



SPM ESSENTIALS

PRACTICAL STRATEGIES FOR
TODAY'S MANAGEMENT
CHALLENGES

TODAY'S WEBINAR:

RESPONSIBLE USE OF PROFITS

JULY 7, 2021

TODAY'S SPEAKERS



MODERATOR
Amelia Greenberg
Deputy Director, SPTF
New York, USA



SPEAKER
Borann Kea
CEO, AMK
Cambodia



SPEAKER
Mitch Gomez
President, GM Bank
Philippines
(absent and sends his regrets)



SPEAKER
Padma Rajpal
Social Performance Manager, Dia Vikas
India

AGENDA

- Welcome and introductions (5 minutes)
- Setting the stage (10 minutes)
 - Defining SPM
 - Universal Standards for SPM; review process
 - SPM Essentials Series
- GM Bank: overview of the organization; approach to responsible use of profits (5 minutes)
- AMK: overview of the organization; approach to responsible use of profits (15 minutes)
- Dia Vikas: SPM and investment decisions (15 minutes)
- Interviews with speakers (25 minutes)
- Questions and answers (15 minutes)

SETTING THE STAGE (1 OF 3): DEFINITIONS

- **What is SPM?**
- Social performance management (SPM) is a continuous process of setting and achieving social and environmental targets. The goal of SPM is to protect and benefit customers, employees, and the environment.
- **What are the elements of “good” SPM?**
- 1. Social strategy
- 2. Committed leadership
- 3. Client-centered products and services
- 4. Client protection
- 5. Human resource development
- 6. Balanced growth and returns
- 7. Environmental performance management

SETTING THE STAGE (2 OF 3): STANDARDS UPDATE AND WEBINARS

■ The Universal Standards for SPM

- A comprehensive manual of best practices created by and for people in microfinance as a resource to help financial service providers achieve their social goals.
- Managed by SPTF
- SPI social audit tool managed by CERISE

■ Universal Standards Review Process

- First published in 2012; reviewed every ~5 years
- 2020 we began a review process: expert interviews, webinars, public surveys, data analysis, literature review
- New manual to be published by year-end 2021; infrastructure updates underway

■ SPM Essentials Series

- Schedule: 1-2 webinars per month, excluding summer, in 2021
- Content: All seven dimensions of the Universal Standards
- Purpose: share good practices of Universal Standards implementation, particularly those that relate to new elements of the manual
- <https://sptf.info/online-trainings-bucket/spm-essentials-2021>

SETTING THE STAGE (3 OF 3): DIM 6 – RESPONSIBLE GROWTH AND RETURNS

6A	The provider manages growth in a way that promotes its social goals and mitigates risks to clients.
EP 6A1	The provider's strategic and/or business plan establishes responsible growth targets.
EP 6A2	During times of growth, the provider monitors risks to clients and employees and increases internal capacity as needed.
6B	The provider sets prices responsibly.
EP 6B1	The provider charges fair prices.
EP 6B2	The provider charges reasonable fees.
EP 6B3	The provider does not transfer unnecessary costs to clients.
6C	The provider uses profits responsibly.
EP 6C1	The provider engages with equity investors whose investment strategy is aligned with the provider's social goals.
EP 6C2	The provider uses its profits for expenditures that benefit clients.
EP 6C3	The provider has a transparent financial and social structure.

NB:All indicators and details are in draft form and are subject to change.

6C1	EP	The provider engages with equity investors whose investment strategy is aligned with the provider's social goals.
6C1.1	Indicator	In at least one of its founding documents, the provider describes what views its shareholders must have in the following areas, in order to be compatible with the provider's own social goals:
6C1.1.1	Detail	Commitment to social goals
6C1.1.2	Detail	Expectations for use of profits
6C1.1.3	Detail	Expected investment timeline
6C1.1.4	Detail	Exit strategy
6C1.2	Indicator	The provider discusses its social goals with potential equity investors, and asks about their planned timeframe for investment and exit strategies, to assess whether the potential investor and the provider are aligned.
6C1.3	Indicator	The board of directors prioritizes accepting investment offers from investors whose investment strategy is aligned with the provider's social goals.
6C2	EP	The provider uses its profits for expenditures that benefit clients.
6C2.1	Indicator	The provider's use of profits in the previous year included at least one of the following: investment in the business in any area that directly benefited clients, provision of non-financial services, lowering of prices.
6C2.2	Indicator	The provider has a policy in alignment with its social goals that specifies when dividends may be paid and in what amount.

OVERVIEW OF GM BANK



1. Founded in 1973
2. Operates in Northern Philippines
3. 48 branches and 771 employees
4. 112,000 clients, including 41,000 borrowers
 - Men/women = 21/79
 - Urban/rural = 32/68
5. Products/Services: deposits, loans, microinsurance, remittances, payments, ATM
6. Governance: 11-person board of directors, of whom 5 are female

HISTORY OF ENGAGEMENT WITH SPM



- 2009:
 - Participated in Beyond Codes Dialogue Group (Washington, D.C.)
 - First Social Performance Rating
- 2010 – 2021
 - Regulatory Compliance on Effective Interest Rate
 - Declining Balance method on pricing
 - Loan Transparency
 - Consumer Protection
- 2020
 - Second Social Performance Rating and a client protection certification

GM BANK – REFLECTIONS ON SOCIAL PERFORMANCE ASSESSMENT



- Every three years, ideally
- The first establishes a baseline
- Benchmarking is important, especially from a global benchmark / non-regulatory external institution
- Make improvements: policy, practice, embed it in the culture and value system
- Be open to scrutiny and accept that there is room for improvement
- Drive toward your mission

GM BANK – REFLECTIONS ON BUDGET DECISIONS THAT BENEFIT CLIENTS

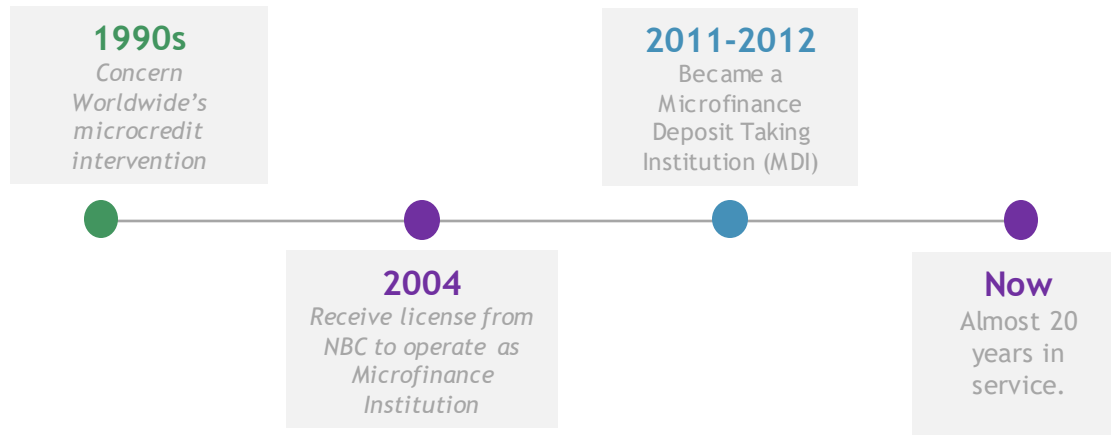


- Product design
 - Client-centric product design takes time, money, and effort
 - Meeting clients' needs and their cash flow patterns is a win-win
 - Past haphazard product design had negative results for the bank and for clients
- Complaints mechanism
 - Truly understand clients and create value for them
- Pricing
 - Calamities highlight need for flexibility. Forego certain sections of pricing agreements
 - Reduce short-term profitability; preserve client viability and allow the business to bounce back
- Attract / align with social investors

OVERVIEW OF AMK



1. Founded

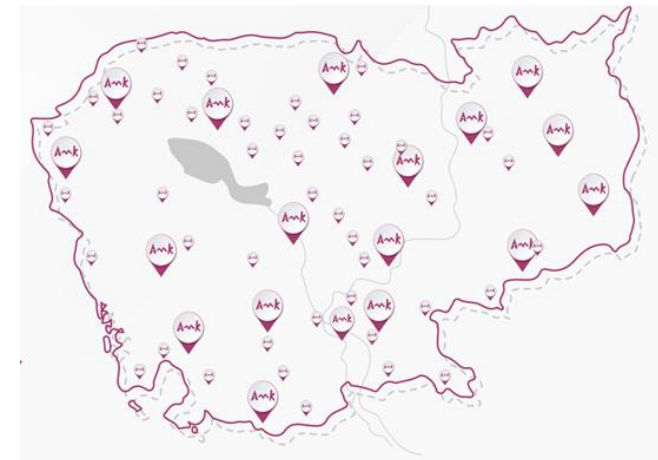


2. Product and service

- Credit
- Saving
- Money Transfer Agent
- Leasing
- Microinsurance
- Mobile Banking
- ATMs/CDMs.

3. Coverage

- ~91% of all villages in Cambodia
- Reaching out to all districts and communes.
- Serving more than 1,000,000 clients (especially rural population and women) across all products and services.



4. Social Performance Committee

- Formed in 2005
- To assist the Board of Director to monitor AMK's social mission and social value.

AMK – RESPONSIBLE USE OF PROFITS



1. AMK's Research

Social Research: Compulsory

- Depth of outreach data analysis
- Retention Rate Analysis
- Clients Exit Survey
- Customer Satisfaction survey
- Clients' Product Awareness study
- Loan Usage study
- Clients complaints
- Staff Satisfaction
- Brand Awareness & Service Quality survey
- Change/Impact Study

Market Research: Depends on biz need

- Usage and Attitude Study
- Product Concept Testing
- Product Testing
- Market feasibility study
- Market Intelligence
- Customer behavior analysis, and more...

Example:

- Agent Quality Study
- AMK Retail Credit vs. Market Situation
- Save to Win Product Concept Testing ; and more...

2. AMK SPC Monitors AMK's Social Mission

- Meeting once every quarter or at least twice a year
- Focusing on four dimensions including (1) Depth of Outreach, (2) Adequacy of Products, (3) Transparency and Client Protection, (4) Responsibilities to Staff

The result from SPC meeting is brought to discuss with the board during the board meeting.

AMK - Social Performance Reporting Framework					
Period Evaluated: 1 January to 31 st December 2020	Regular Monitoring				
Information presented: March 2021	Depth of Outreach	Adequacy of Products	Transparency & Client Protection	Responsibility to Staff	Change Effect
Sources of Information <i>We need not rely only on the standard reports. Include other surveys completed in the year</i>	<ul style="list-style-type: none"> - VB + ID - Benchmark: ID poor - New profiling - personas 	<ul style="list-style-type: none"> - Retention % (Loan and MI) - Dormancy saving - Multiple loan - Exit/reject survey - Customer experience survey (multi products) - Service quality measurement 2021 - Brand awareness 2021 	<ul style="list-style-type: none"> - Multiple loan - Loan utility - Borrower awareness - MI client awareness - Client grievance - Client experience with agents - Saving Awareness 	<ul style="list-style-type: none"> - Staff Exit 2020 - Staff Satisfaction 2020 <p>Agent survey</p>	<ul style="list-style-type: none"> - Change study final in house report
Indicators	<ul style="list-style-type: none"> - ID Poor - benchmarked to national ID levels (+20%) - PPI will not be available until 2021 - Proxy indicators - education level, age 		<ul style="list-style-type: none"> - Multiple Loan Ratio - Loan Usage by Client - Awareness Score over products and services - Number of Tracking Issues /10,000 active accounts - separate for loans, savings, insurance, agents 	<ul style="list-style-type: none"> - Staff Turnover and Explanations on Reasons for resignation - Satisfaction Score by gender, position, branch - Reason why staff considering to resign from AMK 	<ul style="list-style-type: none"> - Livelihood and well-being score - Change on food consumption (food poverty line) - Change on other social indicators - Propensity score matching and Different in different methodology

YEAR OF ASSESSMENT: 2020 SOCIAL PERFORMANCE ASSESSMENT - SUMMARY					
	Depth of Outreach	Adequacy of Products	Transparency and Client Protection	Responsibility to Staff	Change Effect
Methodology, Process and Reports / Sources of Info	Are you satisfied with the accuracy of the methodology and process applied?	Are you satisfied with the accuracy of the methodology and process applied?	Are you satisfied with the accuracy of the methodology and process applied?	Are you satisfied with the accuracy of the methodology and process applied?	Are you satisfied with the accuracy of the methodology and process applied?
	Is this result/finding in line with the mission?	Is this result/finding in line with the mission?	Is this result/finding in line with the mission?	Is this result/finding in line with the mission?	Is this result/finding in line with the mission?
	Based on these findings, are there foreseeable issues in the future?	Based on these findings, are there foreseeable issues in the future?	Based on these findings, are there foreseeable issues in the future?	Based on these findings, are there foreseeable issues in the future?	Based on these findings, are there foreseeable issues in the future?
	Is data or information missing:	Is data or information missing:	Is data or information missing:	Is data or information missing:	Is data or information missing:

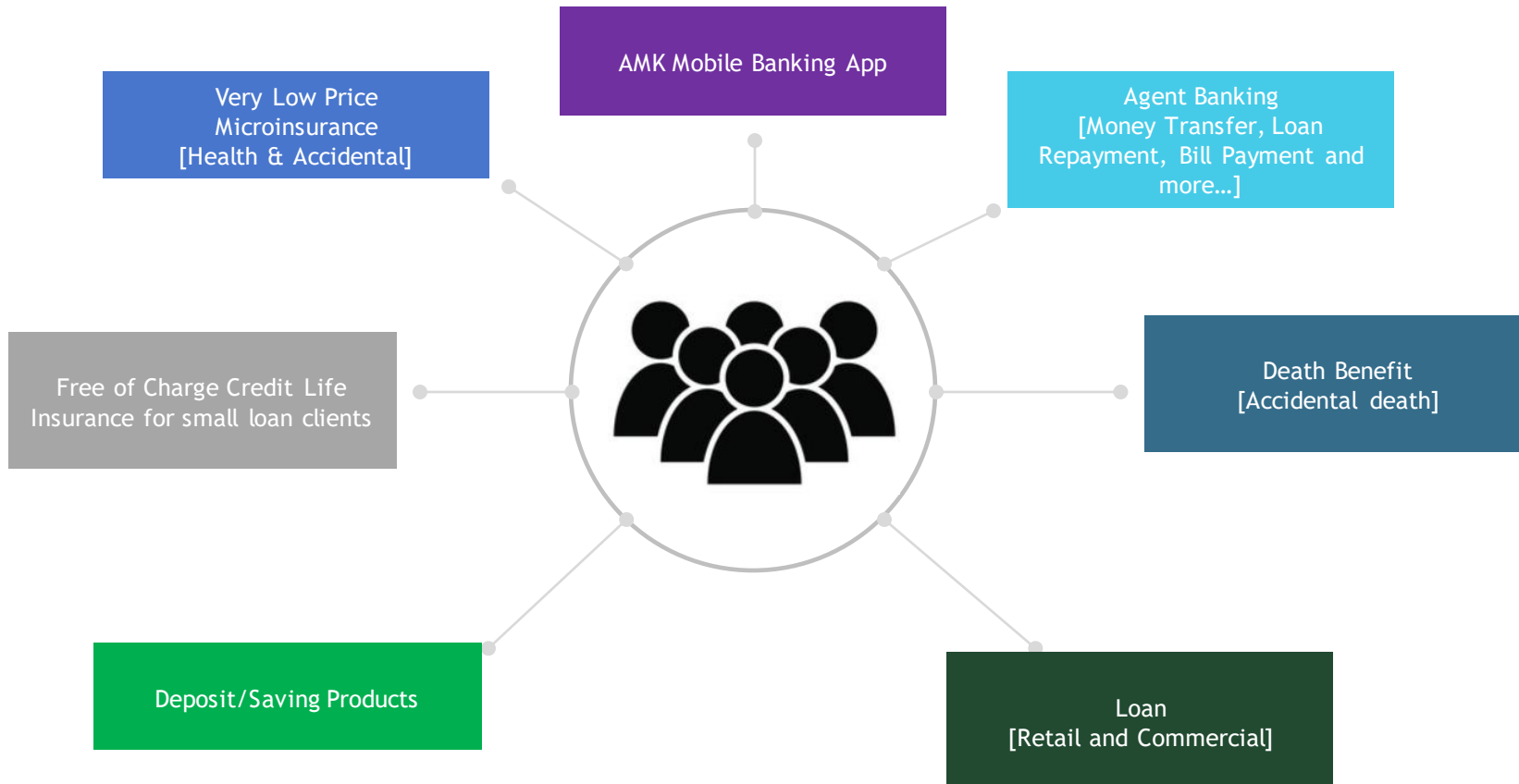


Board

AMK – RESPONSIBLE USE OF PROFITS



AMK's investments that are client-centric



For instance:

- Each year, approximately about **75%-80%** of our loan clients own Microinsurance policies for themselves and/or for their spouse.
- All of our clients can use AMK Agents near-by their home [**5,000+ Agents that covers all districts and communes in Cambodia**] to perform transactions like deposit/saving, loan repayment, money transfer, bill payment etc. without having to come to branches.
- All AMK clients can perform various financial transaction through AMK Mobile Banking App [**currently: ~70,000 subscribers**].
- Online loan: *Clients can also fill up loan application from anywhere through robotic agent on social media platform like Facebook messenger or our Mobile Banking App.*

AMK – RESPONSIBLE USE OF PROFITS



Importance of CPP, Social Rating, and Other Social Responsibilities framework to AMK and our effort in obtaining and maintaining them.

Client Protection Certification 2016 and 2021

Social Rating 2011, 2013, 2015, 2018 and 2021

Truelift 2019



AMK Microfinance Institution (PLC)
Microfinance Deposit-taking Institution (3rd update)
Phnom Penh, Cambodia

Social Rating
Standard Comprehensive¹
November 2018

Mission: To help large numbers of poor people to improve their livelihood options through the delivery of appropriate and viable microfinance services

This report updates the previous rating by M-CRIL in 2015

1 USD = 4000 KHR (as of August 2018)
All data – as of June 2018 unless otherwise stated

Disclosure: M-CRIL's Co-Founder/Director, Frances Sinha, is a member of AMK's Social Performance Committee. She has not influenced the rating.

¹Client level information based on data available with the MDI.

	2013	2015	2018
SOCIAL RATING	Σα	Σα	Σα
RATING OUTLOOK	Positive	Positive	Positive
Rating dimensions	2015	2018	
Process/organisational systems			
Governance and strategy	Σα+	Σα+	
Monitoring social goals	Σα	Σα	
HR & responsibility to staff	Σα-	Σα-	
Client protection	Σα-	Σα-	
Results/outputs – client level information¹			
Depth of outreach	Σα-	Σα-	
Quality of services	Σα	Σα	

M-CRIL: Krishna Raj Pandey krpandey@m-cril.com Visit: 9-13 July 2018
Sudhir Narayan sudhirnarayan@m-cril.com Tel: +91 124 491 1942

AMK: Cheang Vanna vanna.cheang@amkambodia.com Tel: +855 23 86 14 61



Note: Please refer to the CPP on our website for more detail: <https://bit.ly/3hilmP4>

OVERVIEW OF DIA VIKAS

- Established in early 2008
- Impact investor in India
- Focussed in the microfinance sector
- Early stage capital, loans and quasi equity (Mixed/Hybrid fund)
- Portfolio size of ₹2000 Mn
- Patient investor not seeking a quick exit

OUR MISSION

To provide opportunities for people living in poverty to transform their lives

OUR VISION

To see local indigenous microfinance, livelihood and development service partners assist millions of poor lifted out of poverty permanently



**Outreach to 5.4 Mn borrowers
11.3 Mn savings accounts making to
a total of 16.4 Mn individuals**

**Geographically, this coverage
extends across 31 states and union
territories, including 7 low income
states of India accounting for 30% of
India's poor and 44% of our clients**

OUR PURPOSE

To facilitate the provision of effective products and services that clients can use to achieve economic and social freedom and in turn reach their God given potential and thrive

PARTNERSHIP PROCESS OF DIA VIKAS

- Mission Alignment
 - Provide opportunities for people living in poverty
 - Living in unserved and underserved regions
 - Strategies to deepen outreach and broaden services
- Strong governance model
 - Capable leadership team
 - Strong risk management practices
 - Reasonable financial performance
- Competitive business plan projecting reasonable growth
- Ensuring transparency at all stages
- Compliant with the Industry Code of Responsible Lending and Fair Practices Code
- Demonstrate commitment to responsible practices in the areas of client protection and staff satisfaction.
- Social rating in addition to financial rating/grading



KEY INTERVENTIONS

- Providing loan, equity and quasi-equity funding
- Providing world-class technical and operational support, including credit plus/complementary services
- Developing strong relationships with our partners and investing in their leadership
- Encouraging partners to transform into better compliant and governed entities.

We have a long term vision of relationship with our partners that strengthens with time and so does their commitment to social performance. When we see a disconnect, we intervene to rectify.

RESPONSIBLE USE OF PROFITS

- We do not specify minimum rate of return and allow our investees to plough back profits in the growth of the business
- The profitability ratios/margins of MFIs are rangebound due to India being the cheapest market globally as also highly competitive which ensures that profiteering is not at the cost of the client and inefficiencies of the institution are not passed down to the clients
- Sharing profits with clients
 - One partner reduced interest rates for its clients, among the lowest in the industry.
 - One partner introduced loyalty bonus to clients to encourage good credit discipline
 - Microfinance plus activities: health and education
- Indian companies have to contribute at least 2% of the average net profit during the past three years towards corporate social responsibility (CSR)
 - One partner makes a higher contribution towards CSR than that prescribed by law
 - Using CSR funds for the communities where the microfinance program works

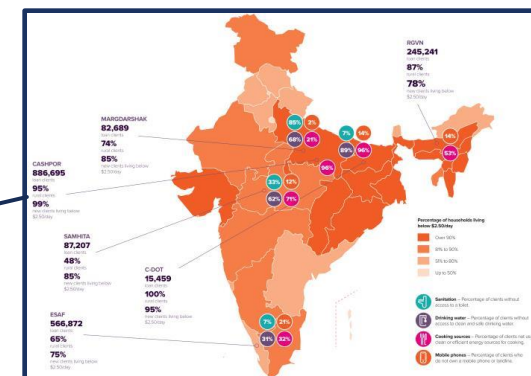
What should the FSPs do?

- Communicate intent to achieve social mission/vision to investors clearly at the time of signing the agreement
- Share results/ achievements at regular intervals
- Sharing gaps between intent and achievement

Dia has played the role of catalytic investor for other like-minded investors, leading to a dialogue with stakeholders to share best practices and help advance the industry

JOURNEY OF SPM

- Dia Vikas has promoted social performance management across all of our partners (over 20) since we began operations. Our strategy is complimentary to that of the broader Opportunity International network SPM strategy.
- Highlights of Dia's SPM program to date:
 - 2009 – Started supporting Indian partners with SPM program, focusing on best practices and data collection
 - 2012 – Adopted the Poverty Probability Index (PPI) Poverty Measurement tool as part of a dashboard of social indicators to show client outreach and movement out of poverty
 - 2013 – Cashpor is one of the first 6 MFIs globally to be Smart Certified in Client Protection
 - 2013 – Beta-tested the new Universal Standards for SPM with ESAF
 - 2015 – First Opportunity Social Performance Report published
 - 2016 – Adopted the SPI4 reporting tool and partners started quarterly SPI4 reporting
 - 2019 – First Dia Vikas' Social Performance Report published – now an annual publication



REPORTING SOCIAL OUTCOMES

- Impact assessment reports
 - Poverty measurement (Measuring poverty outreach; improving the performance of intervention among the poor and tracking poverty levels over time)
 - Outcome indicators (business, health, social)
 - Social indicators (outreach to women, rural clients, access to services like water and sanitation etc.)
 - Environmental indicators - in future we will promote reporting against forthcoming environmental best practices.
- Quarterly SPI online reporting & benchmarking
- SPTF-CERISE certification (earlier SMART certification)

Implementing SPM comes at a cost and we offer to cover the costs partly in order to encourage our partners to evaluate the benefits of the activity and not see it merely as an investor driven exercise.

What should the FSPs do?

- Communicate cost versus benefits of collecting social data to investors
- Management should share with the investors the activities that need to be prioritised and technical support that they require on SPM
- In case the FSP is facing operational challenges, the decision to postpone SPM activities should be clearly communicated to investors

FSPs should institutionalise social performance reporting within the organisations encouraging partners to see value in using social performance data internally in their decision making.

MANAGING CONFLICT



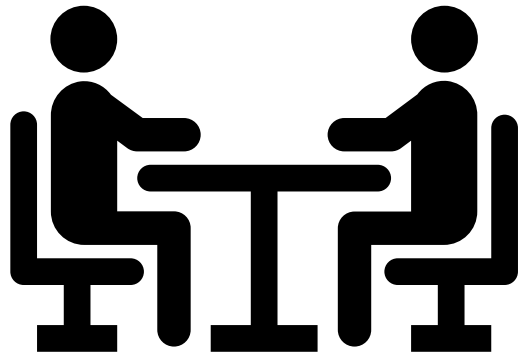
Reasons for conflict

- Lack of transparency
- Mala fide intent of the management
- Mission drift

What should investors do?

- Understand the reason for conflict and aim to resolve it in association with other stakeholders
- If the management is not willing to negotiate then the only option is disengagement. Disengagement is a painful and time consuming process and it is not easily done
- FSPs and investors should make their expectations clear and make arrangements that ring-fence inappropriate use of profits

INTERVIEW OF SPEAKERS BY SPTF



- Lessons learned?
- Tips?
- Examples?

QUESTIONS AND ANSWERS



