



# MFWG Newsletter

2nd Issue, July 2013

## EDITORIAL



Dear Readers,

Welcome to the 2<sup>nd</sup> edition of the MFWG Newsletter. This publication comes out twice a year and is available in hard copy and on the

MFWG website ([www.mfwglaopdr.org](http://www.mfwglaopdr.org)).

This issue provides some insight into the benefits that Social Performance brings to clients and MFIs as well as into the training needs of Lao MFIs. In addition, it looks at the experience of GIZ with village banks in remote rural areas of Laos and introduces a new product from our member: “Kip-Pay, a mobile payment system”. And finally, the Newsletter also contains the latest MFWG’s news, institutional developments and activities.

On behalf of the MFWG, we would like to take this opportunity to thank all those who have actively contributed to make this Newsletter meaningful for the sector and encourage you to send us any news, interesting experiences, success stories, so that they can be published in our upcoming Newsletter in December 2013.

We hope you will find this and future editions interesting and informative. We very much appreciate your feedbacks and comments on our Newsletter.

Sincerely yours,

Bandith Sisoukda  
MFWG Chair

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## UPCOMING EVENTS

Regional Meeting of SBFIC Partners in Yangon, Myanmar	Sept 18 - 20
3rd MFWG BOD and Member Meetings	last week of September
SEEP Annual Meeting in Washington D.C	Nov 4 – 7



## Social Performance Brings Benefits to Clients and the MFI

*For quite some time many thought that access to financial services will automatically improve the lives of poor clients. However, as media reports on growing over-indebtedness and even suicides of microfinance borrowers and of exploitative and socially harmful practices of some MFIs in India or Bangladesh illustrate, this is not necessarily the case. Nowadays the industry itself recognizes that microfinance does not inevitably produce social returns.*

*On the other hand, funders of microfinance, in particular donors and social investors, are increasingly pushing for a “double” or even “triple bottom line”, meaning an approach which not only seeks to achieve financial sustainability but also cares about the impact of the organization’s activities in the lives of its clients and the environment.*

*Against this background, many microfinance stakeholders have engaged in social performance over the past years and the industry has created a broad-based platform, the Social Performance Task Force (SPTF)<sup>1</sup>, to develop and promote social performance.*

### Social Performance & Social Performance Management

**Social Performance** is defined as ‘the effective translation of an institution’s mission into practice in line with accepted social values’.

Some commonly promoted social values in microfinance are: providing financial and/or nonfinancial services to the poor and excluded; increasing clients’ revenues; reducing vulnerability; alleviating poverty.

**Social Performance Management** is the process through which social mission is translated into practice. It includes setting clear (social performance) goals, putting internal systems and processes in place to reach these goals, monitoring progress towards them and using this information to improve performance and practice.

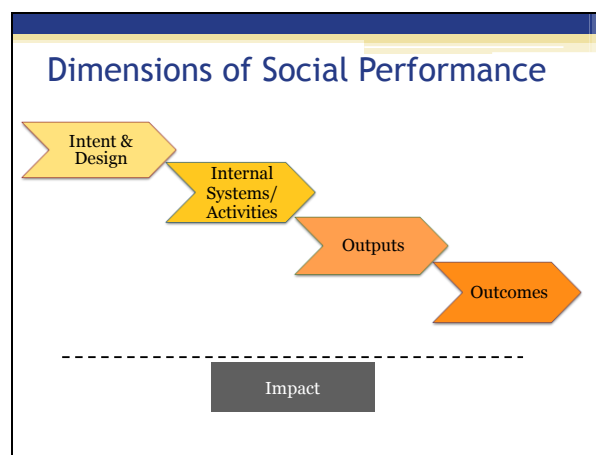
## Why should MFIs care about social performance?

Financial institutions which also have a social mission cannot know whether or not they are achieving their social goals without deliberately managing and assessing their social performance. In addition, apart from bringing more benefits to clients, social performance management is also beneficial for the MFI itself:

- It helps to preempt problems (e.g. client over-indebtedness) and avoid reputational risks for the MFI (e.g. clients complaining about bad service or treatment, negative media reports, etc.);
- It is good for the MFI’s financial situation: better retention of clients (because they are satisfied), higher portfolio quality, lower costs (e.g. for delinquency management);
- Reporting on social performance is often a condition for accessing external funding (e.g. from social investors or donor agencies).

## Social performance has several dimensions

Although the ultimate goal of social performance management is to achieve positive changes in the lives of poor clients, social performance is not only about impact. It looks at the entire process by which impact is created.



This starts with **intent and design**, i.e. with the mission and goals of the organization. The question here is whether or not the MFI has a social mission and clearly defined social objectives. Se-

<sup>1</sup> <http://www.sptf.info/>

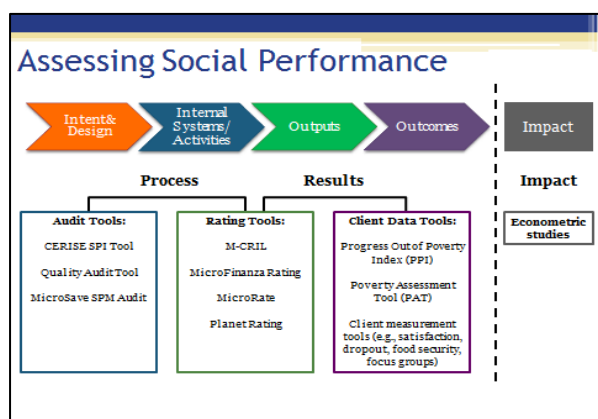


condly, social performance includes **internal systems and processes** put in place by the MFI in order to achieve its social objectives. Does it have appropriate systems and tools to meet these objectives? Are its concrete activities linked to the achievement of its social goals?

Social performance is also about **outputs and outcomes**, i.e. the actual products and services offered by the institution as well as the effects on the target group produced by them. These dimensions ask about the quality of services and whether they are adapted to the needs and capacities of the targeted clients. They also shed some light on the question if clients and their families are actually improving their social and economic conditions.

## What tools are available to assess social performance?

Depending on which dimension of social performance the MFI wants to assess and how much resources (time, money and energy) it can or wants to invest into this task, there are specific tools available to the institution (see illustration below). These range from the relatively inexpensive and easy-to-use CERISE SPI tool (Social Audit, see also box on this page) to quite costly social ratings or poverty assessment tools like the PPI (Progress Out of Poverty Index).



Every MFI can choose the assessment tool that best meets its needs and is compatible with its financial capacities and staff situation. In conclusion, it should be noted that developing a social performance system is possible for every institution, even those that have limited time or financial resources.

## Experience with Social Audits in Laos

In 2012 the MFWG, in partnership with the Microfinance Center (MFC), conducted two pilot social audits with two major Lao MFIs (EMI and Oudomxay NDTMFI) using the CERISE SPI tool. A social audit is a diagnostic tool that assesses whether or not a MFI has the systems in place to achieve its stated social goals. It identifies strengths and weaknesses to prioritize areas for improvement. The main tool used to perform the audit is a comprehensive questionnaire.

In its analysis, the social audit looks at the MFI's mission, strategy and governance, decision making & communication, client targeting & outreach, products and services, human resources, and its social responsibility towards staff and clients.

In the two Lao social audits, MFWG/MFC used the approach of **Accompanied Self-Assessment** whereby the "auditors" answer questions that arise as the MFI is filling in the questionnaire. The audit was carried out according to the following steps:

- 1) MFWG contacted the MFIs and explained the tool and its objective.
- 2) MFWG sent a presentation letter and a blank version of the questionnaire to the MFIs.
- 3) The interviews were scheduled; MFWG asked the MFIs to reserve approximately 2 to 3 days (between 16 and 20 hours) for the interview.
- 4) The interviews were conducted; most questions had to be translated into Lao; the responses were noted in English by the auditors.
- 5) Some of the responses had to be verified with the contact person of the MFI; MFWG then prepared the summary report including some recommendations.
- 6) The summary report was shared with the MFI; the suggested feedback session was not held.

The overall results of the two Lao social audits show significant weaknesses in terms of outreach and targeting of poor clients. This is mainly due to the fact that the MFIs don't yet have any tools in place to target the poor and to assess their clients' poverty level. Also, the audited MFIs score quite poorly as far as benefits for clients are concerned, principally because they have very little client participation.

On the other hand, the MFIs' key strengths lie in social responsibility, in particular towards staff (transparent salary scales, salaries above the minimum wage, etc.). They also show relatively good performance with regard to the appropriateness and quality of products and services.



## A Great Need for Training amongst Lao MFIs

*In early 2013, the MFWG conducted an analysis of the training needs of its MFI members. All in all, 20 MFIs and Non-MFIs participated in the survey. 17 respondents were MFIs; this represents close to 40% of all regulated MFIs/SCUs in Laos. Moreover, 3 Non-MFIs (1 multilateral agency, 1 INGO, 1 training service provider) responded to the survey.*

### Financial performance high on the agenda

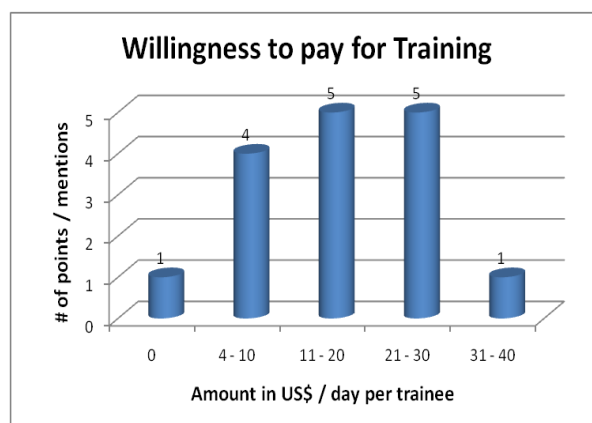
Overall, 15 training topics related to microfinance or general management issues as well as 2 general training subjects (computer training and English) were listed in the questionnaire. Respondents were asked to identify 3 main training topics.



The above figure presents the 7 training subjects that received at least 4 points/mentions. Among the remaining topics, the following achieved a score of 2 or 1: Human Resource Management (2), English (2), MIS (1), Board Governance (1), Computer Training (1); whereas the following topics scored 0 points: Microfinance Best Practice Principles, Social Performance Management / Social Audit, Market Research & Product Development.

As can be seen in the figure, the 3 subjects which received the highest scores are Internal Control &

Auditing (9 points), Credit & Delinquency Management (7), and Loan Quality Management (6). It is worth noting that all of these topics are ultimately related to financial performance, whereas social performance does not seem to be a high priority for the MFIs responding to the survey.



### Training comes with a cost

Furthermore, participants were requested to indicate how much they were prepared to pay for training per trainee per day. A clear majority (63%) indicated that they were prepared to pay between 11 and 30 US\$ per day per participant. 25% of respondents said they were ready to disburse between 4 and 10 US\$ and 1 respondent each would not pay anything for training or be prepared to spend between 31 and 40 US\$, respectively.

### Follow up is key for successful trainings

The statistical results of the survey are not robust and significant enough to draw any clear-cut conclusions. However, they provide some indications on the existing training demand that should be further discussed among MFIs, donors and training service providers.

Moreover, the individual comments seem to indicate some shortcomings in the area of training methodologies, language and follow-up which should be taken seriously by both training service providers and donors.



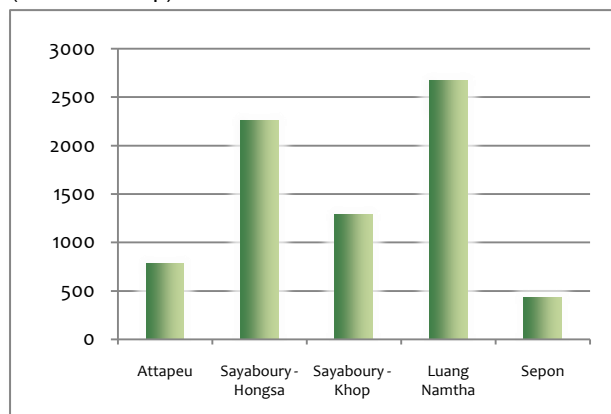


## Huge Potential for Savings Mobilization in Remote Rural Areas

*In December 2012 GIZ's 'Access to Finance for the Poor' (AFP) project published an in-depth report on rural finance operations in remote areas of Laos. The research and analysis was based on a demand assessment survey, financial data and management experience from operation sites. The following is a synopsis of the 40 page report.*

Currently, GIZ supports 5 (soon to be expanded to 8) regional meso-level Network Support Organizations (NSOs) and 271 micro-level village banks serving over 20,000 rural clients in Laos. These NSOs provide technical assistance in the form of financial education, bookkeeping and procedural guidance to village banks as well as acting as a financial intermediary providing liquidity management and retail/wholesale lending in some cases.

Loan Portfolio of Village Banks in NSO Service Areas (millions of Kip)



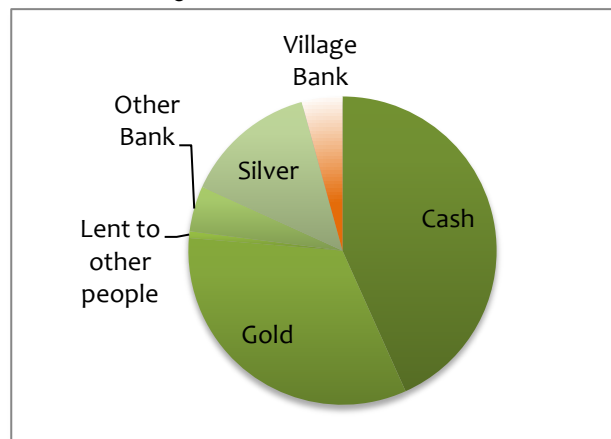
### Savings

Savings are the bedrock of sustainable financial services. In the project villages there is a large effort to educate villagers on the benefits of saving at a village bank.

Average household savings vary considerably by province, from 35m Kip (approx. 4,400 US\$) in Luang Namtha to 8m Kip (1,000 US\$) in Savan-nakhet. It is interesting to note that in the project villages, even with the advent of village banks, most of the clientele still retain the majority of their wealth outside of any formal financial institutions.

This suggests that there could be considerable room for growth for formal financial services.

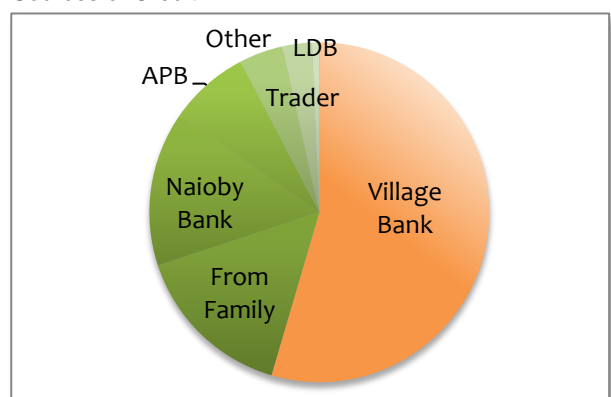
Forms of Savings



### Credit

The average level of indebtedness of village bank creditors is 6.5m Kip. Village banks were cited as the main credit provider (in terms of number of loans made) in the survey. Village banks usually charge higher interest rates than established banks because of the riskier pool of low income clients they do business with. These rates were identified by survey respondents as being fair and competitive.

Sources of Credit



To get a better picture of the potential amount of credit demand in rural Laos, the villagers were asked about their potential investment ideas which they couldn't realize due to absent financing. The results showed an overwhelming amount of potential demand for 6.7bn Kip of investment funding, which is nine times the amount of the respondents' current outstanding credit.



## Portfolio at Risk

In 2009 the project started without reliable data about the Portfolio at Risk (PaR) of the village banks. During the first project phase GIZ introduced a more reliable management information system, which now provides monthly data on the risk of the credit portfolio in every single village bank. GIZ is especially committed to bringing down the PaR in the more problematic provinces.

## Financial Inclusion of Women

The inclusion and empowerment of women is an important aspect of GIZ's development model. According to the survey, a total of 92% of the interviewed women have access to an account at their village bank, either individually (21%) or jointly with their husbands (71%).

Many women emphasized that village banks not only provide access to financial services but also an important community forum for discussions and on-the-job training which help women acquire technical skills and basic financial literacy. The positive educational and social influences of the Village Bank's presence in rural communities and their importance as vehicles for advancing gender equality is apparent.

### Main Issues for Women

25%	•Dominant Role of Men
21%	•Female Capacities
17%	•Female Courage
13%	•Lack of Specific Provisions and Incentives
24%	•Nothing

Not surprisingly, measures proposed by respondents for strengthening the position of women in village banks, and particularly in their committees, target capacity development and a stronger encouragement of women so that they feel more comfortable applying for committee positions.

## Next Steps

The Demand Assessment has highlighted many important matters with regards to GIZ's mission of

increasing access to finance for the poor. Savings analysis shows that there are huge amounts of financial assets not invested in a flexible and income bearing asset account. In response to this the project is planning to offer a new interest bearing savings product in 2013 to meet the villagers' needs. In addition, GIZ is advising village bank committees to increase the minimum monthly savings rate and encourages them to open the village bank more often than once a month.

On the credit side further demand for investment was recognized. In response to this, the NSOs will expand their lending operations, especially in the field of wholesale operations where credits are handed to the village bank in order to be split forwarded to the members of the village bank applying for loans.

Although there is much loan potential out there analysis indicates that some of the ideas are highly risky, and so NSOs will focus on strengthening the credit approval processes. In addition to improving the quality of future loans, GIZ is committed to reducing the current PaR-ratios and to make sure that the repayment quality of current loans will improve too. For this reason further training of microfinance field advisors on delinquent loans will be provided. Going forward, the project will introduce a dedicated training faculty to further meet these needs of its staff.

The 10 years of microfinance experience in rural Laos has shown successful adoption of village banks by the rural poor. The effects of increased financial literacy and social progression that come with these rural microfinance operations are observed to be improving the lot for women and ethnic minorities throughout rural Laos. GIZ continues to be an important partner with the Bank of Laos and is committed to increase transparency for other microfinance endeavors in Laos so that everyone can benefit from their experience.

Questions or comments can be forwarded to [tony.deary@yahoo.com](mailto:tony.deary@yahoo.com). Print publication of original paper is available at the GIZ AFP office in Vientiane or online version at: [http://www.microfinancegateway.org/gm/document-1.9.61072/Rural\\_Finance\\_in\\_Laos\\_Paper\\_GIZ\\_2012.pdf](http://www.microfinancegateway.org/gm/document-1.9.61072/Rural_Finance_in_Laos_Paper_GIZ_2012.pdf)





## MFWG NEWS

### A General Director / National Advisor for the MFWG



Since early May, the MFWG has a General Director / National Advisor. The Board appointed Ms. Pamouane PHETTHANY to this position. Ms Pamouane has more than 16 years experience in financial management and administration.

### MFWG obtained CERISE SPI Certification

In May the MFWG was awarded the Certificate of Completion for the CERISE SPI (Social Performance Indicators) tool. As a certified organization, the MFWG will be able to train MFIs in the SPI and conduct SPI audits.

### MFWG Membership increased to 42

The MFWG has the pleasure to welcome the following new members: DTMFI Phonevaly and POWER International Laos.

### Funding Agreement with ADA inked

In June the MFWG was able to sign a new funding agreement with the Luxembourg-based NGO ADA. The contract runs until the end of 2013, but ADA has made a general commitment to support the MFWG during a 3-year period.

## RESOURCES

### Training Needs Survey Report published

In early 2013, the MFWG conducted an analysis of the training needs of its MFI members. 20 MFIs and Non-MFIs participated in the survey. The short report provides an overview of the main outcomes of the survey.

<http://www.mfwglaopdr.org/media/eng/TrainingNeedsSurvey2013EN.pdf>

### CARD MRI presentation on effective interest rates

On the occasion of the first MFWG member meeting of 2013 on 2<sup>nd</sup> April, a representative of CARD MRI made a presentation on "Effective interest rate and APR calculation". It can be downloaded here:

<http://www.mfwglaopdr.org/media/eng/EIRAPRCARDEN.pdf>

### MFWG Annual Report 2012

The MFWG just released its Annual Report for 2012. The report comprises a short description of the activities carried out in 2012 as well as the network's audited financial statements.

<http://www.mfwglaopdr.org/media/eng/MFWGReport2012Eng.pdf>

### 'MICROFACT' Training on Performance Indicators for MFIs

This training workshop took place from 09<sup>th</sup> to 11<sup>th</sup> May 2013 in Vientiane. It was organized by the MFWG in partnership with the Microfinance Center (MFC), with funding from BRS (Belgian Raiffeisen Foundation) / ADA and facilitated by Mr. Gregory Thys, International Trainer from BRS/ADA, and Mr. Somphone Sisenglath from MFC.

For more information regarding the training content (agenda, materials, etc.) please contact: [mfwglaopdr@gmail.com](mailto:mfwglaopdr@gmail.com). The training material can be downloaded here:

[http://www.mfwglaopdr.org/index.php?option=com\\_content&view=article&id=47&Itemid=44&lang=en](http://www.mfwglaopdr.org/index.php?option=com_content&view=article&id=47&Itemid=44&lang=en)







## Useful Microfinance Websites:

- Banking With The Poor Network (BWTP):  
[www.bwtp.org](http://www.bwtp.org)
- Social Performance Task Force (SPTF):  
[www.sptf.info](http://www.sptf.info)
- Consultative Group to Assist the Poor (CGAP):  
[www.cgap.org](http://www.cgap.org)
- Microfinance Information Exchange (MIX):  
[www.mixmarket.org](http://www.mixmarket.org)
- Microfinance Gateway:  
[www.microfinancegateway.org](http://www.microfinancegateway.org)
- SEEP Network:  
[www.seepnetwork.org](http://www.seepnetwork.org)
- World Bank Data - Global Findex:  
<http://datatopics.worldbank.org/financialinclusion/country/lao-pdr>

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**MFWG Members: 42**



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