

smart notes

Putting the Principles into Practice

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FUNDESER Nicaragua's Human Resources (HR) policy requires that all staff adhere to the institution's Code of Ethics, including treating clients with respect. The policy also creates staff incentives that encourage the ethical treatment of clients.



The Smart Campaign's Client Protection Principle on Fair and Ethical Treatment of Clients requires that financial service providers create a corporate culture that values high ethical standards among staff and ensures that controls exist to prevent, identify and correct corruption or mistreatment of clients. FUNDESER's efforts in meeting this principle can serve as a good practice example to other institutions.

Responding to a Crisis at FUNDESER

FUNDESER started in 1997 as a rural agricultural development initiative designed to deliver basic financial and non-financial services to Nicaraguan agricultural workers. In 2000, FUNDESER began specializing in rural microfinance and expanded to reach communities where people were struggling with poverty and financial exclusion. Headquartered in Managua, FUNDESER now has more than 18 branches across Nicaragua.

COPING WITH A CRISIS

From 2004 to 2008, FUNDESER experienced its biggest growth spurt. The number of clients jumped from about 4,000 in 2004 to almost 32,000 in 2008 and the portfolio grew from \$2.6 million to \$21.5 million dollars respectively (see Figure 1). These years were considered the "best time" for the institution from the employees' perspective. While the average growth rate in Nicaragua's market was 30 percent, FUNDESER's was more than double that, reaching 70 percent.

These "exceptional" numbers were the results of a very flexible credit methodology with little supervision of adherence to the risk policy in loan underwriting, coupled with a staff incentive policy that rewarded portfolio growth and disbursement over portfolio quality. During the 2008 global financial crisis Nicaraguans struggled with high food and oil prices and a steep decline in remittances, among other problems. Additionally, as the economy deteriorated, the microfinance industry in the country was deeply affected by a political and social movement of delinquent borrowers known as the No Pay Movement (Movimiento No Pago).¹

FUNDESER was hard hit by the crisis. Its exponential portfolio growth had made the institution vulnerable to changes in the national and international environment. In 2009, PAR 30 jumped from a controllable 3.8 percent to a devastating 26 percent. A large part of the portfolio had to be restructured or written off and the institution was forced to reconsider its operating model.

¹ For more information on the Non-Payment Movement visit: <http://centerforfinancialinclusionblog.wordpress.com/2009/11/05/nicaraguan-microfinance-in-crisis/>

THE CRISIS

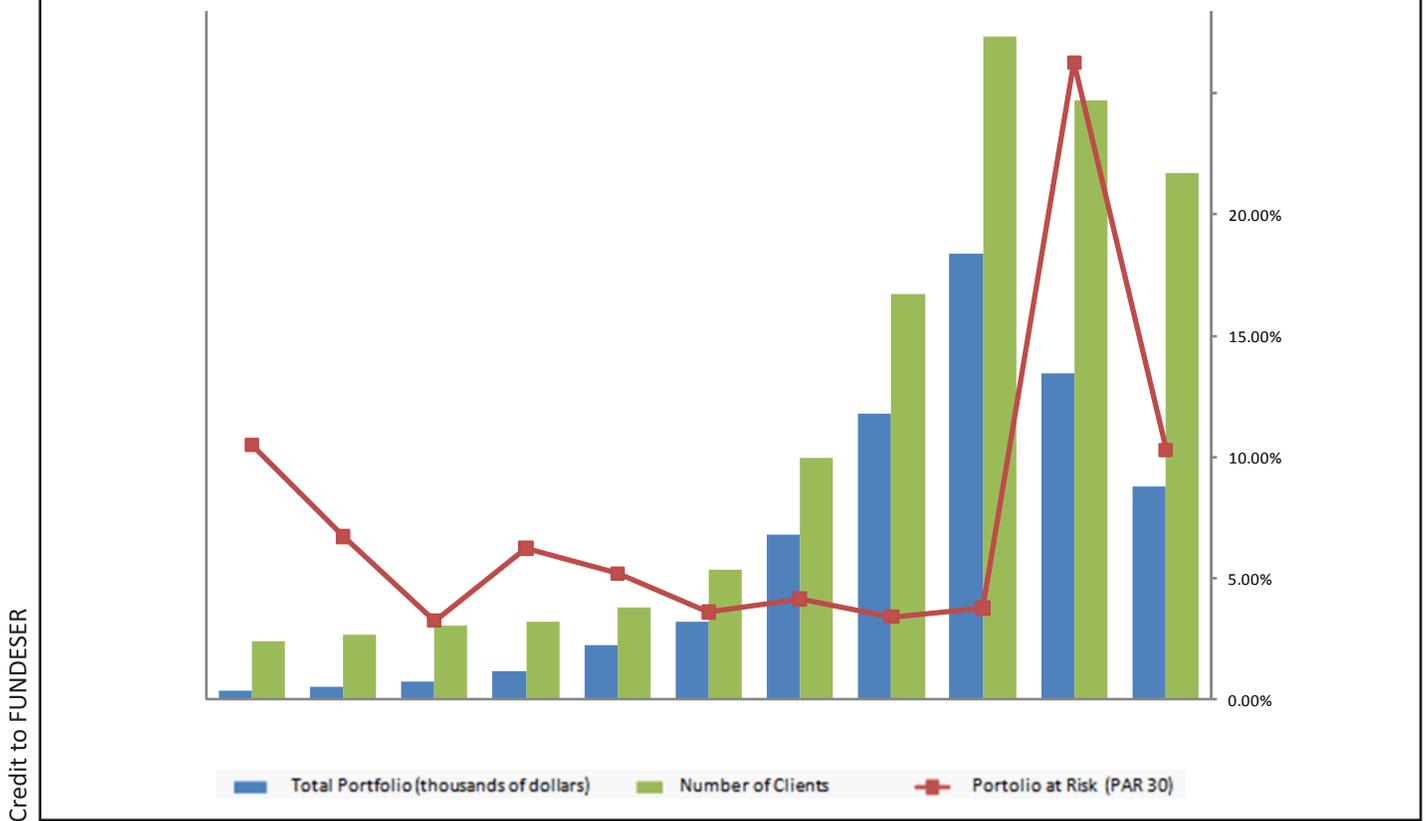


Figure 1

In the moment of crisis, FUNDESER decided to examine how changes to organizational policies might help solve the problem. Because many Nicaraguan institutions—FUNDESER included—were accused of being out of touch with clients’ need, FUNDESER determined that it needed to focus on staff-client relations. The institution looked first to its existing human resource policies.

As FUNDESER examined its HR policies, the institution noticed several weaknesses:

- Staff were not concerned with preventing over-indebtedness of clients. Staff did not make full use of Credit Bureau reporting and paid little attention to clients’ capacity to repay loans.
- Little value was placed on cultivating the institution’s human talent. Instead, the institution had exclusively focused on growth, paying little attention to staff quality and development.
- Staff incentives and variable salary guidelines rewarded portfolio growth and paid little attention to portfolio quality.

CREATING NEW HR POLICIES

FUNDESER began to change its human resource policies. Driven by the leadership of the board and senior managers, FUNDESER created a new “Manual of Policy and Procedures for Human Resource Management” which explains the institution’s value system and code of conduct, alongside job descriptions for each employee and a description of the institution’s performance review system and incentive policies.

The manual outlines the following three institutional priorities:

- a) Skills development. FUNDESER employees should commit to ongoing skills development in order to respond to client needs. FUNDESER offers training to ensure that employees’ skills enable staff to offer quality services to clients.
- b) Loyalty to institutional values. FUNDESER employees must identify with the values and goals of the institution, and they must promote and defend them as their own. This includes treating clients



Consultant Carlos E. Vargas with loan officers during a communications training.

respect and never abusing or mistreating clients.

c) Fair remuneration. FUNDESER develops and promotes ethical and professional leadership among staff. Employees are compensated based on performance at the individual and group levels. They no longer receive variable pay that indirectly incentivizes overselling products or abusing clients who are late on their repayments.

IMPLEMENTING THE NEW POLICIES

FUNDESER managers admit that it was challenging to make a significant shift in the process of hiring and training, and in the staff incentive system. In particular, the institution has faced tough challenges trying to modify the culture and compensation policies, with some pushback from employees who gained from the old system.

To help facilitate the process, Walter Palmieri, a consulting firm from Guatemala, was hired. With this assistance, FUNDESER began to develop a new human resource strategy and implement organizational change. Board members from FUNDESER played a key role in the process of developing the

new human resources manual, and interviews with senior staff were conducted. By May 2011, nearly two years after the peak of the delinquency spike, the manual was finally approved.

During the next two months, the staff were carefully introduced to the new approach. The human resources manager conducted workshops in all 18 branches to formally introduce the new standards. During these trainings, FUNDESER managers also informed their staff about the conclusions from the June 2011 Smart Campaign assessment and the importance of the Client Protection Principles.

During the visits, Human Resource evaluated each employee according to the new standards for ethical behavior, professional performance, and interaction with clients. Not only did these evaluations allow the institution assess the performance of its employees, but the process also helped staff understand the new human resources policy and how they should conduct themselves in the future.

An immediate and in some ways shocking effect of these evaluations was an immediate turnover of the workforce by 50 percent. Employees that did not

pass the evaluation phase were replaced. As expected, many employees became skeptical about the wisdom of the new HR approach, and worried about their own job security. The institution used two primary tactics for creating employee buy-in for the new policies.

First, FUNDESER explained to every employee that the institution was investing in them for the long term. They explained that the new fixed salaries would be competitive in the market, employees would be allowed to negotiate their new salaries, and that the fixed salaries would give employees more financial stability.

Secondly, the institution created clear job descriptions for each position, which helped employees better understand their new salaries. Before the new description of the positions was formally introduced, the institution went through a deep process of evaluating previous descriptions and consulting with branch staff and managers to create new descriptions.,

With essential information about each position, employees could more easily recognize how their work added value to the institution. Finally, because job descriptions included the required skills for the job, employees could more easily set skill-building goals and evaluate their own performance against the institution’s new standards. The process also required that loan officers would now be assessed every three months, and the rest of the staff would be evaluated twice a year.

REFLECTIONS ONE YEAR LATER

One year after the implementation of the new human resources policy, FUNDESER is a dramatically different organization. According to management, staff is satisfied with the changes, and the institution is meeting its client retention goals and repayment targets. FUNDESER’s portfolio grew by 25 percent in 2011, and PAR 30 fell by about 75 percent (see Figure 2). While there were many factors leading to the improvement in portfolio quality, including improved conditions in the microfinance sector, it was clear to FUNDESER managers that the human resources policies were part of the story. Managers expect the change to continue to be costly. Operating efficiency has and will likely contin-

ue to decrease gradually over a three-year period. However, managers firmly believe that by building a team of competent staff, the institution will benefit in the long run.

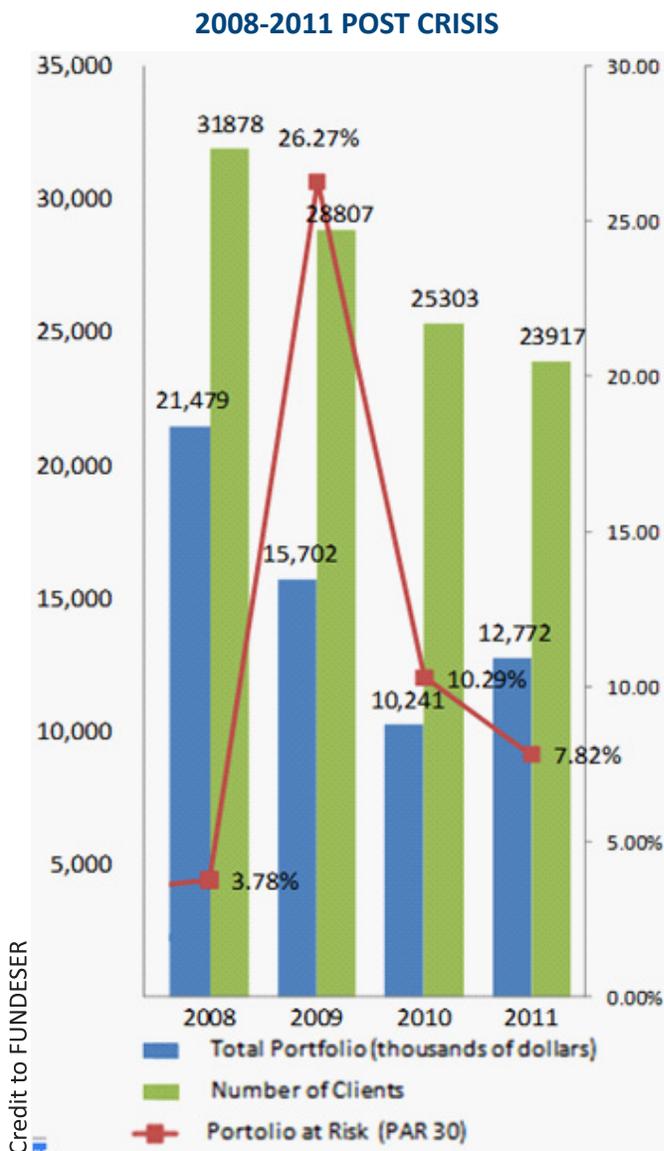
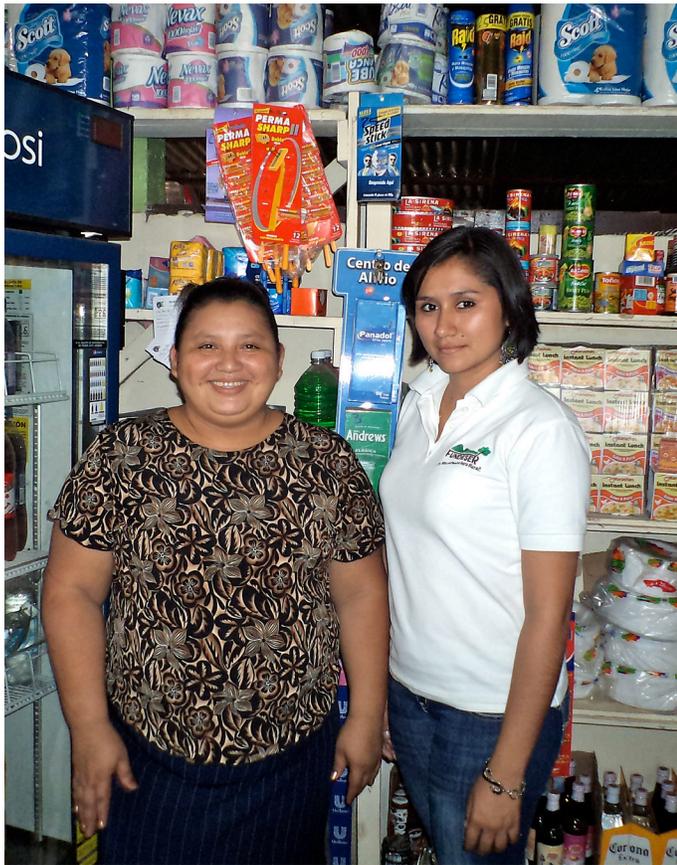


Figure 2

Three years after the crisis, the institution also recognizes how important it is to have client-focused employees. Improved staff policies have contributed to better relationships with clients.

FUNDESER managers agree that a big part of their success is the result of the comprehensive disclosure and success is the result of the comprehensive disclosure and discussions conducted with all staff. They also recognized that one workshop per branch was not enough to make the changes stick as part of long term strategy. At the end of 2011, FUNDESER decided to develop an improved communication



Loan officer Arlen Reyes with Fátima Campos, a client from the branch “La Fuente” in Managua.

The sponsorship of World Learning and funding from USAID by creating focus groups to visit branches.

FUNDESER confirms how pleased clients now are with the service. Overall, the relations with the clients who were part of the “No pago” movement has improved; many of the loan officers have implemented new negotiation techniques; and the Client Protection Principles are now part of their day to day operations.

Also, because loan officers are now evaluated every three months, the institution can monitor how respectfully they are treating their clients. For example, last year, the Human Resources department received a complaint about mistreatment from the branch “La Dalia” and after analyzing the situation eventually fired the loan officer. As a result of this continuous monitoring, the quality of the service has improved. Clients have claimed that the service is agile and that a difference in the treatment of clients is noticeable.

Today, René Romero Arrechavala, FUNDESER’s gen-

eral manager, realizes that it is not enough to have guiding principles, values and expected behaviors on paper. The institution has to accompany staff with every step, until it can be sure that employees are truly aware of how the values of the institution can be applied in their day to day work. The ethical behavior they should have towards staff and clients has to be completely understood, and staff should also be able to recognize by themselves the importance of the Client Protection Principles and their implementation.

As can be seen, these changes are part of a continuous process. The institution has outlined its strategies for 2012 to improve what has been done over the past years. Managers anticipate that a new revision of the job descriptions will take place to reaffirm the accuracy of the expected behaviors for each position. FUNDESER also plans to invest twice as much as it did in 2011 for employees’ professional development, and the communication strategy will focus on receiving feedback from internal and external clients and on disclosing key messages to staff.

Romero, believes that investing time and resources in human resources must be a priority. He credits human resource policies for the institution’s comeback, though he is not ready to declare FUNDESER problem-free. He and other senior staff concede that the institution made many sacrifices to implement the new policies, and that it was hard work to convince staff that the changes were necessary for the institution’s survival. He concludes that the outcomes that can be seen after very few years validated every sacrifice made. He is positive that even better results are on their way.

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