SPTF

Universal Standards for

Social Performance

Management

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INTRODUCTION TO THE UNIVERSAL STANDARDS FOR SOCIAL PERFORMANCE MANAGEMENT

WHAT ARE THE UNIVERSAL STANDARDS FOR SOCIAL PERFORMANCE MANAGEMENT?

Developed through broad industry consultation, the Social Performance Task Force (SPTF) Universal Standards for Social Performance Management ("the Standards") are a set of management standards that apply to all microfinance institutions pursuing a double bottom line. Meeting the standards signifies that an institution has "strong" social performance management (SPM) practices. To achieve this, institutions must:

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

WHY THESE SIX CATEGORIES?

The SPTF started with the assumption that, to achieve a double bottom line, an institution must:

SET A STRATEGY

The institution must know who it is targeting, what its goals are, and how its products and services help to achieve those goals. The institution must also understand how it will balance its pursuit of financial returns and social performance. Agreeing on this and committing to it up front keeps the institution true to its purpose as it operates and evolves.

BUILD EMPLOYEE BUY-IN

Employees must understand the institution's strategy and how their own work contributes to achieving both social and financial goals. It is also important that employees are treated well, so they are inspired and motivated at work.

PUT THE CLIENT FIRST

The institution must protect and benefit the client in every aspect of its work—from the goals it sets, to how it interacts with clients and trains employees, to the products and services it offers. Client focus must be part of the institution's culture and embedded in its daily operations.

Together, the six categories of standards set out actionable management practices related to setting strategy, building employee buy-in, and putting the client first, at all levels and in all departments of the institution.

WHY SHOULD AN INSTITUTION SEEK TO MEET THE STANDARDS?

The ultimate aim of the Standards is to benefit clients. A double bottom line institution seeks not only financial sustainability, but also to achieve one or more social goals. **Though each institution will have its own unique social goals**, all double bottom line institutions should share the broader purpose of **increasing financial inclusion and creating benefits for clients, beginning with reducing client vulnerability**. Furthermore, all institutions should seek to fulfill their goals while ensuring that clients are not harmed. An institution that meets the Standards has put in place the building blocks of a client-focused institution, and is in a good position to achieve its social goals.

WHY WERE THE STANDARDS CREATED?

Task Force members asked the SPTF to establish **clear standards for strong SPM**. This document creates a standard of achievement for all institutions striving for strong SPM. The Standards establish "strong" rather than "excellent" practice, in an effort to make them relevant for all double bottom line institutions.

The Standards also respond to an industry concern that institutions have lost focus on their clients. Most institutions claim to improve client welfare, but for the last two decades many institutions have focused more on financial sustainability than on the needs of clients. Many of these institutions are driven by financial outcomes because they only manage financial performance. Institutions with a social purpose must also manage their social performance. **By defining and promoting strong SPM, these Standards contribute to refocusing institutions on the client.**

Finally, the Standards also respond to member demand for **guidance on how to strengthen SPM.** Institutions can use the practices in this document to assess their own performance and learn what more they must do to achieve strong management practices.

WHY DO THE STANDARDS ADDRESS MANAGEMENT PRACTICES RATHER THAN SOCIAL OUTCOMES?

The Standards focus on management rather than explicit client outcomes (e.g., increase in client's ability to cope with financial emergencies) for two reasons:

- Experience shows that if an institution devotes attention to balancing financial and social management practices by bringing client needs, outcomes, and preferences to the forefront, then better social outcomes will likely follow.

- Sufficient data and experience exist to define strong SPM practices, but similar data do not yet exist to define standards for client-level outcomes.

Currently, the Standards require institutions to have clear goals for client outcomes, to respond to clients' needs, and to measure and track progress toward client-outcome goals.

In the future, the industry can build upon these Standards to create benchmarks and standards for client outcomes.

IS COMPLIANCE MANDATORY?

No. **The SPTF will not require compliance with the Standards as a condition of membership** and the document itself is not a reporting or rating tool. Currently, the SPTF does not offer a grade/certification, but this may be available in the future via social raters and auditors, several of whom are already aligning their products with the Standards.

ARE THESE STANDARDS REALISTIC?

Many institutions do not currently meet the Standards, and the SPTF expects that most institutions will implement the essential practices gradually. However, it is vital that institutions know what they are working toward. In addition, the experiences of the institutions that are most advanced in social performance management demonstrate that the practices [contained in the Standards document] are not only realistic but also critical to the pursuit of social goals.

HOW SHOULD THE STANDARDS BE USED? TO WHOM DO THE STANDARDS APPLY?

For all stakeholders who claim a double bottom line, the Standards establish a global, shared understanding of strong social performance management — a first for the microfinance industry.

Institutions should use the Standards to:

- **Self-regulate their social performance management practices**, and

- **Guide their strategies** for achieving stronger social performance management.

The Standards are also relevant to the work of other stakeholders in the microfinance industry:

- **Investors and donors can use the Standards to understand an institution's SPM practices relative to universally accepted standards.** This may help investors and donors to direct their funds toward institutions with strong SPM, and to identify SPM capacity building needs among investees.

- **Social raters and social auditors** already use many of the individual standards in their assessments, but they may begin to assess compliance with the entire set of Standards as part of the rating and auditing processes.

- **Networks and associations** can use the Standards as a tool to assess the SPM practices of partner institutions and make critical decisions about capacity building, partnership agreements, and funding.

HOW DO THE STANDARDS INCORPORATE THE SMART CAMPAIGN'S CLIENT PROTECTION PRINCIPLES?

The Smart Campaign's standards for client protection certification are incorporated throughout the Standards document. The certification standards are clearly labeled as "**client protection practices that apply.**" Client protection forms the foundation for SPM — an institution's first concern when managing its social performance is to "do no harm" to clients. The remaining Standards build off of this foundation and go a step further, focusing on how to "do good" by creating benefits for clients.

HOW IS THE STANDARDS DOCUMENT ORGANIZED?

The document has six sections. There are 3-5 standards per section. Each standard has corresponding "essential" practices and "additional good" practices, defined as follows:

- **Essential Practices**:
Practices the institution must implement to achieve strong social performance management as defined by the standard.

- **Additional Good Practices**:
Practices that are generally recommended but are not essential (as defined above), and may not be applicable to institutions in all contexts.

1A. The institution has a strategy to achieve its social goals.

1B. The institution collects, reports, and ensures the accuracy of client-level data that are specific to the institution's social goals.

Section 1.

DEFINE AND MONITOR SOCIAL GOALS

STANDARD

1A. THE INSTITUTION HAS A STRATEGY TO ACHIEVE ITS SOCIAL GOALS

Essential Practices

The institution has each of the following, which are described in the strategy:

1. **Social mission:** the institution's social purpose, which serves the broader purposes of increasing access to financial services for vulnerable or excluded target groups and creating benefits for these clients.

2. **Target clients:** the specific characteristics of its target clients (e.g., demographic, socio-economic, business activity) and how serving these client groups supports the social mission.

3. **Social goals:** the specific client-level *outputs* (e.g., agricultural loans to rural farmers) and *outcomes* the institution expects to achieve (e.g., increased assets for farmers).

4. **Social indicators:** the indicators it will use to measure its progress toward achieving each of its social goals (e.g., reported assets of farmers at months 1 and 18).

5. **Social targets:** the measurable targets for client-level *outputs* (e.g., 70% of all new loans are made to rural farmers) and *outcomes* (e.g., 80% of these farmers report increased assets after 18 months).

6. **How to achieve goals:** The products, services, delivery models and channels (detailed in Section 4) the institution will use to achieve these outputs and outcomes.

Additional Good Practices

7. The institution's mission statement defines the institution's social goals (what), target clients (who), products and services (how), and expected benefits for target clients (why).

8. The institution reviews its strategy (including the mission) at least once every three years.

9. The institution reviews its social targets at least once every year.

10. The institution designs the strategy to achieve its social goals with input from employees at different levels of the organization.

11. The strategy is defined in at least one of the following documents: the institution's strategic/business plan, the institutional charter, and/or the institution's shareholder/investment agreement(s).

STANDARD

1B. THE INSTITUTION COLLECTS, REPORTS, AND ENSURES THE ACCURACY OF CLIENT-LEVEL DATA THAT ARE SPECIFIC TO THE INSTITUTION'S SOCIAL GOALS.

Essential Practices

1. The institution collects data using at least one indicator for each of its social goals (defined in 1a).

2. The institution identifies the following: who collects the data; where the data are stored; who analyzes the data; who verifies the accuracy of the data; and how the data are reported and to whom.

3. The institution's internal system for managing data (e.g., MIS) has the capacity to disaggregate client data by gender and other key client characteristics.

4. The institution ensures the quality of the data it collects by: 1) validating the data collected and entered into the system, and 2) training employees on data collection tools and data entry.

5. 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 (e.g., per capita household expenditure, food security survey, Participatory Wealth Ranking, Progress out of Poverty Index, gender audit tools, etc.).

6. The institution discloses social performance data, including the MIX Social Performance Indicators[1], in a public format (e.g., the institution's annual report, reporting to MIX Market, reporting to a national/regional association).

[1] http://www.themix.org/social-performance/Indicators

Additional Good Practices

7. The institution's internal system for managing data has the capacity to analyze financial and social data together.

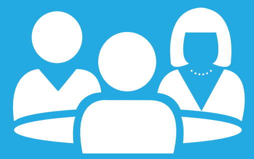
8. The institution's internal system for managing information (e.g., MIS) allows the institution to track the performance of clients over time.

9. The institution ensures the accuracy of client data using one or more of the following methods:

a) Visiting a random sample of clients to confirm that interviews happened;

b) Observing the data collector in action and providing feedback on his/her performance;

c) Verifying a random sample of data entered by the data entry personnel to confirm accuracy.



Section 2.

ENSURE BOARD, MANAGEMENT, AND EMPLOYEE COMMITMENT TO SOCIAL GOALS

2A. Members of the board of directors are committed to the institution's social mission.

2B. Members of the board of directors hold the institution accountable to its social mission and social goals.

2C. Senior management sets, and oversees implementation of, the institution's strategy for achieving its social goals.

2D. Employees are recruited, evaluated, and recognized based on both social and financial performance criteria.

STANDARD 2A. MEMBERS OF THE BOARD OF DIRECTORS ARE COMMITTED TO THE INSTITUTION'S SOCIAL MISSION.

Essential Practices

1. The institution provides Board members with an orientation on the social mission and goals, and the Board's responsibilities related to the social performance management of the institution, and confirms that each member agrees.

2. The institution requires Board members to adhere to the institution's code of ethics (see Essential Practice 2b.5).

Additional Good Practices

3. One or more of the Board members has expertise in some aspect of social performance (e.g., experience as a microfinance practitioner, product design experience, market research experience, human resources experience).

4. Board members have a mechanism for direct contact with clients (e.g., field visits, Board meetings with client representatives).

STANDARD 2B. MEMBERS OF THE BOARD OF DIRECTORS HOLD THE INSTITUTION ACCOUNTABLE TO ITS SOCIAL MISSION AND SOCIAL GOALS

Essential Practices

1. The Board reviews social performance data, including: mission compliance, performance results, human resource policy, social performance related risks (e.g., reputational risk, client exit), client protection practices, growth, and profit allocation.

2. Based on its review of the above information, the Board provides direction for, and oversight of the institution's strategy (detailed in 1a), taking into account both social and financial goals (e.g., how growth targets will affect profitability and service quality for target clients).

3. The Board incorporates social performance management criteria (e.g., achievement of outreach targets, client retention) into its performance evaluation of the CEO/Director.

4. The Board prevents institutional mission drift during changes in ownership structure and/or legal form (e.g., transformation).

Client protection practice that applies:

5. A written code of business ethics spells out organizational values and the standards of professional conduct expected of all employees. The code of ethics has been reviewed and approved by the Board. (Client Protection Principle 5)

Additional Good Practices

6. The Board is formally organized (e.g., a social performance sub-committee, a "social performance champion," mainstreaming SPM into the audit process) to review the social performance data detailed in Essential Practice 2b.1.

7. The Board is evaluated on its effectiveness (internal or external review) and these evaluations include social performance criteria (e.g., how often social performance is discussed at meetings, profit allocation decisions that reflect social goals).

8. The Board reviews any social audit, rating, or other assessment (e.g., client protection certification) of the institution.

STANDARD

2C. SENIOR MANAGEMENT SETS, AND OVERSEES IMPLEMENTATION OF, THE INSTITUTION'S STRATEGY FOR ACHIEVING ITS SOCIAL GOALS.

Essential Practices

1. Senior management integrates the institution's social-performance goals into business planning, making strategic and operational decisions (e.g., new products or delivery mechanisms, growth targets) based on both their social and financial performance implications.

2. Senior management analyzes social performance data, including data on client-level outcomes (see section 1), to compare the institution's actual performance against its stated social targets.

3. Senior managers consider and take action to avoid social performance related risks (e.g., reputation risk, mission drift).

4. The CEO/Director holds senior managers accountable for making progress toward the institution's social goals (e.g., reaching target clients, successful implementation of client protection practices).

Client protection practice that applies:

5. Senior managers and the Board are aware of and regularly monitor risk of client over indebtedness. (Client Protection Principle 2)

Additional Good Practices

6. Senior managers analyze client outcomes and client exit for different client groups (segmentation analysis).

7. The institution undergoes an internal or external social audit to identify strengths and weaknesses and to prioritize areas for improvement.

8. The institution undergoes a social rating to increase social performance transparency.

STANDARD

2D. EMPLOYEES ARE RECRUITED, EVALUATED, AND RECOGNIZED BASED ON BOTH SOCIAL AND FINANCIAL PERFORMANCE CRITERIA

Essential Practices

1. 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.

2. The institution evaluates employees on how they perform both the social performance and financial performance responsibilities related to their position.

Client protection practices that apply:

3. Standards of professional conduct are expected of all employees, and especially acceptable and unacceptable debt collection practices are clearly spelled out in a code of ethics, book of employee rules, or debt collection manual. (Client Protection Principle 5)

4. Employees are recruited and trained in line with the code of ethics. Collections staff receives training in acceptable debt collections practices and loan recovery procedures. In-house and third-party collections staff are expected to follow the same practices. (Client Protection Principle 5)

5. Employee productivity targets and incentive systems value portfolio quality at least as highly as other factors, such as disbursement or customer growth. Growth is rewarded only if portfolio quality is high. (Client Protection Principle 5)

6. 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. (Client Protection Principle 5)

Additional Good Practices

To be determined.

3A. The institution determines that clients have the capacity to repay without becoming over-indebted and will participate in efforts to improve market level credit risk management.

3B. The institution communicates clear, sufficient and timely information in a manner and language clients can understand so that clients can make informed decisions.

3C. The institution and its agents treat their clients fairly and respectfully, and without discrimination. The institution has safeguards to detect and correct corruption as well as aggressive or abusive treatment by their employees and agents, particularly during the loan sales and debt collection processes.

3D. The institution respects the privacy of individual client data in accordance with the laws and regulations of individual jurisdictions and only uses client data for the purposes specified at the time the information is collected or as permitted by law, unless otherwise agreed with the client.

3E. The institution has timely and responsive mechanisms for complaints and problem resolution for their clients and uses these mechanisms both to resolve problems and to improve products and services.

Section 3.

TREAT CLIENTS RESPONSIBLY

STANDARD

3A. THE INSTITUTION DETERMINES THAT CLIENTS HAVE THE CAPACITY TO REPAY WITHOUT BECOMING OVER-INDEBTED AND WILL PARTICIPATE IN EFFORTS TO IMPROVE MARKET LEVEL CREDIT RISK MANAGEMENT.

Client Protection Principle 2 — Prevention of Over Indebtedness — applies to all practices below.

Essential Practices

Client protection practices that apply:

1. The institution's loan approval process requires evaluation of borrower repayment capacity and loan affordability. Loan approval does not rely solely on guarantees — whether peer guarantees, co-signers or collateral — as a substitute for good capacity analysis.

2. The institution's credit approval policies give explicit guidance regarding borrower debt thresholds and acceptable levels of debt from other sources.

3. When available, the institution checks a Credit Registry or Credit Bureau for borrower current debt levels and repayment history. When not available, the institution maintains and checks internal records and consults with competitors for this information.

4. The institution's internal audit and/or internal controls department verifies employee compliance with the policies and systems to prevent the risk of client over-indebtedness.

Additional Good Practices

To be determined.

STANDARD

3B. THE INSTITUTION COMMUNICATES CLEAR, SUFFICIENT AND TIMELY INFORMATION IN A MANNER AND LANGUAGE CLIENTS CAN UNDERSTAND SO THAT CLIENTS CAN MAKE INFORMED DECISIONS.

Client Protection Principle 3 — Transparency — applies to all practices below.

Essential Practices

Client protection practices that apply:

1. Employees are trained to communicate effectively with all clients, so that clients can understand the terms of the contract, and their rights and obligations. Communication techniques address literacy limitations (e.g., reading contracts out loud, materials available in local languages).

2. The institution follows truth-in-lending laws and required ***annual percentage rate*** (APR) or ***effective interest rate*** (EIR) calculation formulae. In the absence of industry-wide requirements, the institution provides information that shows the total amount that the customer pays for the product.

3. The institution fully discloses to the client the prices, terms, and conditions of all financial products prior to transaction, including: interest charges, insurance premiums, minimum balances, all fees, penalties, linked products, third-party fees, and whether those can change over time. Information is provided that shows the total amount that the customer pays for the product.

4. The institution uses multiple channels for disclosing clear and accurate information about the product, such as brochures, orientation sessions, meetings, posting information in the branch, websites, etc.

5. The institution gives clients adequate time to review the terms and conditions of the product as well as an opportunity to ask questions and receive information prior to signing contracts.

6. The institution regularly provides clients with clear and accurate information regarding their accounts (e.g., account statements, receipts, and balance inquiries).

Additional Good Practices

To be determined.

Treat Clients Responsibly

STANDARD

3C. THE INSTITUTION AND ITS AGENTS TREAT THEIR CLIENTS FAIRLY AND RESPECTFULLY, AND WITHOUT DISCRIMINATION. THE INSTITUTION HAS SAFEGUARDS TO DETECT AND CORRECT CORRUPTION AS WELL AS AGGRESSIVE OR ABUSIVE TREATMENT BY THEIR EMPLOYEES AND AGENTS, PARTICULARLY DURING THE LOAN SALES AND DEBT COLLECTION PROCESSES.

Client Protection Principle 5 — Fair and Respectful Treatment of Clients — applies to the practice below.

Essential Practice

Client protection practices that applies:

1. 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.

Additional Good Practices

To be determined.

STANDARD

3D. THE INSTITUTION RESPECTS THE PRIVACY OF INDIVIDUAL CLIENT DATA IN ACCORDANCE WITH THE LAWS AND REGULATIONS OF INDIVIDUAL JURISDICTIONS AND ONLY USES CLIENT DATA FOR THE PURPOSES SPECIFIED AT THE TIME THE INFORMATION IS COLLECTED OR AS PERMITTED BY LAW, UNLESS OTHERWISE AGREED WITH THE CLIENT.

Client Protection Principle 6 — Privacy of Client Data — applies to all practices below.

Essential Practices

Client protection practices that apply:

1. The institution has a written privacy policy that governs the gathering, processing, use, and distribution of client information.

2. The institution trains employees on the policies and procedures for keeping client information secure and private.

3. The institution has appropriate technology systems (e.g., secure databases) for ensuring that client data is secured.

4. The institution informs clients how their information will be used internally and, when applicable, when it will be shared externally (e.g., shared with a Credit Bureau).

5. The institution gets client permission for any necessary distribution of client data.

Additional Good Practices

To be determined.

STANDARD

3E. THE INSTITUTION HAS TIMELY AND RESPONSIVE MECHANISMS FOR COMPLAINTS AND PROBLEM RESOLUTION FOR THEIR CLIENTS AND USES THESE MECHANISMS BOTH TO RESOLVE INDIVIDUAL PROBLEMS AND TO IMPROVE PRODUCTS AND SERVICES.

Client Protection Principle 7 — Mechanisms for Complaint Resolution — applies to the practices below.

Essential Practices

Client protection practices that apply:

1. The institution has an effective mechanism to handle client complaints.

2. The institution has a policy that client complaints must be taken seriously, fully investigated, and resolved in a timely manner without bias.

3. The institution informs clients of their right to complain and know how to submit a complaint to the appropriate person.

4. Employees are trained to inform customers of the opportunity to make a complaint as well as how to handle complaints and refer them to the appropriate person for investigation and resolution.

Additional Good Practices

To be determined.

4A. The institution understands the needs and preferences of different types of clients.

4B. The institution designs products, services, and delivery channels in such a way that they do not cause clients harm.

4C. The institution's products, services, delivery models and channels are designed to benefit clients, in line with the institution's social goals.

Section 4.

DESIGN PRODUCTS, SERVICES, DELIVERY MODELS AND CHANNELS THAT MEET CLIENTS' NEEDS AND PREFERENCES

STANDARD

4A. THE INSTITUTION UNDERSTANDS THE NEEDS AND PREFERENCES OF DIFFERENT TYPES OF CLIENTS.

Essential Practices

The institution regularly uses the data it collects (process described in standard 1b) to:

1. Understand how clients use products and services, by client characteristic (e.g., men and women, income level, business type).

2. Understand client satisfaction (e.g., overall experience and value, convenience of accessing services, suggestions for product improvements), by client characteristic.

3. Monitor the client retention rate[2] and understand the reasons clients exit the institution.

[2] The MIX social performance indicator for client retention rate uses the following formula: Client retention rate = Active clients at the end of the period/ (active clients at begin-ning of the period + new clients during the period).

Additional Good Practices

4. The institution asks field employees for their insights on the needs and preferences of clients.

5. The institution understands client demand for services and products not currently offered.

6. The institution understands the ways in which its methodology affects inclusion or exclusion of certain populations from its client group.

STANDARD 4B. THE INSTITUTION DESIGNS PRODUCTS, SERVICES, AND DELIVERY CHANNELS IN SUCH A WAY THAT THEY DO NOT CAUSE CLIENTS HARM.[3]

Client Protection Principle 1 — Appropriate Products Design and Delivery — applies to all practices below.

Essential Practices

Client protection practices that apply:

1. The institution offers multiple and/or flexible loan products to address different business and family needs.

2. Loan repayment schedules correspond with the expected cash flows of borrowers.

3. Loan size matches financial need and business type.

4. Products are affordable to clients, meaning clients will not have to make significant sacrifices to their standard of living or business affairs in order to pay for their financial products. Affordability considerations include: 1) the interest rate, fees, premiums, and all other charges; 2) the loan size (or insurance premium); and 3) the periodic payment amount required.

5. Product and service delivery is reliable, convenient for the client (e.g., service points close to the client's home or business), and reduce personal costs (e.g., travel) associated with accessing the product or service.

6. Product terms and conditions are easy for clients to understand and compare.

7. Changes to the product (cost, terms, conditions) are minimal/ infrequent.

8. The institution does not ask clients to waive their basic rights (e.g., the right to sue the provider, receive information, cancel use of the product, maintain privacy).

9. 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 capacity to repay.

[3] Standard 4b and the corresponding Essential Practices are taken from the Smart Campaign. Unlike the other client protection practices in this document, these Essential Practices are not yet part of the Smart Campaign's Client Protection Certification (with the exception of 4b.9) because the Smart Campaign is in the process of piloting the practices.

Additional Good Practices

To be determined.

Design Products, Services, Delivery Models and Channels That Meet Clients' Needs and Preferences

STANDARD 4C. THE INSTITUTION'S PRODUCTS, SERVICES, DELIVERY MODELS AND CHANNELS ARE DESIGNED TO BENEFIT CLIENTS, IN LINE WITH THE INSTITUTION'S SOCIAL GOALS.

Essential Practices

The institution uses its understanding of client needs and preferences to modify or design products and services, delivery models and channels that create benefits to clients, including:

1. Reducing the barriers to financial inclusion faced by target clients (e.g., making points of service accessible to excluded people; offering suitable product terms for poor people).

2. Providing timely access to sufficient money and services that allow clients to reduce their risk and cope with common emergencies (e.g., access to savings, insurance, emergency loans, business support services).

3. Creating other benefits for clients by enabling them to invest in economic opportunities (e.g., loans for/leasing machinery) and address anticipated household needs (e.g., home improvement loans, wedding savings).

Client protection practice that applies:

4. Complaints information is used to improve the organization's operations, products, and communications. (Client Protection Principle 7)

Additional Good Practices

To be determined.

5A. The institution follows a written Human Resources policy that protects employees and creates a supportive working environment.

5B. The institution communicates to all employees the terms of their employment and provides training for essential job functions.

5C. The institution monitors employee satisfaction and turnover.

Section 5.

TREAT EMPLOYEES RESPONSIBLY

STANDARD

5A. THE INSTITUTION FOLLOWS A WRITTEN HUMAN RESOURCES POLICY THAT PROTECTS EMPLOYEES AND CREATES A SUPPORTIVE WORKING ENVIRONMENT.

Essential Practices

1. A written Human Resources policy is available to all employees; is compliant with any existing national law; and explains employees' rights related to all of the following: wages, benefits, working conditions, safety at work, nondiscrimination, freedom of association, and grievance resolution.

2. Employee compensation levels constitute a living wage[4] for employees.

3. The institution accepts and responds to employee grievances through a formal and confidential grievance system that protects employees from retaliation for submitting their complaints.

4. The institution neither employs nor benefits from forced or compulsory labor.[5] If national law allows employment of minors, the institution complies with the national and international legal requirements and norms when hiring minors.[6]

5. The institution assesses the health and safety risks (e.g., excessive pressure and work load, driving without helmets) that employees face on the job and provides to employees, free of charge, the training and equipment necessary to mitigate those risks.

6. The institution documents, reports, and investigates all occupational accidents, injuries or diseases.

Additional Good Practices

__7.__ The institution bases employment decisions on the principle of equal opportunity and fair treatment regardless of sex, ethnic background, race, age, disability, descent including caste, religion, sexual orientation, or HIV/AIDS status.

__8.__ The institution avoids using work provided on a casual, temporary and/or unpaid basis unless its nature is truly short term.

__9.__ The institution takes documented action to hire and promote qualified women and achieve representation of women in leadership positions (e.g., encouraging internal and external job applications from women, setting goals for women's employment, and mentoring women employees).

__10.__ The institution provides reasonable accommodation (e.g., wheelchair ramps, printing documents in large font) for employees with disabilities.

[4] A living wage is a wage sufficient to provide minimally satisfactory living conditions for the employee in the location where he/she works.

[5] Any work done under the threat of penalty or involuntarily is considered forced or compulsory labour.

[6] The minimum age for admission to "regular work" is at least 14 years (developed countries —15 years). Exceptions may be made from 12 years (developed countries — 13 years) for "light work" that does not interfere with the child's schooling and does not harm the child in any other way. The minimum age for "hazardous work" that is likely to harm the health, safety or morals of a child is 18 years.

STANDARD

5B. THE INSTITUTION COMMUNICATES TO ALL EMPLOYEES THE TERMS OF THEIR EMPLOYMENT AND PROVIDES TRAINING FOR ESSENTIAL JOB FUNCTIONS.

Essential Practices

1. Each employee receives a written job description and a written or verbal employment contract that includes his/her salary, benefits, and employment conditions.

2. Each employee receives job-specific training and/or skill development necessary to perform his/her essential job functions.

3. Each employee understands how his/her performance will be evaluated and rewarded by the institution.

Client protection practice that applies:

4. Employee rules include specific provisions on what is considered acceptable/unacceptable behavior. Provisions describe reprimands and actions that can result in termination of employment. Employees are informed of penalties for non-compliance with ethics code/ collections policies, violations are sanctioned, and sufficient monitoring of the practices (by operations department, internal audits) is carried out to provide education or sanctions as necessary. (Client Protection Principle 5)

Additional Good Practices

5. *An employee's performance objectives are established through consultation with and agreement from the employee.*

6. *The institution has an employee development system in place to attract and maintain a qualified and motivated workforce, including skills development, training and learning opportunities for career enhancement (e.g., special projects, rotations, and "stretch" assignments). These opportunities are provided to all employees on an equal, non-discriminatory basis.*

STANDARD

5C. THE INSTITUTION MONITORS EMPLOYEE SATISFACTION AND TURNOVER.

Essential Practices

1. The organization gathers, documents, and analyzes employee satisfaction data.

2. The institution monitors the rate of employee turnover[7] and understands the reasons for employee exit.

3. The institution takes action to correct institutional problems leading to employee turnover and dissatisfaction.

[7] The MIX calculates employee rotation rate in the following way: Staff rotation rate = Exit during the period / average (Number of employees at the end of the reporting period + Staff employed for one year or more).

Additional Good Practice

4. *The institution monitors the rate of employee turnover by employee level (e.g., field staff, executive staff) and gender.*

6A. Growth rates are sustainable and appropriate for market conditions, allowing for high service quality.

6B. The institution's financing structure is appropriate to a double bottom line institution in its mix of sources, terms, and desired returns.

6C. Pursuit of profits does not undermine the long-term sustainability of the institution or client well-being.

6D. The institution offers compensation to senior managers that is appropriate to a double bottom line institution.

Section 6.

BALANCE FINANCIAL AND SOCIAL PERFORMANCE

STANDARD

6A. GROWTH RATES ARE SUSTAINABLE AND APPROPRIATE FOR MARKET CONDITIONS, ALLOWING FOR HIGH SERVICE QUALITY.

Essential Practices

1. 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 over-indebtedness).

2. 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.

3. The institution examines quarterly growth rates for all branches/regions, not just the overall annual rates (which may not capture high growth followed by contraction) and has a monitoring system in place to identify unexpected and unsanctioned growth.

4. The institution monitors whether its internal capacity (e.g., management information system, risk management procedures, employee training) is keeping pace with institutional growth in number of clients and amount of loans and deposits, and enhances that capacity as needed.

Additional Good Practices

5. The institution examines whether its growth is created by moving to new clients and markets ("extensive growth") or among existing clients and within current markets ("intensive growth").

6. 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.

7. The institution reports information to a credit information sharing system (e.g., credit bureau, microfinance association) where available.

STANDARD

6B. THE INSTITUTION'S FINANCING STRUCTURE IS APPROPRIATE TO A DOUBLE BOTTOM LINE INSTITUTION IN ITS MIX OF SOURCES, TERMS, AND DESIRED RETURNS.

Essential Practices

1. The institution and its investors align up front their desired level of returns and how those returns will be allocated (e.g., using profits to create benefits for clients, to distribute profits to shareholders), in a manner consistent with the institution's social goals. These expectations inform all of the institution's specific decisions about returns (e.g., how much of the current year's profit will be allocated to dividends, lower interest rates for clients, product improvements, bonuses to employees).

2. 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 these target ranges balance financial and social goals.

3. The institution works with investors whose expected time horizons and exit strategies are aligned with the institution's social goals and stage of development.

4. The institution considers its total cost of capital when deciding on a financing structure in order to understand what cost would be passed on to the client.

5. The institution has a transparent financing structure including disclosing and incorporating any off-balance sheet sources of funding into reported leverage ratios.

6. The institution's funding model protects client savings and cash collateral.

7. The institution has a system in place to manage financial risk (e.g., a formal asset/liability management committee at the Board or senior management level).[8]

Client protection practice that applies:

8. 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. (Client Protection Principle 4)

[8] If maturity of liabilities is not well matched to maturity of assets, the institution may be forced to find other ways to generate sufficient cash to meet its obligations that would negatively affect clients (e.g., redesigning loan products to be larger and shorter in term, liquidating whole segments of the portfolio).

Additional Good Practice

9. Any un-hedged foreign currency exposure represents no more than one third of equity, and is in line with local regulations.

Balance Financial and Social Performance

STANDARD

6C. PURSUIT OF PROFITS DOES NOT UNDERMINE THE LONG-TERM SUSTAINABILITY OF THE INSTITUTION OR CLIENT WELL-BEING.

Essential Practices

Prices of products and services (e.g., effective interest rates on loans, fees for remittances, insurance premiums) are responsible, meaning that they:

1. Offer value to the client for the price.

2. Do not pass on cost of inefficiency to the client.

3. Allow the institution to earn a rate of return to support operations and grow, that does not deviate significantly from the peer group.[9] (Client Protection Principle 4)

4. Are market oriented and competitive within the country context, and are not subsidized. Any product contributing >25% of portfolio is evaluated on these criteria (both APR & EIR must be considered). (Client Protection Principle 4)

5. The Board monitors whether the institution's pricing levels are consistent with the institution's policies on returns (see 6b).

6. The institution establishes a loan-officer-to-client ratio that promotes high service quality for clients.

[9] Peer groups are defined as financial institutions of similar size, with similar delivery models and channels, targeting the same types of clients, in the same country. At least five institutions are needed to comprise a peer group. In case of no in-country peer group, the regional peer group should be used.

Additional Good Practice

7. In countries where MFTransparency analysis is available, the institution evaluates its effective interest rate on each credit product relative to average loan size, and understands the reasons for any deviation (e.g., delivery channels and the range of services and non-financial services provided) from the "pricing/loan size curve"[11] for the country.

STANDARD

6D. THE INSTITUTION OFFERS COMPENSATION TO SENIOR MANAGERS THAT IS APPROPRIATE TO A DOUBLE BOTTOM LINE INSTITUTION.

Essential Practices

1. The institution transparently discloses compensation (defined as salary, benefits, bonuses, stock options, and cash value of perquisites) to regulators, donors, and investors, upon request.

2. The institution calculates the difference between the average compensation of its top level executives (e.g., CEO, CFO) and its field employees, and evaluates whether this spread is consistent with the institution's mission, social goals, and commitment to treat employees responsibly.

Additional Good Practices

3. The institution observes disclosure guidelines specified in emerging international standards (e.g., IAS 24).

4. The institution includes all employees, not just senior managers, in benefits (e.g., profit sharing, education loans, health insurance).

The Social Performance Task Force (SPTF) consists of over 1,300 members from all over the world and every microfinance stakeholder group: practitioners, donors and investors (multilateral, bi-lateral, and private), global, regional, and national associations, technical assistance providers, rating agencies, academics and researchers, and others. SPTF engages with microfinance stakeholders to develop, disseminate and promote standards and good practices for social performance management and reporting. The vision of SPTF is that social performance management (SPM) is standard business practice and considered fundamental to achieving the social promise of microfinance.

For more information, please visit:

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