

Social Performance Report of Villagers Development Organization (VDO) December 2012, Pakistan

Microfinance Organizations Network of Pakistan (MON-PAK) conducted the social audit of VDO using the Social Performance Indicators (SPI) tool of CERISE. This exercise has been undertaken by Mr. Javed Baig coordinator MON-PAK and the centralized accompanied self-assessment methodology was deployed for this purpose. The chief executive officer of VDO - Rafiq Talpur – worked as a lead on collaboration with MON-PAK for this social audit. This audit captures the social performance of VDO as on 30th June 2012. The SPI tool examined the stated social objectives of VDO based on four dimensions of social performance and measures the effectiveness of systems of VDO to achieve them. The SPI tool based analysis of VDO revealed if it has means to achieve its social goals; and if further strengthening of systems is needed for this purpose. VDO decided that after completion of social audit it will organize a meeting of BoD and top management to formulate policies and their implementation in the light of SPI tool of Cerise.

VDO was established in 1994 and registered under Social Welfare Act of 1961 as a non-profit organization. VDO is working in the microfinance sector since 2001. From 2010-2011 (9 years) the total borrowers were 3085. In 2011-2012, VDO evolved as a MFI and in one year the total active borrowers are 3103. The growth is 114% because of the partnership with the Pakistan Poverty Alleviation Fund (PPAF) on the basis of its performance.

The mission of VDO is “to improve sustainable livelihood of the marginalized community by improving socioeconomics condition through microfinance support & social mobilization to reduce the poverty & promote the physical infrastructure in the area”.

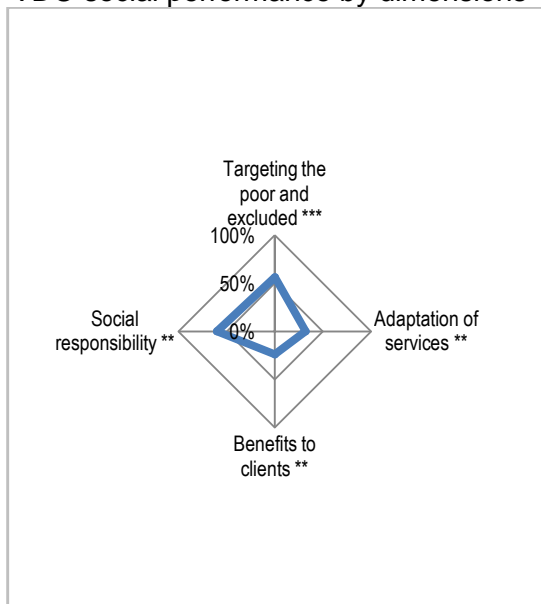
VDO Key Information (30th June 2012)

			US\$
Starting year (Microfinance)	2001	Total Assets	467,643
Legal status	Non-profit	Operating Self-Sufficiency	43.98%
Active Borrowers	2964	Return on Assets	3.43%
Staff	14	Financial Expense Ratio	6.11%
Regulated	No	Operating Expense Ratio	23.49%
Total Branches	02	Loan Loss Provision	3%
Inflation Rate (2011)	11 %	Write - Off Ratio	0.94%
Target Market	Rural	PAR 30 / 90 days	12% / 4%
Lending Methodology	Solidarity & Individual	Portfolio Yield	3.31%
Average Loan Outstanding	105.46	Main zone of Intervention	Rural
Gross Loan Portfolio	833,351		

Results of Social Audit

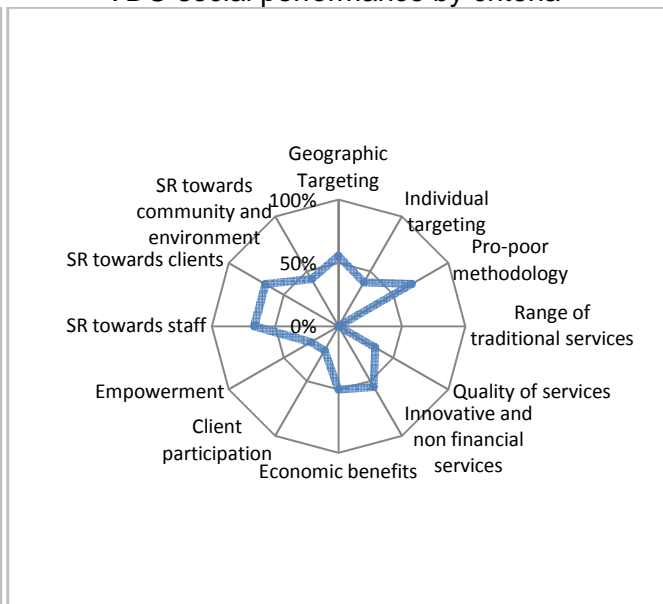
The following graphs show the results of the social audit: the first graph shows the results by four dimensions and the second graph shows the results in detail as per criteria (i.e. three criterias for each dimension). VDO scored 46 points out of 100. VDO has strong performance in “social responsibility” out of four dimensions.

VDO social performance by dimensions



Graph I

VDO social performance by criteria



Graph II

Dimension 1: Targeting the poor and excluded*** (Scored 60%)

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

Due to small size, poverty and exclusion is one reason of identification of program areas for VDO, other reasons include operational cost, size of microfinance market, community demand for its loan products, etc. At this stage, VDO cannot afford to work in remote areas which will significantly increase its operational cost. VDO verifies the poverty in its operational areas through community meetings, staff visit and sample household interviews. VDO has a focus to serve poor households especially women in rural areas. In two branches, VDO provides financial services to such communities where other MFIs are already working.

VDO only takes social collaterals i.e. two personal guarantees from the community for individual loan and members provide each other guarantee in group lending in its solidarity and individual lending methodologies. As VDO do not accept alternative forms of collaterals, its potential microfinance market is limited. Although 100 percent borrowers have small loans (less than 30 percent of GNI per capita) and monthly installment not less than 1000 (less than 1 percent of GNI per capita). VDO has no policy for cross-subsidization of branches but in practically the old branch which is operationally sustainable support the other branch in operational expenses. it cross-subsidized.

Dimension 2: Adaptation of Services** (Scored 32%)

Adaptation of services is also a major objective for VDO 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.

VDO offers three loan products (microenterprise loan, agriculture loan and livestock loan) for productive purposes. VDO takes 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).

VDO offers a variety of need based non-financial services (trainings on skill and business development, financial literacy, health, nutrition and livestock vaccination etc) to its clients in

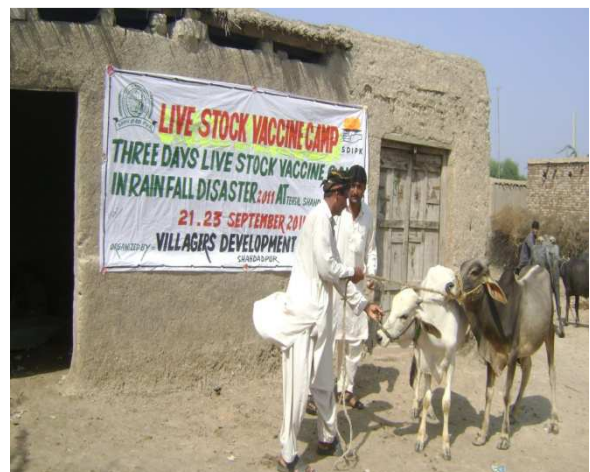
collaboration with other institutions like Pakistan Poverty Alleviation Fund (PPAF), Church World Service (CWS), United Nation Development program (UNDP), Trust for Voluntary Organization (TVO), Microfinance Organizations Network of Pakistan (MON-PAK), Integrated Organization for migration (IOM) etc.

Dimension 3: Benefits to clients (Scored 32%)**

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

The social performance of the institution is given preference. VDO is concerned about its social mission and is interested in social performance management. But staff and board members are not trained in the social performance management. VDO operational area is prone to flood due to Indus River. VDO supported its clients and non-clients in floods of 2010 and 2011.

Clients involve in decision making at solidarity group level but they are not involved in decision making at board level. VDO itself and in collaboration with different institutions, launched relief programs for flood victims which included medical camps, medicine supplies, food distribution, livestock vaccinations. VDO compliments its financial services to women with trainings on business development, leadership and gender. VDO is affiliated to a number of networks and associations e.g. MON-PAK and district NGOs Coordination Committee.



Dimension 4: Social Responsibility (Scored 60%)**

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

VDO has transparent salary scale. The minimum wage in VDO is equal to the minimum legal wage i.e. Pakistani Rupees 7,000 but recently in this financial year the legal wage is increased PKR1,000. Senior management participates in board meetings as observers. VDO offer specific policies for women staff like maternity leave, work time adaptability, etc. In 2011, VDO had low staff turnover of 7 percent as its microfinance program faced programmatic and management issues. VDO have committed worker and organize meeting for staff satisfaction and staff grievance system.

VDO do not meet the basic requirements to prevent clients from over-indebtedness. VDO offer three 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 were not satisfactory in the past but the assessment and monitoring systems have been changed this

year. VDO has no policy on clients' debt threshold and acceptable level of debt from other sources. Portfolio quality is valued high in VDO. Management has no system in place to monitor over-indebtedness of clients. VDO ensures transparent communication on cost and fair pricing of its products, Prices, terms and conditions of loan products are disclosed to clients in writing through products features displayed on the notice board in the head office and as part of loan application form. Loan officers also disclosed products in client meetings and field visits verbally. Staff receives regular trainings on how to communicate with clients effectively and ensures clients understanding.

VDO has no brochures for clients and before loan disbursements all disclosure is done verbally as the community members are illiterate. Loan contracts are not given to clients and contracts have no amortization schedule. Passbooks of clients are regularly updated by staff. VDO product prices are within industry range and pre-payment penalties are not excessive. VDO has no policy on acceptable and unacceptable debt collection practices. Staff receives regular training on institutional debt collection practices. VDO has no written code of conduct. VDO has no policy on complaints handling and resolution. VDO has no policy and mechanism to secure the privacy of client data. In short VDO is very weak on client protection.

Social responsibility to community and environment is an objective for VDO. VDO has policy on social responsibility towards community and environment. VDO promotes local social and economic development creating alliances with local development actors, supporting communities in emergencies, women leadership, etc. VDO has reduced electricity, fuel and recycle papers, etc.

Conclusion:

VDO has no policies and capacities in new emerging areas like client protection, poverty measurement and reporting and social performance management.

- Organization has no information about poverty line and its usage.
- VDO need to design loan products to meet the consumption and social needs of clients.
- VDO should develop multiple channels for clear and accurate product disclosures.
- VDO should develop a policy on acceptable and unacceptable debt collection practices.
- VDO should develop a written code of ethics and standard of professional behavior expected from staff.