



Social Performance of SAATH Development Society (SDS) March 2012, Pakistan

Mr. Javed Baig – network coordinator of Microfinance Organizations Network of Pakistan (MON-PAK) conducted the social audit of SDS using the Social Performance Indicators (SPI) tool of CERISE. Centralized accompanied self-assessment methodology was deployed for this purpose. SDS appointed Mirza Khan Ghangro – Chief Executive Officer – as a lead to collaborate with MON-PAK for this social audit. This audit presents SDS social performance as on 31st Dec 2011. The SPI tool examined the stated social objectives of SDS based on four dimensions of social performance and measures the effectiveness of systems of SDS to achieve them. The SPI tool based analysis of SDS revealed if it has means to achieve its social goals; and if further strengthening of systems is needed for this purpose.

SDS was established in 2003 and registered under Social Welfare Act of 1961 as a non-profit organization. SDS is working in microfinance sector since 2006. The mission of SDS is “to scale-up livelihood, social, institutional and individual development opportunities for the under-privileged segment of the society through crafting a platform in the direction of sustainable development”. Currently SDS is working in 58 villages of three tehsils of district Noushero-Feroze in Sindh province of Pakistan.

SDS Key Information (31 Dec 2011)

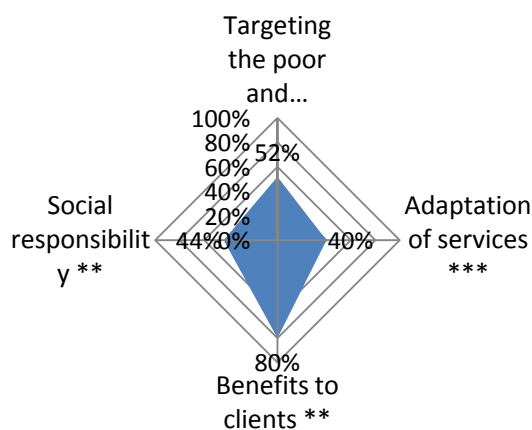
			US\$
Starting year (Microfinance)	2006	Total Assets	669,107
Legal status	Non-profit	Operating Self-Sufficiency	86.66%
Active Borrowers	3344	Return on Assets	(3.50%)
Staff	28	Financial Expense Ratio	20.0%
Regulated	No	Operating Expense Ratio	17.40%
Total Branches	03	Loan Loss Provision	2%
Inflation Rate (2011)	11 %	Write - Off Ratio	1.12%
Target Market	Rural	PAR 30 / 90 days	0.77% / 0.20%
Lending Methodology	Solidarity & Individual	Portfolio Yield	37.59%
Average Loan Outstanding	132	Main zone of Intervention	Rural
Gross Loan Portfolio	441,713		



Results of Social Audit

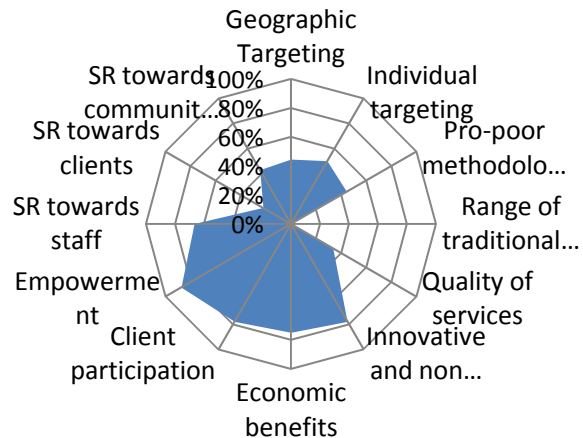
The following graphs show the results of the social audit: the first graph shows the results by four dimensions and the second graph shows the results in detail as per criteria (i.e. three criterias for each dimension). SDS scored 55 points out of 100. SDS has strong performance on “benefits to clients” out of four dimensions.

SDS social performance by dimensions



Graph I

SDS social performance by criteria



Graph II

Dimension 1: Targeting the poor and excluded*** (Scored 52%)

Targeting the poor and excluded consist of three criteria's i.e. geographic targeting, individual targeting and pro-poor methodology. This dimension is a major objective for SDS.

Due to small size, poverty and exclusion is one reason of identification of program areas for SDS, other reasons include operational cost, size of microfinance market, community demand for its loan products, etc. At this stage, SDS cannot afford to work in remote areas which will significantly increase its operational cost. SDS verifies the poverty in its operational areas through community meetings, staff visit and sample household interviews. SDS has a focus to serve poor households especially women in rural areas. . Out of three, two branches of SDS provide financial services to such communities where no other MFI is working.

Although SDS is implementing Progress out of Poverty Index (PPI) for poverty measurement but so far it is not using PPI to target poor households. Management encourages front line staff to target poor and excluded which is also part of staff annual performance. Based on PPI, more than 90 percent clients of SDS are estimated to be below \$2/day.

SDS only takes social collaterals in its solidarity and individual lending methodologies. As SDS do not accept alternative forms of collaterals so its potential microfinance market is limited. Although 97.13 percent borrowers have small loans (less than 30 percent of GNI per capita) but SDS do not authorize small monthly installments (less than 1 percent of GNI per capita). SDS has no policy for cross-subsidization of branches.

Dimension 2: Adaptation of Services* (Scored 44%)**

Adaptation of services is also a major objective for SDS although it scored lowest in it. This dimension has three criteria i.e. range of traditional services, quality of services and innovative and non-financial services.

SDS offers three loan products (microenterprise loan, agriculture loan and livestock loan) for productive purposes. SDS do not offer any loan for non-productive purposes e.g. emergency, education and consumption. SDS neither offers any direct saving product nor promotes savings among its clients through partnerships with microfinance banks and other financial institutions.

SDS take long (i.e. 30 days on average) to disburse first loan due to the stringent lending mechanisms of its creditors i.e. Pakistan Poverty Alleviation Fund (PPAF) and Orangi Charitable Trust (OCT). SDS conduct market research to know the needs of current and potential clients. Although SDS enjoys high retention rate but it does not collect feedback from drop-out clients to improve its products and services.

SDS offer limited financial services i.e. productive loans and compulsory credit life insurance. SDS offer a variety of need base non-financial services (trainings on skill and business development, financial literacy, health and nutrition, etc) to its clients in collaboration with other institutions like Plan Pakistan, OCT, Church World Service, etc.

Dimension 3: Benefits to clients (Scored 84%)**

Benefits to clients are an important (not major) objective for SDS although it scored highest in it. This dimension consists of three criteria i.e. economic benefits to clients, client participation and clients' empowerment.

Although SDS is implementing PPI but so far it has not tracked changes in the poverty levels of its clients using PPI. The social performance of the institution is given preference. The staff and board members have been trained in the social performance management. Social performance is also tied with the incentive system for the staff. Loan officers collect installments in the village and women loan officers dealing women clients are SDS strategies to reduce cost of services to clients. SDS operational area is prone to flood due to river Sindh. SDS supported its clients and non-clients in floods of 2010 and 2011. SDS is working to establish a flood disaster fund in collaboration with local communities.

Clients involve in decision making at solidarity group level but they are not involved in decision making at board level. Board members and top management regularly visit field and meet with clients and particularly look for suggestions from clients. SDS regularly conducts trainings of leaders of solidarity groups on their rights and responsibilities.

SDS also resolve non-financial issues of clients for example during floods of 2010 and 2011, SDS itself and in collaboration with different institutions, launched relief programs for flood victims which included medical camps, medicine supplies, food distribution, shelters and livestock vaccinations. SDS compliments its financial services to women with trainings on business development, leadership and gender. SDS is affiliated to a number of networks and associations e.g. MON-PAK and district NGOs Coordination Committee and actively advocate issues relating to livelihood and gender at district and national level.

Dimension 4: Social Responsibility (Scored 44%)**

This dimension is an important objective for SDS. The three criteria of this dimension are social responsibility towards staff, social responsibility towards clients and social responsibility towards community.

SDS has transparent salary scale. The minimum wage in SDS is equal to the minimum legal wage i.e. Pakistani Rupees 7,000. Senior management participate in board meetings and involve in decision making at board level through a formal mechanism. SDS offer specific policies for women staff like maternity leave, work time adaptability, etc. In 2011, SDS had high staff turnover of 40 percent as its microfinance program faced programmatic and management issues. SDS regularly monitors staff satisfaction as part of regular staff appraisals and staff grievance system.

SDS does not meet the basic requirements to prevent clients from over-indebtedness. SDS offer four loan products to meet the productive needs of the clients but has no loan product to meet consumption

needs. The assessment of client's repayment capacity and loan affordability are not satisfactory detailed. SDS has no policy on clients' debt threshold and acceptable level of debt from other sources. Portfolio quality is valued as high portfolio growth in SDS. Management has no system in place to monitor over-indebtedness of clients. Checking of clients' over-indebtedness is not part of monitoring. SDS ensures transparent communication on costs and fair pricing of its products. Prices, terms and conditions of loan products are disclosed to clients in writing and verbally. Staff receives regular trainings on how to communicate with clients effectively and ensures clients understanding. SDS has no brochures for clients and before loan disbursements all disclosure is done verbally. Loan contracts are not given to clients and these loan contracts also have no amortization schedule. Passbooks of clients are regularly updated by staff. SDS product prices are within industry range and pre-payment penalties are not excessive. SDS has no policy on acceptable and unacceptable debt collection practices. Staff receives regular training on institutional debt collection practices. SDS has no code of conduct. SDS has no policy on complaints handling and resolution. SDS has no policy and mechanism to secure the privacy of client data. In short SDS is very weak on client protection.

Social responsibility to community and environment is not an objective for SDS at this point. SDS has no policy on social responsibility towards community and environment. SDS promotes local social and economic development creating alliances with local development actors, supporting communities in emergencies, women leadership, etc. SDS has an environmental policy for itself which includes use of solar energy to generate electricity, efficient use of electricity, recycle papers, etc.

Recommendations

1. Also use PPI to verify poverty in the operational area, for targeting clients and tracking changes in poverty levels of clients overtime;
2. Accept alternative form of collaterals for example land and house ownership documents to facilitate loan for wealth creation;
3. Promote savings among clients by establishing alliances with microfinance banks and other financial institutions;
4. Design loan product to meet the consumption and social needs of clients;
5. Work with lenders to reduce the time to disburse first loan and any loan;
6. Add details in the client repayment capacity assessment form to make proper assessment;
7. Management should regularly monitor the over-indebtedness of clients;
8. Develop multiple channels to disclose clear and accurate information about loan products;
9. Develop a policy on acceptable and unacceptable debt collection practices;
10. Develop a written code of ethics and standard of professional behavior expected from staff.