Imp-Act Consortium
Making microfinance work for the poor and excluded

MicroSave
Market-led solutions for financial services

Governance: *Integrating SPM into microfinance capacity building*[1]

Guidance Note

Introduction

Effective governance is increasingly seen as a key ingredient to success – whether for private companies, non-government organisations (NGOs) or microfinance institutions (MFIs). Drawing on the principles of corporate governance (see **Box one**), governance in microfinance has been defined as: '*the process by which stakeholders guide the MFI to define and protect the mission and protect the institution's assets*'.[2]

The key elements of good governance are accountability, responsibility, fairness and transparency. For MFIs, stakeholders include the board, management, staff, investors, donors and clients. This briefing focuses on the role of the board of directors in ensuring effective governance.

Box one: Corporate governance

Corporate governance:

- involves a set of relationships between a company's management, its board, its shareholders and other stakeholders
- provides the structure through which the *objectives* of the company are set, and the means of attaining those objectives and *monitoring* performance are determined.

OECD Principles of Corporate Governance 2004

Common challenges and gaps in governance

The most common challenges relate to MFI governance in practice and to capacity building for governance, and include the following:

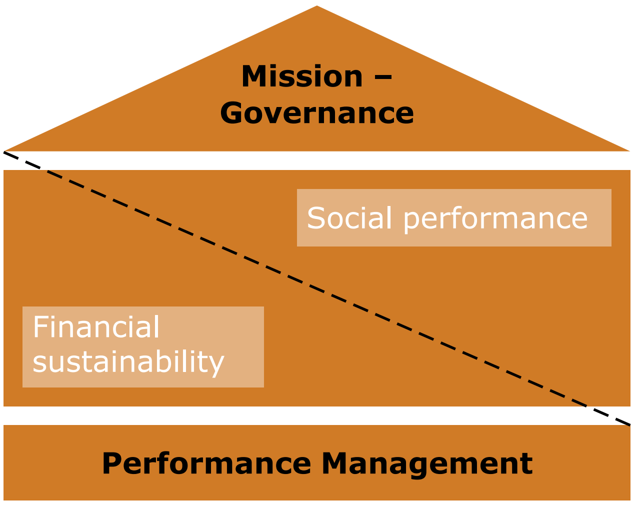
- The dual focus of microfinance – social and financial – is not at the forefront of board engagement and strategic planning.
- Insufficient attention is paid to the board's fiduciary responsibilities towards staff and clients (see **Box two** for a definition of this term).
- Social performance is viewed as an optional extra rather than something that should be woven into the board's structure, agendas and oversight function.
- Training does not reinforce the message that the provision of microfinance services requires a clear strategy and monitoring to achieve social goals.
- There are few concrete examples of SPM governance training.
- The focus of training tends to be on financial metrics, with an absence of examples of social performance metrics.

[1] Written by the teams from EDA Rural Systems (Frances Sinha and Ragini Bajaj Chaudhary) and *MicroSave* (Chris Linder and Matt Leonard), with Rashmi Ekka and Anita Campion from AZMJ, Cécile Lapenu from CERISE, and contributions from Anton Simanowitz (*Imp-Act*/Institute of Development Studies (IDS)), and Veronika Thiel.

[2] Definition adapted from Campion, A. and Linder, C., with K. Knotts (2008) *Putting the 'Social' into Performance Management: A Practice-Based Guide for Microfinance*, Brighton: *Imp-Act* Consortium, IDS.

- In the absence of social performance metrics, there are only standardised incentives for chief executive officers (CEOs), without reference to social performance. (The board is responsible for CEO remuneration and incentives.)
- The board needs to differentiate corporate social responsibility from social performance management.
- The balance between the two bottom lines – social and financial – may shift as equity investors join the boards of MFIs as shareholders. Investors provide capital for growth but come with financial returns expectations.
- Due to the drive for financial sustainability and commercialisation, there is a real risk of mission drift. This risk is more acute when MFIs 'transform', often from a more mission-focused non-profit to a regulated for-profit.

Figure one: Integrating SPM into governance: emerging practices



As noted above, there are few concrete examples of how to integrate SPM into governance. Below, we give some examples of best practice that can be introduced as part of governance capacity building. We look forward to more examples in the future.

Box two: Fiduciary responsibilities of the board

Board members are traditionally seen as 'trustees', holding in trust the assets and reputation of an institution. The term 'fiduciary' essentially refers to this notion of trust, with the board acting on behalf of the MFI's interests as a whole, including all stakeholders, not just a single shareholder or group of shareholders. ('Fiduciary' should not be interpreted as being limited to upholding financial value.)

Clearly define the board's role in balancing financial and social goals

Traditional microfinance capacity building and assessments have looked at the board's role primarily through a financial lens, focusing on corporate oversight and fiduciary responsibilities. SPM facilitates the board's ability to ensure a double bottom line, balancing financial and social goals.

Effective governance at board level is the context for SPM, as the board has to:

- ensure that there is a clear mission, that the mission is translated into realistic goals, and that the implementation strategy is designed and monitored to achieve this
- understand the social and financial implications of its decisions and actively seek to balance social and financial priorities
- meet stakeholders' diverse and often divergent expectations and priorities (including those of government, private investors, donors and clients)
- maintain or develop skills among board members to ensure that this remit is fulfilled.

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Key questions:

- What does the board consider its responsibilities to be with regard to SPM?
- What are the trade-offs in balancing financial and social performance?

Suggested activities:

- To identify where a board's current priorities lie, examine the board agendas and minutes for the past year. How often did the content relate to social performance (vs. financial performance)? For those that did cover social performance, roughly what percentage of the agenda and/or minutes were dedicated to it?
- Realign CEO's incentives: a key responsibility of any board is the supervision of the CEO. Board members invariably spend considerable time and effort recruiting their CEO. The 'right' person will ideally have an orientation appropriate to a double bottom line institution. Performance incentives should be aligned with social and financial objectives, and salary and benefits should be sector appropriate.
- Clarify that it is the board's role to ensure the MFI's double bottom line, to clearly define its mission and values, and to ensure they are achieved. Include broader fiduciary responsibilities: board members need to be responsible actors for their staff and local communities, and to support relevant environmental practices for financed enterprises as well as within organisational systems. Not only is this necessary as part of maintaining reputation (part of risk management), it is also necessary in order to comply with relevant regulation.

Balance the orientation/training programme for board members

First impressions are key, but MFIs often throw new board members straight into the next board meeting without adequate orientation. Orientation and training for new board members does not have to be too formal; speeches about the founder's story of how the MFI began or visits to see clients and field staff can be an integral and enlightening part of training for new board members. However, the MFI must actively ensure that each new board member is equipped to understand and execute both their financial and social responsibilities.

Key questions:

- What types of training/orientation do board members receive?
- To what extent are the MFI's social mission and related responsibilities covered in the training that board members receive?
- What type of exposure (including client visits and interaction with the original founders, for example) is useful to ensure a true understanding of the MFI's mission and its board members' responsibilities?

Suggested activities:

- Start any training or capacity building on governance with a review of microfinance as a social enterprise, a 'double bottom line' sector, in which growth and financial sustainability are necessary but not sufficient to ensure the achievement of mission. Emphasise the relevance of mission and values, and their clear articulation, as a starting point and a regular reference point for sound governance.
- Discuss the challenges and solutions (unique to that institution) of guiding an entity with a dual mission (social/ financial). Highlight specific examples and trade-offs, e.g., balancing growth with depth of outreach,

easily accessible areas vs. remote rural areas, standardised products vs. flexible options, and acceptable levels of client default. Review issues around profit allocation (see **Appendix B** for an example exercise).

- Discuss organisational systems in relation to alignment with social and financial goals. See **Box three** for a list of training topics for board members.
- Examples of successful SPM should be incorporated in the training, through guidelines, slides, exercises and other training materials, in order to ensure that SPM is not treated as an extra, but remains a core factor in delivering strong governance.
- Consider creating a board certification process with internal and external activities (such as living a day in the life of a field officer/ client), seminars and training sessions. This has the effect of raises the cachet of being a board member and offers the potential for real engagement with the work of the MFI.

Create a balanced perspective and understanding of SPM among board members

Board members are often chosen for their technical background or expertise, and usually include professionals with considerable banking, accounting, business and legal experience. They may also include 'development professionals' – for example, those with an NGO or research background. It is sometimes assumed that the presence of such professionals can ensure that the board is fully equipped to guide a double bottom line agenda.

However, in practice, this may not be the case. The existing experience of board members is not necessarily the key driver for SPM. Balancing the double bottom line and understanding what is involved in SPM has evolved relatively recently as a technical area. It is important, therefore, that board members as well as management are exposed to the principles of social performance and SPM and the developed concepts and metrics. Having a social rating or a social audit can help this process, and should involve both management and the board.

For strategic guidance, the MFI needs the right 'mix' of people on the board so that it can both guide the organisation and stay focused on its institutional mission. It is critical that there is a balance between social and financial 'voices' at board level, and that there is someone to champion social performance and the client perspective. Ideally, some board members should have experience of working with and understanding the target clients' issues, needs and development concerns.

Box three: A sample of training modules relevant to board members

- *Introduction to the MFI:* Vision, mission, values, products and services, policies
- *Overview of governance:* Key stakeholders, transparency and disclosure
- *Board roles:* Composition, duties, liabilities, procedures
- *Leadership:* Strategic decisions, risk
- *Financial performance:* Asset quality, resource mobilisation, reporting
- *Social performance:* Responsible and inclusive financial services, monitoring policy compliance, tracking the mission, relevant reporting
- *Risk management:* Including reputation risks, and risk of mission drift

Note: In this list, social performance is a separate module for governance training to raise awareness, but is also integrated into all other modules.

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Given the likely gap between board members' socioeconomic backgrounds and those of their clients, issues such as changes in fees or interest rates that affect clients may not generate much board discussion or debate. Hence, there should be some mechanism to ensure that client perspectives are adequately presented and considered. This may be part of the information system (see section on tracking progress below). Alternatively, this could be achieved through a structural mechanism: for example, some MFIs have non-voting client committees that regularly report to the board, both to inform them and to represent clients' concerns. Some MFIs may include representative members of their target clientele on the board. (However, both of these options raise issues of capacity building and ensuring appropriate representation and communication for effective governance.)

Key questions:

- Board members tend to be either socially or financially oriented. How can the MFI ensure a balanced board composition?

Suggested activities:

- Prepare a questionnaire and/or screening criteria when choosing board members to ensure that their objectives and *modus operandi* are in line with the MFI's overall mission. (The same may apply to potential investors.)

Demystify the mission to clarify social goals and objectives

A clear understanding and consensus on mission is the starting point for integrating SPM into governance. However, for many institutions (including MFIs), the vision and mission statement may adorn the office walls, and be mentioned in the annual report and business plan, but it is not clear whether they serve any purpose beyond some form of advertising. For an MFI, it is the board's responsibility to ensure that the mission statement is *meaningful*, and is translated into objectives and metrics that the board can promote and monitor.

The mission of any MFI, irrespective of its context or methodology, must directly address two if not all three of the following questions:

1. Where and who do you want to reach? (outreach)
2. How will you meet target clients' needs? (products and services, client retention and satisfaction)
3. What are the desired effects? (theory of change)

Answering these questions, and defining key terms (which may include 'rural', 'urban', 'poor', 'low income', 'employment', 'livelihoods' and 'dropouts') is a process that should involve the board and other stakeholders to ensure optimum buy-in. This process provides the basis for setting social goals and objectives, integrating these into strategic planning, communicating them throughout the organisation, and monitoring the extent to which they are being achieved. Indicators to track these social objectives balance the indicators to track financial objectives (see **Box four** over page).

Key questions:

- Who was involved in defining the institution's mission?
- Is the mission up to date?
- Are key terms clearly defined and understood throughout the institution – by board members, senior management, and field staff?
- What mechanisms are in place to build this understanding?

Box four: Mission review and communication

In providing technical assistance in Central America, a consultant came across various versions of the MFI's mission statement. In discussions with board members, it became apparent that they held different views about what the mission was, as the MFI was in the process of transforming from a non-profit to a formal, for-profit MFI.

The consultant led the board through a facilitation process by which they created a new mission statement that they all agreed reflected the right balance between the MFI's social and financial objectives. By going through the mission review process, the board had to clarify key terms, define relevant indicators, and begin to think through the need to integrate SPM across its operations.

Suggested activities:

- At the annual strategic planning session, ask each board member to write down the organisation's mission. Discuss the differences and come to a conclusion (which may be that the mission needs to be revised or updated).
- Analyse the MFI's mission statement, specifying the required components, unravelling the key terms and meanings, and any underlying 'theory of change' (see Appendix A for an example of reviewing the mission). What are the key elements of strategy designed to achieve overall goals?

Adopt and implement a statement of values or code of conduct

A written code of conduct can help an MFI to articulate and formalise its orientation and values. The board and senior management may share responsibility for framing these; the board must at least endorse or sign up to them.

Regional and country networks have begun to introduce codes of conduct for their MFI members. For example, the international SMART campaign has introduced six principles of client protection, and MicroFinance Transparency is publicising effective interest rates of micro-credit in different countries for different products and MFIs. Board members need to be familiar with these initiatives. Capacity building materials should include references to national, regional and global efforts to improve practices on key issues such as client protection, gender equity, and the environment, for example.[3]

Training should also emphasise the relevance of the board's involvement in approving and adhering to a code of conduct. Signing up to a code of conduct is the starting point for the board to ensure that guidelines for good practice are implemented across all operations and monitored for compliance.[4]

Key questions:

- How can the board ensure that the MFI 'does no harm' to clients and staff?
- What must the board do to protect the reputation of the MFI?
- How does the board promote social responsibility within the organisation – in particular, client protection and social responsibility to staff?
- Is the board aware of how the institution is perceived by local communities? How can they find out how it is perceived? What action can the board take to ensure greater responsibility to local communities?

'We measure what we value, we value what we measure.'

[3] See for example: **www.smartcampaign.org** on client protection principles and guidelines for good practice; **www.genfinance.info** on gender issues in microfinance; and FMO, *Social and Environmental Management Guide for Micro Finance Institutions*, **www.fmo.nl** (accessed 1 March 2010) on health, safety and environmental issues in financed enterprises.

[4] An important means to monitor compliance is through the internal audit function. See the *Imp-Act* Guidance Notes on 'Risk management' and 'Internal controls and audit', which are part of this series.

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- Is the board aware of any negative environmental or health outcomes related to its lending activities? How can it find out whether there are such issues, and what can it do to address them?
- Can the MFI simply adopt industry-wide or regional codes of conduct, or does it need to modify/adapt them to its own needs and context?
- How can the board ensure that such codes are applied in practice and adhered to?

Suggested activities:

- Analyse the MFI's policies and procedures (e.g., not just codes of conduct but the operations and human resources manuals) with regard to client protection, staff working conditions, and values that are promoted in relation to the community and the environment. Clarify the board's role in monitoring these policies and procedures.
- Run some focus groups with different stakeholders (field staff, branch managers, internal audit team) to identify current issues and practices, with the aim of making recommendations.

Track progress towards social goals, and monitor values

To ensure that social performance concerns are adequately addressed through the governance process, the board should set clear targets or guidelines, and be actively engaged in monitoring the MFI's social mission and compliance with stated values. Just as they review financial information, the board should review, analyse and discuss information on relevant social performance indicators (see **Box five**). **Tables one and two** give examples of relevant indicators that can be routinely tracked.

Table one: Examples of indicators for the board to monitor social goals

Social goal 1 **Outreach**	**Social goal 2** **Appropriate services**	**Social goal 3** **Change**
• % clients by village, town, city • % clients from less-developed regions • % new clients living below defined poverty line/income level • % women • % women-headed households • % clients from vulnerable groups	• Analysis of client access to different products • % of clients satisfied with product terms • % dropout rate	• Analysis of client access over time (by cycle, amount) • % of clients at 5 years or more who are below a given poverty line • % of individual clients who have graduated from group lending

Table two: Examples of indicators for the board to monitor social values

Social responsibility to: Staff	Clients	Community & environment
• % of women on staff at different levels • % of staff satisfied on different aspects of working conditions • % of staff attrition at different levels	• % of clients with loans from other MFIs • Number of client complaints received and resolved • % of clients aware of product terms	Depends on local context: • What are the community values that the MFI stands for – and indicators to monitor these • What are the environmental issues that apply to clients and to organisational practice – and indicators to monitor these

These indicators reflect those used for external reporting. The board and management should be introduced to the Microfinance Information eXchange (MIX) social performance standards for reporting by MFIs. Alongside financial reporting, these standards can provide an overview of current best practice in relation to reporting for social performance. They will help the board to select the key social indicators they would like to track internally. The ongoing MIX analysis of the social performance standards will in future provide benchmarks and identify areas for attention by each MFI.

As for other board reports, appropriate systems to collect and analyse data need to be in place, and social performance reports should be delivered to members well in advance of board meetings. SPM should be on the agenda at every board meeting. The board should also think through ways of ensuring that performance data are of good quality; they should proactively analyse the data, hold the management accountable to its social objectives, and provide recommendations on further action. A social performance committee, as part of the governance structure, can play an important role in ensuring that this process is meaningful.

Box five: Tracking social indicators

CRECER in Bolivia and **AMK** in Cambodia balance social and financial priorities with a 'performance management system' to track and report on social indicators at the client level, including:

- outreach to target clients
- client satisfaction with products and services
- multiple borrowing by client households
- reasons for exit
- quality of life indicators of clients/families.

Key questions:

- What information informs the board's policy, strategy and decision-making processes?
- What indicators do the board regularly monitor and how do they intervene if targets are not met?

Suggested activities:

- If the MFI does not have adequate (or any) social performance indicators, run a simple exercise with board members on what those could/should be (such as tracking goals derived from the mission, as described in **Appendix A**).

Consider setting up a social performance committee

A social performance committee, set up as part of the governance structure, serves to signal the importance of social performance for the MFI. The committee will be responsible for carrying out specific tasks that relate to:

- ensuring the credibility of social performance information
- engaging staff at all levels
- prioritising social performance issues to be addressed by the board, management and staff
- drawing in relevant expertise for social performance research and analysis.

A few MFIs have pioneered this approach, in different ways: for instance, as a committee at the board level (as in the case of **AMK**, in Cambodia, described in **Box six**) or as a committee representing different departments of the MFI, including representation from the board (as with **Prizma**, in Bosnia and Herzegovina, and **NWTF**, in the Philippines). Some MFIs (such as CARD Bank in the Philippines) choose to have a non- voting client committee to help track client issues, including client needs and satisfaction levels.

Key questions:

- Could a designated social performance committee, responsible for regularly reviewing and discussing key issues at board level, help the board to successfully balance the MFI's financial and social performance?

Suggested activities:

- Review the activities and mandate of each existing committee to analyse if social performance monitoring is adequately covered. If it is not, can you identify the gaps and assess whether a designated committee could play a useful role?

Box six: How AMK's Social Performance Committee works

AMK's Social Performance Committee plays a technical, advisory role to the board, mirroring the function and importance of the Audit and Finance Committee.

Composition: Board members plus independent experts, both national and international (members are selected for their track record in practical and academic research, social performance, local research and poverty assessment). The chair of the committee is a member of the board and reports back to the board.

Tasks:

- To guide the Research Department in its scope of work, methodologies and reporting
- To guarantee the quality of reports from the Research Department
- To advise the board on client-level information coming from the Research Department. Is the information robust? Is it valid? What are the key findings? Are there issues to be addressed? (This saves board members – and management – time, as they do not have to go through the detailed research reports)
- To complete a periodic summary report to the board covering the following social performance issues: depth of outreach, appropriate services, transparency and client protection, other corporate social responsibility, and change at the client level
- To guide/update the board on social performance issues and developments globally

Conclusion

Integrating SPM into microfinance capacity building around governance is critical to achieve balanced performance management. The board plays a central role in deciding an MFI's policy and guiding strategy. Capacity building for board members must be designed to improve their ability to define and uphold the MFI's mission and values, to review social performance information, and to ask the relevant questions – because it is only what gets questioned that gets addressed. The board should regard achieving the MFI's social mission and values as an integral aspect of its responsibilities in guiding a double bottom line institution, rather than as a 'charitable' or sideline activity.

SPM in governance is reflected in the choice of investors, as well as in the systems put in place to enable the board to maintain the right balance between financial and social performance (see the example given in **Box seven**). To put it more directly, it is about creating the right balance between benefits to clients and benefits to other stakeholders.

Box seven: Staying true to the mission even in times of change: the case of FIE in Bolivia

As NGOs transform into 'for-profit' institutions and attract microfinance investors, the existing board can play a role in protecting and promoting its social mission. The case of *Centro de Fomento a Iniciativas Economicas* (FIE) in Bolivia illustrates how one NGO chose to maintain majority control of the new MFI in order to preserve its mission:

- The mission statement of the newly formed entity was the same as that of the NGO.
- There was a long and careful search for potential shareholders who accept FIE's mission. Many potential investors were eliminated.
- The new entity retained the team of executives and staff who had successfully run the NGO.
- Despite the prospective investor's stated commitment to the mission, FIE insisted on maintaining majority control.

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About this series

This series of Guidance Notes emerges from a collaboration between the *Imp-Act* Consortium and *MicroSave*. Recognising that the ongoing support to MFIs from funders and support organisations is critical to ensuring a balanced approach to performance management, series aims to help them integrate the missing "social lens" into existing MFI training materials. The notes provide targeted guidance on critical issues, as well as details on further resources available.

Development process

The Integrating social performance management into mainstream capacity building initiative, led by the *Imp-Act* Consortium, involves a three-part strategy:

Linking SPM experts with experts in key technical areas: Consortium members and associates join forces with industry experts to apply a social lens to key technical areas.

Reviewing existing mainstream training materials: Through online workshops between project partners, gaps in training currently provided to MFIs are identified and prioritised.

Facilitating online knowledge sharing discussions: Each technical area is addressed in a facilitated discussion on the **SPM Network** in order to add to the rich experience base of these Guidance Notes.

Learn more about SPM

A range of online resources are available to help you improve your SPM practice:

The **SPM Resource Centre** offers step-by-step guidance on integrating a social lens into MFI performance management systems, including an interactive SPM self-assessment tool. Head to: **www.spmresourcecentre.net**

The **SPM Network** connects individuals and organisations who are committed to managing and achieving social performance in microfinance. The Network is a virtual space for practitioners to share experiences and information, and debate new ideas in SPM. Join in today! **www.spmnetwork.net**

The ***SPM Practice Guide*** offers step-by-step guidance on integrating SPM into your MFI alongside real MFI case studies. Download in English, French, Spanish or Arabic.

Fulfilling the Promise is a new film by the *Imp-Act* Consortium that captures the SPM experi-ence of two mission-driven MFIs, SEF (South Africa) and AMK (Cambodia). Short and long versions are available in English, French, Spanish and Arabic.

Learn more about the *Imp-Act* Consortium and its work by visiting **www.Imp-Act.org**

Learn more about *MicroSave* and its work, including its new SPM Toolkit, by visiting **www.microsave.org**

Appendix A: Mission, Objectives and Measures Exercise[1]

1. Write the current mission statement of your organisation

Note: In which year was it formulated?

2. Identify and try to define the social goals embedded in your mission by answering the following questions (including questions for reporting on Social Performance Standards to the MIX, denoted by *)

Social goals		
Reaching target clients and areas	• **Who do you aim to reach?*** a. In terms of different social groups	• **Who do you aim to reach?*** b. In terms of scale of enterprise • Micro (fewer than 5 employees) • Small (between 5 and 50 employees) • Medium (between 50 and 250 employees)
	• **Who do you aim to reach?*** c. In terms of income/poverty level (*please define*)	• **Where do you aim to offer your services?*** *(Please check all that apply)* d. Urban – city areas e. Semi-urban/market centres f. Rural – large villages g. Rural – small, remote villages
Meeting target client needs	• **How will you meet your clients' needs?** (products and services, client retention, satisfaction)	
Change in target clients' lives	• **Are there any development goals which your organisation is trying to achieve through financial or non-financial products and services? any that apply***	
		(Also, please check all that apply) a. Adult education b. Children's education c. Gender equality d. Women's empowerment e. Access to medical services f. Health improvement g. Improved housing h. ....

[1] 'SPM in Microfinance: Translating your mission into practice', Strategy Workshop, Handouts, updated 2010.

Appendix A: Mission, Objectives and Measures Exercise

3. Having identified your social goals, you can begin to translate these goals into SMART objectives.

Social goals	**Social objectives** **S**pecific, **M**easurable, **A**chievable, **R**elevant, **T**ime-bound
Reaching target clients: e.g. % clients of specified groups, by economic level…	
Meeting target client needs: e.g. % client satisfaction, dropout rate, % access to different services	
Change in target clients' lives: e.g. % clients' children in school	

Note: Do not confuse objectives with activities. For example, an MFI may say that its objective is to create a training module to develop the financial literacy skills of its clients. However, creating the module is really an activity. The objective of the activity is to increase financial literacy.

Appendix B: People's Bank Board Meeting exercise[1]

People's Bank: Board Meeting

The Operations Manager has presented you, the board, with three new proposals for the People's Bank. Please read the proposals and discuss the potential value of each in terms of financial and social performance. Prepare to present and defend your position at the board meeting. The board should ultimately decide on a proposed course of action. The board can choose to implement one or more of proposals X, Y or Z, a combination of these, a modification of these, or none at all.

Proposed actions submitted for the consideration of the board of directors

The management team has analysed results from routine monitoring and assessments, supported by secondary market data, and proposes the following three changes to the products and services offered by the People's Bank.

[1] 'SPM in Microfinance: Translating your mission into practice', Strategy Workshop, Handouts, updated 2010.

Appendix B: People's Bank Board Meeting exercise[1]

Proposal X: Refine the consumer loan product for current clients with businesses and develop for other segments

Background: The People's Bank is the only MFI in the area to provide this type of loan and 20 per cent of new clients stated that they chose the People's Bank to access the consumer loan option. The product is intended to provide an important competitive edge for the People's Bank. The size of the market for this product is about 18,000 individuals. Market research with informal sector businesses shows a need for small short-term loans to manage variable cash flows. There are also larger needs to meet unexpected shocks, such as a severe illness in the family. Without quick access to a sum of money to manage such a crisis, clients may have to sell household assets, or borrow from a moneylender.

Client satisfaction with the product is very low at present. This stems mostly from the long waiting period for the loan, the burdensome paperwork, and the interest rate. A high proportion of exiting clients (dropouts) report having had a bad experience with the consumer loan product. At present, the loan waiting period for the consumer loan product means that it is not able to address immediate needs. And clients are having to borrow from friends or family or sell off any household assets they can.

Some details of the proposed action	Rationale
Prepare two versions of the product: for current clients with businesses and for non-client salaried workers	We can provide the current product to non-client salaried workers because it fits their preferences and needs. The product should be profitable and cross-subsidise the variant of the product offered to current clients with businesses
Make changes to current consumer loan product for current clients with businesses: shorten loan waiting period to 2 days, lower interest rate to 2.2% monthly (declining), simplify paperwork	The product must be made more attractive for current clients
Promote the product in rural areas and train and offer incentives to staff	Most rural clients do not know about the product, but there is a high need for consumer loans when school fees are due. Staff members told us that they did not offer this product in rural areas because they were afraid it could lead to default
Hire new staff and train them to promote and deliver this product to salaried workers	Existing credit officers may not be able to take on an additional market which they do not know much about

Appendix B: People's Bank Board Meeting exercise[1]

Proposal Y: Introduce health education as part of group meetings

Background: Our women clients and their families face substantial health risks, many of which could be addressed with more information and prevention. Loans may be diverted to meet medical costs, and sickness in the family affects ability to repay. Health education training conversations have been developed by ABC Foundation on issues such as child health, nutrition, and managing fevers. These can be introduced as part of the regular group meetings. Each conversation takes about 20 minutes.

Some details of the proposed action	Rationale
With the help of ABC, pilot different health modules in a couple of branches; train credit officers	ABC will support the pilot, without charge Check the content, time involved and response from clients and staff
Depending on a positive response from both credit officers and clients selectively roll out across the programme	Adds value to our financial services Helps build the client-staff relationship
Develop a routine monitoring system	Keep track of the relevance for clients
Include health education as part of staff performance appraisal	

Proposal Z: Retain experienced clients by refining incentive system, developing VIP package, and improving customer service

Background: There is a growing trend in exit among the most mature clients, after six or more loan cycles. These are the clients who can use larger loans, and larger loans help to reduce costs for the People's Bank. Interviews with the most experienced People's Bank clients revealed that these mature clients would prefer a more individualised service. Commercial banks in the area are starting to attract such clients.

Some details of the proposed action	Rationale
Individualise the approach: VIP card and credit appraisal	Costs of serving this group are relatively low
Offer an interest rate discount at similar levels to those of commercial banks	Mature clients can also access commercial bank services that have lower interest rates than the People's Bank
Offer the option of monthly repayments	Clients with bigger businesses say that their customers often pay at the end of each month
Train staff in customer service to build long-term relationships	Feedback indicates that this is one of the main factors behind client dissatisfaction