Imp-Act Consortium

Making microfinance work for the poor and excluded

Managing Social Performance

FONKOZE (Haiti)

Introduction

Fonkoze, by which we refer to both the Fonkoze Foundation and its subsidiary SFF (Fonkoze Financial Services), works with rural poor people in Haiti in an extremely challenging environment, characterised by very high rates of poverty and inequality, extreme political instability and insecurity, high levels of corruption, economic stagnation and high inflation, lack of infrastructure, and a low skills base for staff. Three hurricanes and a cyclone also hit Haiti in 2008, affecting the livelihoods of many, and Haitians have also been badly affected by the rise of food prices (up 341 per cent between 2007 and 2008), causing violent food riots and further insecurity.

Running an MFI in such a challenging context is particularly difficult due to:

- a serious 'brain drain' phenomenon making it hard to get and retain good staff;
- the lack of infrastructure across the country, resulting in having to transport money into branches, provide motorbikes for staff to reach the inaccessible areas, etc. and;
- the extreme vulnerability of client livelihoods increasing the risk for the MFI, and the need to build these factors into the design and management of programmes.

Despite these challenges, Fonkoze has been working to nurture and sustain economic growth amongst rural poor people in Haiti since it was created in 1995. Its mission is to build a sustainable MFI in order to:

- provide Haiti's poor with the financial and educational services they need to make their way out of poverty;
- eliminate the kind of poverty that leaves people without hope, motivation and courage;
- reverse the decline in Haiti's economy by empowering and motivating families to engage in sustainable economic development.

Box 1: Financial performance at Fonkoze
(Foundation and SFF combined)

	Dec 2008	Dec 2007	Dec 2006	Dec 2005	Dec 2004	Dec 2003	Dec 2002
Borrowers (K)	54,204	49,280	43,689	31,090	28,183	24,990	10,000
Savers (K)	190,269	158,716	119,118	94,342	69,057	53,013	32,000
No. staff	775	710	552	486	313	247	225
No. branches	39	33	30	26	20	18	18
Gross loan portfolio (US$K)	12,262	9,144	9,736	5,936	4,992	2,692	1,127
Savings (US$K)	13,076	10,587	9,616	7,478	5,233	3,875	3,063
Operational self-sufficiency %	63	65	67	69	62	93	97
PAR >30 days (%)	11.2	11.9	8	4.4	2	4	2
Operating expense ratio %	62.2	63.87	40.39	32.59	29.53	35.68	25.95

Strategy to achieve social goals

Fonkoze has a very strong social orientation and has developed a clear strategy to achieve its social goals. This is based on an understanding of not only the role of financial services in people's lives but also the need for a range of services both to provide opportunities and reduce vulnerability in the context of the constraints facing Haitian people in terms of economic and social empowerment. Fonkoze has developed a diversity of financial products coupled with non-financial services (see Box 1) in order to fulfil its commitment to 'accompany people out of poverty' (see Box 2). By understanding the nature of poverty in Haiti, and the needs of different client groups, Fonkoze has segmented its client market broadly in line with different poverty levels, and designed different products and services to suit each level, to help clients move up to the next step on the 'ladder out of poverty' (as shown in Figure 1).

Box 1: Fonkoze's wide range of financial and non-financial services

Financial services

- ***Ti Kredi*** (little credit) – a credit + training product with close monitoring for the very poor
- Solidarity group microcredit loans for the poor
- Individual business development loans for graduates of the solidarity programme
- Home improvement loans
- Money transfer services
- Currency exchange services
- Savings services offered to all Haitians
- Credit and life insurance
- Credit for cooperatives
- Village phone programme

Non-financial services

- ***Chemen Lavi Miyó*** (CLM) Programme: confidence building, enterprise training, asset transfer and health services for the extreme poor
- Literacy and education in life skills for borrowers
- Linkages to health services
- Individual support from credit agents, of varying intensity according to programme
- Business development services, e.g. marketing, accounting

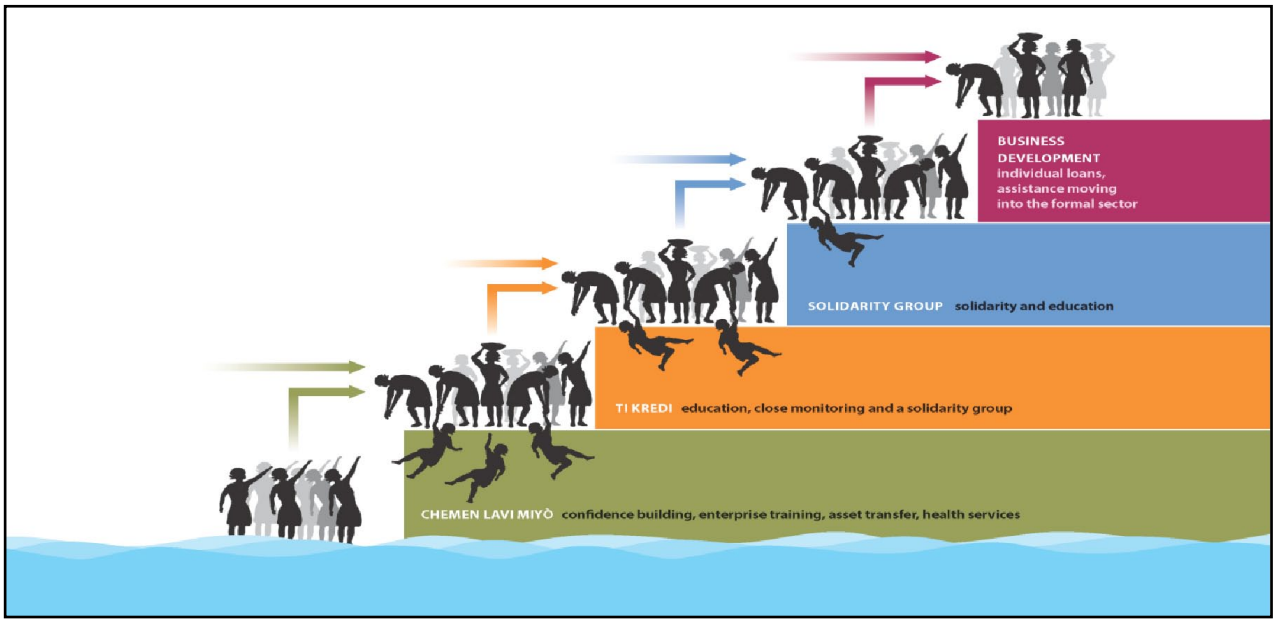
Box 2: The 'Accompaniment' model

A key feature of Fonkoze's strategy is not just ***what*** is provided but ***how*** it is provided. At the heart of its methodology is the supportive culture of the solidarity groups and centres, with a key role in building the confidence and social capital of clients. Centres have two meetings per month, only one of which is used for loan disbursal and repayment, which creates an important space for educational input and discussion of client issues and problems. Indeed, Fonkoze's credit agents have three explicit functions: provision of financial services, provision of training, and support to clients to accompany them out of poverty, with varying levels of intensity in this supportive role depending on the product. In the CLM programme for extremely poor people, for example, the emphasis is entirely on the supportive role, with each credit agent working with just 100 clients on an individual basis.

Key features of Fonkoze's strategy to achieve its social goals are:

- **a strong and holistic poverty focus**: Fonkoze seeks to serve all women (i.e. all families) who are living in poverty, even extreme poverty, and takes a holistic approach to their needs, by combining financial services with non-financial support;
- **a range of financial services for different client segments**, across the market spectrum;
- **effective non-financial support services** for practical and reflective adult education; working in partnership with others to expand its services;
- **outreach across Haiti**, mainly to rural, underserved areas – Fonkoze today is the largest MFI in Haiti, with branches in each province, representing a very significant coverage of the country;
- **operating SFF as a separate financial services company**, primarily as a vehicle to allow savings to be accessed for loans, but also as a management tool to focus on growth and outreach (see Box 3);
- **a social monitoring unit**, basing social impact monitors in branches, to promote a focus on performance within branch operations, as well as collecting information for overall social performance monitoring and management – this is discussed in full detail below.

Figure 1: Fonkoze's 'Ladder out of Poverty'



Box 3: Strategic decision to integrate Fonkoze Foundation and SFF

Originally, the Foundation and SFF had different priorities, although both were ultimately working to achieve a shared mission. The Foundation was seen as the guardian of the social mission, with SFF operating as a separate financial services company – primarily as a vehicle to allow savings to be accessed for loans, but also as a management tool to focus on growth and outreach. The tension between the financial focus of SFF and the social focus of the Foundation, coupled with the costs of the inefficiencies of duplication between the two, led them to develop a new strategy for greater integration and interdependence. This has resulted in greater clarity in terms of committing SFF to providing integrated services (including covering the costs of the education and social impact monitoring of its branches, from profits).

At branch level particularly there is little difference between the Foundation and SFF: the mission is deeply embedded in the organisation's culture through formal training and induction, but all new branches are created in the Foundation which allows the organisational culture to be established. A key challenge across Fonkoze is to ensure that this organisational culture remains strong and that staff, both new and existing, understand both the purpose of the mission and know which practical steps to take to achieve it.

Focus on key issues

Social Performance Management (SPM) is an institutionalised process of translating an MFI's mission into practice. This involves setting clear social goals and objectives, developing a strategy to achieve these, monitoring progress, and using this information to improve performance and align organisational systems to the social mission.

Key features of Fonkoze's experience with SPM are (a) its strong SPM ethos, and how its committed leadership and clear mission have become a driving force in the day-to-day work of staff at all levels of the organisation; (b) how SP information is contributing significantly to strategic-level decisions, as well as informing branch-level operations; and, most interestingly, (c) its innovative client monitoring system which provides actionable feedback to management but also promotes a focus on social performance within branch operations.

Fonkoze's Social Monitoring Unit: an innovative monitoring and assessment system

By 2007 Fonkoze had recognised that one of its key challenges was to move from being an organisation that was driven by a broad mission and strategic plan, to one that was able to make informed decisions about social performance based on relevant, timely and reliable information. Having relied historically on informal feedback from clients and staff, as well as occasional external evaluations, Fonkoze recognised the need for systematic and reliable information on social performance to feed into operational decision-making at all levels.

In the context of significant barriers within the mainstream information system, Fonkoze established its Market Research and Social

Impact Monitoring Unit as a parallel SP information system, based on the innovative placement of social impact monitors (SIMs) within branches. The monitoring unit is an important addition to the organisation, providing branch-level feedback to staff and allowing for adjustment in performance. It also ensures the regular collection and analysis of reliable data. Specifically, the Unit provides:

- useful analysis of overall organisational performance regarding key SP targets (poverty outreach, client progress, client exit, client satisfaction);
- feedback on specific operational and methodological issues arising from the work;
- capacity for specific ***ad hoc*** research, and to contact specific clients or investigate operational issues as requested;
- a much more systematic approach to both monitoring SP and evaluating specific projects or pilots.

Box 4: What SP data is collected at Fonkoze?

A number of tools are used in the organisation of data collection:

- an effective client monitoring tool called the ***Kat Evalyasyon*** (Evaluation Card) capturing more than 20 indicators relating to Fonkoze's social goals, which allows the organisation to segment its clients by poverty level (and place them in the right programme) and also to monitor their progress over time, creating baseline and follow-up poverty profiles;
- exit interviews used by Social Impact Monitors to interview all exiting clients;
- systematic focus group discussions measure client satisfaction in all centres, exploring issues relating to the design and delivery of products and services;
- the annual general assembly as a client feedback mechanism;
- ***ad hoc*** research carried out on specific issues;
- SIMs improve the quality of client-level information, verifying 20 per cent of the ***Kat Evalyasyon*** scorecards completed by the credit agents;
- SIMs provide feedback directly to branch managers as well as consolidated monthly reports to head office.

More extensive quarterly reports provide:

- poverty profile on entry for the 20 per cent sample;
- feedback from focus group discussions and client exit interviews, in particular relating to policy issues;
- distribution of dropouts by loan cycle;
- food security profile of clients in different loan programmes and at different points in time;
- feedback from branch offices concerning programme issues that require management response.

The placement of SIMs directly within branches is one of the most interesting aspects of the case study, and is important at the branch level because:

- it increases accessibility of clients;
- it allows SIMs to develop relationships directly with clients, which leads to better-quality information (clients are more likely to speak openly, and SIMs are more likely to have a deeper understanding of clients' lives);
- it focuses attention on social issues in the branch and builds relationships and trust with credit agents, thus allowing SIMs to become social performance 'promoters' within their branches, helping staff to understand the clients and what is working or not, and giving support for improvement of practices.

Their value to Fonkoze at an organisational level is threefold:

(1) They make up for the weaknesses in the information system by getting quality data despite major barriers.
(2) They have succeeded in working on the ***usefulness*** of the data they get, producing reports that lead to actions (focusing on relevant issues, but also by deliberately setting up reports to stimulate discussion, highlighting specific issues and looking at how overall performance relates to operations). The commitment and personal contact between the Unit director and senior management are also essential ingredients in this success.
(3) They fulfil an important internal control role, identifying practices that are not in line with procedures, as Fonkoze does not have strong management checks or an internal audit system.

Cost-benefits of Social Impact Monitors

Fonkoze's model of placing a SIM in each branch is relatively expensive. If the purpose was just to collect information to monitor overall organisational performance, this would be an inappropriate model, as sample surveys would be just as useful and much cheaper. The value of the SIMs thus lies in their ability to influence practice within a branch. A key question is whether Fonkoze's focus on measuring social

performance has changed understanding and practice in the organisation, and if so at what levels. Benefits are beginning to be felt, with management acting upon the SIMs' findings, and branch managers finally starting to draw on their SIMs for more than routine monitoring, such as by strengthening one-on-one contact with difficult clients, bringing back exiting clients, or giving feedback on mistakes. The level of involvement varies between branches, and is mostly a factor of the relationship between the SIM and the credit agents.

Although the role of the SIMs has improved somewhat from being initially fully focused on information-gathering, the current situation is that SIMs are still mostly doing routine data collection. If Fonkoze is successful in improving the quality of the data collected by credit agents, this will free up SIMs' time and allow their promotional work in the branches to develop, with more time spent on troubleshooting and improving practice, which would be of more direct value to the branches. It remains to be seen whether this can be a proven model in terms of cost-effectiveness, as even one SIM for two branches would still mean a lot of staff.

Not all branches benefit

Currently, only ten branches have social impact monitors. At present those branches without SIMs do not receive information from the social performance unit and therefore have little awareness of the issues raised. Fonkoze's intention is to eventually expand beyond these ten branches, and this is driven by senior level commitment to generating and using social information, coupled with the visible results of SIMs beginning to engage at branch level. The long-term plan is for the costs of SIMs to be covered by the branches, which will also benefit financially from the SIMs' direct involvement in resolving issues relating to delinquency or exit rates.

Challenges in implementation and management of the monitoring system

Overcoming distrust

One of the early challenges for the SIMs was the initial distrust felt by credit agents. Because the SIMs verify the accuracy of the credit agents' work, agents were sceptical of them (considering them spies) and reluctant to share information. Training and exposure have now largely addressed this, and despite remaining a complex relationship, most credit agents generally hold positive views of the SIMs, realising that the SIMs' deeper relationships with clients are valuable in helping them and branch managers understand and respond to their clients' needs.

Box 5: Examples of learning from the social monitoring

As staff have witnessed how the information brought in by the social impact monitors was useful in improving delivery of products and services, their perception of the unit has changed considerably. Management has received, read and acted upon problems linked to:

- delays in disbursement of loans;
- poor group formation due to branch pressure to enrol more clients;
- lack of punctuality by credit agents, setting bad examples to clients;
- over-long waiting times in branches;
- the unpopularity of Fonkoze's penalties system;
- insufficient client skills hindering their businesses, e.g. relating to selling produce on credit, as a result of the food price crisis;
- feedback on the impact of the hurricanes.

Improving capacity and analytical skills

The SIMs undergo fairly rigorous training. Most importantly, the job requires a questioning and analytical approach rather than simply focusing on collecting and reporting data. Improving the research and analysis skills of the SIMs is partly a training issue, but partly a capacity issue, as it is difficult in the Haitian context to find people with the requisite talent who are also willing to work in the provinces.

Social Performance Management in practice

How SPM ethos and information guide strategic and operational decisions

Ensuring that decision-making considers both social and financial outcomes is a key SPM principle.

Fonkoze's case is interesting in that it has taken a number of strategic and operational decisions as a direct result of its growing focus on and understanding of social performance.

Strategic decisions in terms of methodology

Fonkoze has also taken a number of decisions relating to its methodology which reflect its strengthened focus on social performance.

- ***To reduce client vulnerability***, the introduction of life insurance linked to the loans, paying off the loans in case of death and providing a sum for funerals or other needs.
- ***To address one of the clients' most***

important needs, linkages with health programmes to provide maternal healthcare, nutrition for children, health seminars, and health consultations – Fonkoze has now also engaged a health director to seek out further partners.

- ***To assist clients in need after the series of 2008 hurricanes,*** Fonkoze committed to ***raising*** over US$4 million from international donor agencies and private donors for loan recapitalisation. This funding has allowed Fonkoze to offer new, interest-free loans, ***Kredi Siklòn***, to existing clients who lost all of their business assets.
- ***To place social impact monitors within branches.***

Strategic decision to focus on client retention

There is a strong ethos within Fonkoze that organisational success depends on client success, and the decision to emphasise client exit in the work of the social impact monitoring unit has helped deepen the understanding of why clients leave. It has also highlighted the financial cost of clients leaving in the early loan cycles, and led to the recognition that the sort of poverty impact that Fonkoze seeks will only happen through a prolonged interaction with the organisation. Given the constraints of the information system, it has not been possible to set up a regular system monitoring client exit. While there is some way to go to translate the commitment to client retention at senior management level into day-to-day operational practice, and there are still no real data in terms of the effectiveness of the strategy, it nonetheless marks a change in the understanding of the relationship between social and financial performance in the organisation. The inclusion of client retention in the staff incentive scheme is a major step in this direction.

Operational decisions

Fonkoze's strong SP focus and the information provided by the social monitoring unit are also feeding into a number of operational decisions:

- new operational rules adopted along the lines of the 'Grameen II' approach, translating into greater flexibility and responsiveness with increasing focus on client vulnerability and the need to be responsive to client problems;
- the change to what is seen as a group penalty policy (the credit agent not disbursing the next loans until all in a group have repaid the previous loan), as a result of information fed back from the social impact department;
- the new staff incentive scheme including client exit; and
- many small changes resulting from information gathered by the SIMs within branches and from the monitoring department more generally, and fed back to management, as detailed in Box 5.

FUTURE

Strengthening operational management of social performance

The main areas where Fonkoze manages social performance relate to broad strategic management (organisational vision, development of new products and services, expansion, strategies for reaching and serving poor people) and organisational culture and working practices. Fonkoze has a well thought-out strategy to enable it to achieve its social goals and is becoming increasingly responsive to clients' needs through periodic research and adjustment. One of the main challenges is now to ensure that understanding and practice change feed into day-to-day performance management at branch and credit agent level, addressing issues such as centre meeting attendance, how well agents are training clients, how much respect they have for their clients, etc. This in turn raises the issue that Fonkoze needs to set appropriate objectives at the operational level, and that branch management needs to use information to fulfil these objectives.

Aligning systems

All aspects of an MFI's operations affect whether it achieves its social goals, including marketing, recruitment, staff training, incentives, organisational culture and Board composition. Deliberately aligning business processes to achieve both social and financial objectives is a key SPM principle.

While Fonkoze has made good progress in aligning some of its systems (such as its staff incentives now including exits), further blocks to fully implementing SPM lie in the general systems problems that Fonkoze faces. The main example of this is the fact that its social information system is not integrated with its main MIS, but instead runs parallel to it. Another challenge relates to Fonkoze's stance on social responsibility, for which there are some general statements of principles, but which are not systematically followed through in policies or monitoring – reflecting general management weaknesses in terms of monitoring and ensuring consistency of practice.

Improving management to improve SP management

Two main issues in particular have been blocking further development of social performance management, and relate to the interconnectedness of social performance with overall performance management.
(1) ***Lack of consistency in the application of the methodology by the credit agents:*** shortcuts are being taken and processes are not being followed properly; there is thus a need for better management, including training and supervision. These are complex issues, provoking debate about ***how*** to address them. The current thinking is to transfer many of the credit agents' tasks to the centre leaders, but also to try to achieve change through the new incentive scheme. In other words, Fonkoze is now talking about the need for a 'wake-up call' to staff and a request that everyone applies themselves better to the job.
(2) ***Communication:*** communication chains remain weak, up to management level, but especially down to regional directors, branch directors, and credit agents. Because messages don't get through, staff often feel 'in the dark', leading to frustration and dissatisfaction. This is a challenge that the organisation is aware of and the social monitoring unit is trying to improve.

Tension between synergies of different services versus increasing cost and complexity

Conceptually, Fonkoze's holistic model of building a range of services around its solidarity lending programme is strong, with the intention that offering other programmes and services once the core branch infrastructure was set up would incur only marginal additional costs. This offered the possibility of creating synergies, including:

- bringing clients into the programme through the ***Ti Kredi*** and CLM programmes, thereby increasing efficiencies and penetration rates and lowering costs for recruitment of clients;
- building clients' business and life skills through the education and literacy programme, which may lead to them experiencing fewer problems, and increased client retention and growth rates;
- supporting clients' other developmental needs, strengthening their livelihoods, and potentially improving client solidarity, reducing arrears, and increasing growth in centres.

Funding has proved to be a major obstacle, and there is currently a hierarchy of products, with some core products that are available in all branches, and other products only available where funding allows. With a growing organisation, this piecemeal approach means that the idea of 'full-service branches', which meet all of the identified needs of clients, is a major challenge, and there is at present only one such full-service branch.

A critical challenge is therefore to make this integrated model sustainable. The business plan for SFF has SIMs and the education programme as core components, once the institution is sustainable, but in the current situation this seems a long way off. So although Fonkoze has a holistic vision, and a suite of products and services that most clients need, most of the value-added services are dependent on specific grant money being raised, and a large proportion of the Foundation director's time is currently spent trying to raise these funds.

Imp-Act Consortium

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The Managing Social Performance series captures good practice and lessons learnt from the *Imp-Act* Consortium Global Learning Programme on social performance management. The two-year programme involved seven organisations that strive for ***balanced performance management***, making decisions based on an understanding of both social and financial outcomes.

This summary is based upon a longer case study of Fonkoze written by Anton Simanowitz.

Seven microfinance institutions are profiled in this series:
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To learn more about social performance management and the work of the Consortium, and access the full case study please visit: www.Imp-Act.org

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See two of the Microfinance Institutions presenting their work in the film Fulfilling the Promise: Managing Social Performance.
http://www.youtube.com/watch?v=WKesX9KJ-9M&feature=related