative currently under discussion:
 - Envisioned by Microcredit Summit as a separate initiative to promote excellence in poverty outreach and transformation.
 - Builds on the Smart Campaign's client protection principles and the Universal Standards work of the Social Performance Task Force.
 - Discusses using systems for validation that have already been developed for rating social performance of microfinance institutions.

Previous Outline of a possible Seal

Gold

- RESPONSIBLE ++ & DEPTH & EFFECTIVE
- Linked or direct strategies to support client development (livelihood, health, children's education)
- Evidence of access (*at least 20% of clients*) and value to clients
- Significant and fair wage employment (SME lending)
- Environmentally sustainable lending

Silver

- RESPONSIBLE+ & DEPTH OF OUTREACH
- *Less developed areas, poor and excluded households at entry* (Linked to country context, and use of PPI (*at least = country average and monitored*))
- Or SME lending for wage employment
- Gender diversity

Bronze

- RESPONSIBLE MICROFINANCE :
- Client protection principles + financial education for clients
- Standards around governance (level and allocation of profits ; remuneration to CEO (vs portfolio size and av. remuneration to average field staff)
- Conditions of staff employment
- SME lending – environmental standards

Excerpts from Annex V

Standards for double bottom line finance

Governance/ Responsible financial guidelines

1. *Reasonable* level of profitability: [guideline - RoA slightly above the bank sector, to allow for additional risk - may differ by country]; if high, then clear rationale and evidence of allocation that benefits clients
2. *Reasonable* annual growth rate [guidelines for portfolio growth could be as follows: < 50% for Tier 3 MFIs, 40% Tier 2, and 25% Tier 1]
3. Remuneration to CEO is transparently reported and is not more than the equivalent level in the country's private banking sector
4. Remuneration to CEO in comparison with lowest paid field officer is not more than a ratio of x

Excerpts from Annex V (cont'd)

Seal 1 – Poverty Outreach

- **Outreach to less developed areas**
- **Outreach to poor households**
- **Client retention**
- **Gender equity - opportunities for women**

Excerpts from Annex V (cont'd)

SEAL 2 - Transformation

- **Non-financial services to support clients in their businesses or other improvements in quality of life**
- **Client ownership**
- **Evidence for contribution to poverty reduction**

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Effectively Catalyzing SME Growth

Through Business Plan Competitions:

Innovative Examples from Latin America

After Hours Seminar #49

Presenter(s): **Andrés Rico Toro**
TechnoServe

Peter Ippolito
TechnoServe

Date: March 9, 2011 - 4:00pm - 5:30pm



[VIEW THE SCREENCAST](#)

Location

QED Group
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follow up questions

Submitted by [yresplandy](#) on March 14, 2011 - 12:49pm

Thank you so much for this excellent seminar; in this connection, few questions:

1. would the results of the study be different if you could segregate the SME applicants/participants by economic sectors?
2. What was the size of the grant money prize
3. what is the cost of implementing a "traditional BPC" and the cost of an improved model (Business accelerator)
4. the measure used to assess success was basically the Sale Growth. Have you tried to develop other measures of success such as: employment created, number of persons supported by the job created, number of children going to school as result of the job created, sales generated in other companies, etc

thank you so much, YResplandy

Hello, Thanks for the

Submitted by [peterippolito](#) on March 21, 2011 - 12:49pm

Hello,

Thanks for the questions.

- 1) We did look at the differing impact by sector and found that there were no very substantial differences. I think constructing a first-rate business plan and (for the winners) obtaining seed capital will help you in whatever industry you are in.
- 2) The seed capital prizes ranged from \$2,000 to \$10,000. They were some combination of grants, no-interest loans, and business services, depending on the competition.
- 3) The costs depend on a variety of factors, but you could say about \$4,000 per participant for the traditional and \$7,000 for the improved version.



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Upcoming After Hours

The State of Microfinance

June 2, 2011



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After Hours Seminar

THANK YOU!

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