DEFINITION | DISCUSSION | USE

# The 7 Cs for Improving Technical Service Delivery to Microfinance Institutions

- Client Demand Driven
- Context
- Clearly Defined Results
- Checkability
- Focus on Change
- Cost Effectiveness
- aCcountability

The Small Enterprise Education and Promotion Network

# The 7 Cs for Improving Technical Service Delivery to Microfinance Institutions

A Practical Guide for Microfinance Institutions,
Technical Service Providers, and Donors

The 7Cs–A Guide


Substantive written contributions by the
Technical Assistance Working Group (TAWG) of the SEEP Network

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As with other SEEP projects, the development of this guide has been a truly collaborative effort. The authors drafted, circulated, and discussed their sections in working group meetings. Each chapter was strengthened through the revisions and additions of other writers who contributed to developing the principles.

Every project of this magnitude requires significant leadership. This book was no exception; special recognition goes to Ruth Goodwin-Groen, the managing editor of this guide. She not only worked closely with the authors, working group members, and partners, but she also wrote sections of the guide.

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The opinions expressed in this guide are those of the individual members of the TAWG and not of their respective organizations.

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Dana de Kanter, *Executive Director*, The SEEP Network

# Glossary of Abbreviations and Acronyms

| | |
|---|---|
| **AFCAP** | African Microfinance Capacity-building Program, based in Nairobi, Kenya |
| **AMK** | AMK Posusje (Bosnia and Herzegovina), a limited liability company that provides microcredit to low-income, self-employed individuals in urban areas |
| **ANERA** | American Near East Refugee Aid |
| **ASA** | Association for Social Advancement |
| **BOSPO** | Bosnian Committee for Help |
| **CAMEL** | Capital Adequacy, Asset Quality, Management, Earnings, and Liquidity |
| **CARD** | The combined organizations of Center for Agriculture and Rural Development and CARD Bank of the Philippines |
| **CARE** | Cooperative for Assistance and Relief Everywhere, Inc. |
| **CECI** | Canadian Centre for International Studies and Cooperation |
| **CFTA** | Culture and Free Thought Association |
| **CGAP** | Consultative Group To Assist the Poor |
| **CIDA** | Canadian International Development Agency |
| **CRS** | Catholic Relief Services |
| **DEM** | Deutsche Mark (also DM) |
| **DID** | Development International Desjardins |
| **DOSA** | Discussion-oriented Organizational Self-assessment |
| **ETF** | Employment and Training Foundation |
| **FFH** | Freedom from Hunger |

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|---|---|
| **FINCA** | Foundation for International Community Assistance |
| **FSWG** | Financial Services Working Group of The SEEP Network |
| **GWLF** | Gaza Women's Loan Fund |
| **IDF** | Institutional Development Framework |
| **IDR** | Institute for Development Research |
| **IDRC** | International Development Research Center |
| **ISD** | Investments services division |
| **IT** | information technology |
| **ITSP** | information technology service provider |
| **LIDs** | Local Initiatives Departments |
| **LIP** | Local Initiatives Project |
| **LOK** | An NGO in Bosnia and Herzegovina that provides individual credit to small entrepreneurs in urban and rural areas |
| **MAGI** | Microfinance Alliance for Global Impact |
| **MCI/SEA** | Mercy Corps International/Scottish European Aid |
| **MCSP** | microcredit service provider |
| **MD** | managing director |
| **MEDA** | Mennonite Economic Development Agency |
| **MFI** | microfinance institution |
| **MICRODEV** | Microfinance for Development, disguised name of an actual organization |
| **MIKRA** | Microcredit for Women |
| **MIS** | management information system |
| **MRC** | microfinance resource center |
| **MSI** | Management Systems International |
| **NCAT** | Network Capacity Assessment Tool |
| **NGO** | nongovernmental organization |
| **NIST** | National Institute of Standards and Technology |
| **NWTF** | Negros Women for Tomorrow Foundation |
| **OCAT** | Organizational Capacity Assessment Tool |
| **OECS** | Organization for Eastern Caribbean States |
| **Opalad** | Fictitious name for a microfinance institution |
| **PAAP** | Partnership Agreement and Action Plan |
| **Pact** | An international nonprofit corporation that facilitates leadership and organizational development for NGOs |
| **PEARLS** | Protection, Effective financial structure, Asset quality, Rates of return and costs, Liquidity, Signs of growth |
| **PM** | Pro Mujer (For Women International) |

| | |
|---|---|
| **PROSE** | participatory, results-oriented self-evaluation |
| **PVO** | private voluntary organization |
| **SDI** | subsidy dependence index |
| **SEAD** | Small Economic Activities Development |
| **SEEP** | Small Enterprise Education and Promotion Network |
| **SOCODEVI** | Société de coopération pour le développement international |
| **SUM** | Special Unit for Microfinance, a unit of the United Nations Development Programme |
| **TA** | technical assistance |
| **TAWG** | Technical Assistance Working Group |
| **TOR** | terms of reference |
| **TS** | technical service |
| **TSD** | technical services division |
| **TSP** | technical service provider |
| **UNCDF** | United Nations Capital Development Fund |
| **UNCITRAL** | United Nations Commission on International Trade Law |
| **UNDP** | United Nations Development Program |
| **USAID** | United States Agency for International Development |
| **USD** | U.S. dollar |
| **VITA** | Volunteers in Technical Assistance |
| **WOCCU** | World Council of Credit Unions |
| **WV** | World Vision |
| **WWB** | Women's World Banking |

# Introduction

Twenty years ago, when microfinance was in its infancy, donor organizations and technical service providers (TSPs) were eager to help fledgling institutions identify, acquire, and implement needed technical services. In fact, donors and private voluntary organizations/non-government organizations—which are also TSPs—created many MFIs, which depended on their sponsors in the early years for financial assistance and technical guidance. The result was a supplier-driven process for technical service delivery. As microfinance institutions (MFIs) matured, however, they began to recognize that the suppliers of technical services, (donors and TSPs) did not always know what they, the client MFIs  really needed in the way of technical services.

Today, it is time for the technical service delivery process to change: client MFIs need to drive the technical service delivery process. This guide presents seven principles (the 7 Cs) for implementing a client-driven process:

1. **C**lient Demand Driven
2. **C**ontext
3. **C**learly Defined Results
4. **C**heckability (indicators to check results)
5. Focus on **C**hange (baseline indicators)
6. **C**ost Effectiveness, and
7. a**C**countability.

This introduction provides a brief look at the guide and its objectives, inviting the reader to examine the definition of technical services (TS), the reasoning behind their delivery, and the challenges of their use.

## Objectives of the Guide

The principal objective of this Small Enterprise Education and Promotion (SEEP) Network guide is to share the hard lessons of technical service delivery learned by members of the SEEP Technical Assistance Working Group (TAWG) and their MFI partners. (See the Acknowledgments for a full listing of TAWG members and their partners.)

The guide will:

- outline some of the challenges of technical service delivery in microfinance
- share seven principles for improving the process of technical service delivery
- share guidelines for maximizing the effectiveness of technical services for each dollar spent
- share practical examples that use the principles, together with recommendations that MFIs, technical service providers, and donors can implement immediately
- challenge all sectors of the microfinance industry to use these principles and recommendations to measure the effectiveness of technical services

Please note that the guide does not assume that all MFIs need technical services or that the more technical services, the better. Rather, it focuses on improving the process by which MFIs acquire technical services to expand their outreach and sustainability.

### *Definition of Technical Services*

This guide uses the term *technical **service*** instead of *technical **assistance*** because *technical service* more accurately conveys the idea of a subset of services an MFI purchases or agrees to receive. As used in this guide, technical service refers to specialized expertise that is external to an MFI which is used either to (1) help establish a new institution or (2) enable an existing institution to achieve certain goals.

External technical expertise can be provided for any activity that an MFI undertakes and can take a wide range of forms, from manuals to short-term courses to consulting services to total control of operations. Technical expertise can be delivered by local, national, regional, or international technical service providers (TSPs), who may or may not specialize in microfinance institutions. In fact, MFIs may seek consultants, training institutes, universities, technical advisors, or affiliate staff to deliver such services (Reed and Otero 1997).

Specific technical services for MFIs include assistance in governance, staff development, financial and non-financial products, systems, and funding. Deliverables vary among training manuals, seminars, research, assessment tools, and software. Technical services may be paid for by the MFI receiving the services, by a donor that supports the MFI, or by a TSP, such as a network of affiliated MFIs, that has been given funds to provide technical services to one or more MFIs.

High-quality technical service requires both mastery of a specific technical area and mastery of the process for delivering optimal technical service. The seven principles in this guide provide guidance for improving the process of technical service delivery.

### *Why Technical Services?*

MFIs, like any other organization or business, buy services that they either choose not to provide themselves (such as computer maintenance) or are not able to provide themselves (such as software development). They generally seek external technical services because they do not have the expertise to provide them internally.

According to Marguerite Robinson, successful, self-sufficient MFIs understand the commercial microfinance business and their clients, demonstrate institutional ownership, place a priority on organization and management, engage in human resources development, and operate according to a defined corporate philosophy (Robinson 2001). Some institutions develop these characteristics independently, others contract for technical services to help them achieve these characteristics. Generally speaking, however, it is in the pursuit of these five elements shared by successful MFIs that institutions seek out external technical services.

### *The Challenges of Technical Services in Microfinance*

The challenges of technical services in microfinance include (1) meeting the large unmet demand for financial services for the poor, (2) building institutional capacity to meet this demand, (3) developing appropriate marketplace signals in the technical services market, and (4) instituting accountability for the use of technical services funding.

Improving the efficiency of technical services delivery has become an urgent priority because the goal of these services—to create strong, self-sufficient MFIs—is the key to reaching scale.

### *Meeting the Large Unmet Demand for Financial Services for the Poor*

Total worldwide demand for microfinance services is currently estimated at 360 million households (Robinson 2001), while the number of clients served by organizations reporting to the MicroCredit Summit 2002 was barely 21 million. The gap between the number of clients receiving microfinance services and the number whose lives could be improved with access to those services represents the greatest challenge to the growing microfinance industry.

Because the scale of existing demand dwarfs the resources of donors, Marguerite Robinson has argued that "[m]icrofinance demand can be met on a global scale only through the provision of financial services by self-sufficient institutions" (Robinson 2001). The number of such institutions remains, however, depressingly small. In 2001, the Consultative Group to Assist the Poor (CGAP) estimated that less than 1 percent of the approximately 10,000 organizations in the world that provide microcredit and other financial services to the poor had achieved financial self-sufficiency.

### *Building Institutional Capacity to Meet Demand*

Meeting the challenge of unmet demand will require both a large investment in building the capacity of existing microfinance institutions, as well as creating new institutions to serve the sector. The capacity of MFIs needs to grow not simply in

terms of loan funds, offices, and equipment, but also in terms of the human capacity needed to manage institutions of ever-increasing complexity and size. The skills of the individuals who govern MFIs need to expand so that they can provide the leadership and accountability needed for managed growth.

Capacity building necessitates constantly improving lending and savings methodologies while developing new financial products. It also requires providing systems of managing information and communication across branches and divisions and developing a new cadre of middle managers to keep operations flowing. Reaching the hundreds of millions of potential clients who are not being served today also means that MFIs must tap into commercial funding, which in turn will necessitate new legal structures and funding mechanisms (e.g., equity investments, savings products, mutual funds, and shared debt pools). All these requirements will incur technical services (such as consulting, training, publications, and operating systems) to rapidly expand the capacity of the sector so that it can access and manage the funds needed to serve the target market.

The provision of technical services has already played a key role in a field that has grown from a few organizations implementing a new idea 25 years ago to an industry reaching more than 20 million clients today. Practitioners, microfinance networks, consultants, and donors have all helped to transfer successful methodologies and best practices from one location to another, so that knowledge gained in Asia and Latin America has spread throughout Africa and Eastern Europe as well. The development of core methodologies, manuals, guidebooks, and training programs has also helped to spread successful innovations to all corners of the world.

### *Developing Appropriate Marketplace Signals for Technical Services*

A muddled marketplace (one that sends mixed signals) clouds investment decisions for technical services in microfinance, hampering technical service providers and limiting the growth of microfinance institutions. A look at how donors have spent their funds over the last decade illustrates this point.

Four years ago, an Opportunity International study of trends and segments in donor funding for microfinance found that government donors had contributed almost US$400 million to the sector in 1995, up from about US$100 million in 1990. In the five years from 1991 to 1995, these donors have invested US$1.5 billion in microenterprise development. Assuming only modest growth in donor funding since that time, the total amount spent by donors on the sector over the past decade approaches US$4 billion. Yet according to the *MicroBanking Bulletin*, this investment has produced only a handful of financially sustainable microfinance institutions.

Why is this so? A study of how foundations make grant decisions, conducted by the John F. Kennedy School of Government at Harvard University, provides an explanation. The study compared investments made by venture capitalists with the grant-making strategies of foundations. It concluded that donors tend to under-invest in building capacity for growth and over-invest in pilot projects and starting new programs. While

venture capitalists concentrate on building management capacity, grant makers focus more on program activities.

Venture capitalists have a direct financial incentive to build the value of an organization—they know that the marketplace places a higher value on companies with strong management capacity. The venture capitalist thus receives a direct reward for the investments he or she makes in building that capacity. By contrast, foundation officers receive almost no reward for investing in capacity, since most officers move on to other jobs before the effects of their investments become apparent. As a result, many grant-funded operations lack the resources and capacity needed to take their successful programs to scale.

The result of this dynamic in the microfinance industry is a curious combination of available money with no takers in some areas, and subscale organizations that lack the resources and capacity in other areas. Funding for technical services usually flows from a donor to a consultant or a network organization that then provides training or other services to a microfinance institution. The MFI receiving the services often has little say in who provides it services and is unable to compensate service providers in accordance with the quality of services they provide.

Receivers of this kind of *technical assistance* have complained to the SEEP TAWG that all too often, the impact of the services they received did not justify their cost. They note that the services received more often match the skills of the provider than the needs of the MFI. As one MFI leader told the working group, "What we want is help with developing a better information system, and what we get is more business planning."

### *Instituting Accountability for the Use of Technical Services Funding*

To meet the challenges described above, TSPs must become more accountable for the ways in which they use funding for technical services. These providers need to allow those who receive the services—the MFIs—to decide whether such services are needed, useful, and of sufficient quality and impact to justify their expense. Most importantly, TSPs need to leverage the scarce investments in technical services to create multiple dollars of financial services for the poor for every dollar invested in technical services.

It was in seeking to meet the challenges outlined above that a number of technical service providers undertook the research that led to the publication of this guide.

**Checklist of the 7Cs**

- Client Demand Driven
- Context
- Clearly Defined Results
- Checkability
- Focus on Change
- Cost Effectiveness
- aCcountability

## Overview of the 7Cs

This section briefly describes seven principles (the 7Cs) for improving the process of technical service delivery to microfinance institutions.

### *Brief Definition of the 7Cs*

**Client Demand Driven.** This principle addresses the need for the client—the MFI—to own the process of technical service delivery and drive the choice of technical services. The principle implies that the management team of an MFI undertakes an institutional self-assessment to define the organization's technical needs and then obtains the technical services required to improve institutional performance.

**Context.** This principle addresses the need to identify the external contextual variables that can influence the choice and effectiveness of technical service delivery, including economic, cultural, political, and institutional variables. It especially considers relationships between MFIs and technical service providers, both within networks and within the context of long-standing relationships among MFIs, service providers, and donors.

**Clearly Defined Results.** This principle encourages MFIs to define and agree to clear time-bounded results (with interim steps if appropriate) to be delivered by the technical service provider. These deliverables should include concrete outputs for:

- *individuals*, in terms of their level of knowledge, skills, or attitudes;
- *systems* (e.g., information or financial), in terms of their performance and/or capabilities; and
- *the institution,* in terms of performance goals related to the technical service.

It is important to note that deliverables should be appropriate for the size, age, and capacity of the institutions receiving and providing the technical services.

**Checkability (indicators to check results).** This principle encourages MFIs to design and agree on performance measures, or indicators that will verify the delivery of the specified outputs by the technical service provider.

**Focus on Change (baseline indicators).** Inseparable from the idea of Checkability, this principle requires MFIs to collect baseline information on its own performance in order to measure the results of technical services. Benchmark indicators may include staff attitudes, knowledge levels, skills, and system and institutional capabilities or performance.

**Cost Effectiveness.** This principle ensures that cost-effective measures will be used to select and verify delivery of technical services. The principle encourages MFIs to measure the results of technical services against their total cost (direct and indirect) to discern whether such services are worth the expense incurred. It also cautions an MFI to select cost-effective indicators to measure the agreed results of a technical service.

**aCcountability.** This principle encourages MFIs to build mutual accountability mechanisms into technical service contracts. It emphasizes the need to assign clear roles

and responsibilities of each party to achieve specified results, using incentives and/or penalties to ensure that the client and the TSP fulfill their commitments to each other.

### *The 7Cs in Action: A Brief Illustration*

If an MFI needed help in putting together a three-year business plan, it would use the **C**lient Demand-Driven principle to obtain the support of the management team for the project, conduct a self-assessment, and define the concrete outputs sought from an external TSP. This principle would ensure that the MFI drives the process and develops the in-house capacity to perform the task in the future.

The **C**ontext principle would guide the MFI to consider the institutional relationships the MFI has established with various donors and TSPs to determine whether it can contract the best service provider for the business plan from among the institutions with which it has established relationships, or whether it needs to explore alternative providers. It would also guide the MFI to consider the institutional context for engaging a TSP, identifying which individuals at the MFI would lead the project and preparing the organization for the process of developing and using the plan.

The MFI would use the **C**learly Defined Results principle to determine the concrete outputs that the service provider would deliver, including a well-written business plan and the skills transfer necessary for the MFI to generate future business plans. The MFI would employ the **C**heckability and Focus on **C**hange principles to identify indicators that could be used to verify the results of the technical service. In this case, the indicators would be the skill sets necessary to enable specific MFI staff to prepare loan portfolio and cash flow projections, as well as SWOT (Strength/Weaknesses/Opportunities/Threats) analyses, in the future. In order to monitor change, the MFI would document the skill levels of these individuals (the baseline) prior to the arrival of the TSP.

The MFI would use the **C**ost Effectiveness principle first to determine the full cost of the technical service, regardless of whether the MFI pays for the service or receives donor funding to cover its cost. This principle would also guide the MFI to conduct a cost-benefit analysis, considering total costs (direct, indirect, and opportunity costs) of the contracted technical service against its potential benefits. The principle would then lead the MFI to select a reasonable methodology for verifying the results of the technical service (i.e., the MFI would choose a methodology suitable to its institutional age and technological development to measure the performance of the service provider).

**How to Use the 7Cs**

An MFI, TSP, or donor (or a combination thereof) investigating technical services is advised to:

- Read each of the 7Cs and consider how to use them to improve the process of technical services delivery.
- Use the 7Cs as a checklist when contracting for a technical service.
- Review the 7Cs to evaluate the effectiveness of a technical service after a service contract has been completed.

Finally, the a**C**countability principle would guide the MFI to define specific responsibilities and tasks for both the MFI and the service provider. These responsibilities and tasks would commit both parties to achieving the desired results of the technical service, making them mutually accountable to one another. a**C**countability would be ensured by incentives and penalties designed to keep both parties on track to achieve mutually agreed results.

## Organization of the Guide

This guide devotes a separate chapter to each of the seven principles for improving technical services delivery to microfinance institutions. The chapters provide a detailed discussion of each principle, followed by one or more case studies which illustrate how an MFI or TSP has applied the principle in real life. Although the case studies were selected to demonstrate specific principles, the reader will find that most studies illustrate several of the 7Cs simultaneously. A final, concluding chapter uses three comprehensive case studies to review all seven principles.

# 1st C

# Chapter 1
# Client Demand Driven

The **C**lient Demand Driven principle recognizes that if the microfinance industry wants to improve the effectiveness of technical services delivery, MFIs must be central to the process. As the clients of these services, microfinance institutions need to take ownership of the process and make decisions about the technical services that are provided to them. It is generally accepted that if MFIs are to reach significant numbers of people who currently have no access to financial services, these institutions need to move away from dependence on international donor funds and become financially sustainable. It is not yet fully understood that this also means MFIs need to move away from depending on donors and technical service providers to determine the technical services they receive.

## Definition

The **C**lient Demand Driven principle addresses client participation and ownership and ensures as far as possible that the demand of the local institution drives the choice of technical services. The principle puts the MFI and/or individuals receiving the technical services at the center of all decision making about the provision of such services. Over time, MFIs will progress to define their own technical service needs and determine which services are provided and by whom, just like any other business.

The word *client* in **C**lient Demand Driven refers to an MFI, not the end-clients of an MFI (individuals who access loans and other services). The word *demand* has three components:

- the self-assessed need for the technical service as a priority of the MFI

- funding for the technical service
- the information needed to choose the most appropriate technical service

Ideally, the client will control all three elements of demand. This is often not the case, however, as external agencies often both identify and pay for technical services for MFIs.

## Discussion

To date, technical services in the microfinance sector have mostly been supply driven, that is, they have been determined by donors or TSPs funded by donors. As discussed in the Introduction, however, a supply driven process can contribute to the ineffectivness of technical services. When the microfinance sector was new, it was only natural that providers and suppliers would drive technical services. At that time, the underlying assumption was that expert TSPs knew better than the MFIs what the latter needed. In many cases, this assumption was true and good results were achieved. Now, however, after 20 years of microfinance, MFIs are increasingly able to define their own technical service needs.

Using the **C**lient Demand Driven principle is a good business decision. It is no different from any situation in which a business decides what external expertise it needs and finds the best provider within the available budget. When a donor or technical service provider (TSP), even if well-intentioned, drives the provision of technical services, there is no way to guarantee that the services will focus on areas critical to the MFI. When MFIs themselves drive the process, as the case studies at the end of this section demonstrate unequivocally, they choose technical services that cost-effectively focus on their needs. Not only do technical services driven by client demand achieve the goals of an MFI more effectively, they also represent a better use of scarce resources.

### *Ensuring the MFI Drives the Process*

Many clients (MFIs) still do not have a real choice about the technical services provided to them by TSPs and donors. These services, moreover, are not always focused on their primary needs. Due to close existing relationships among MFIs, TSPs, and donors, there is often a fuzzy line between what is TSP driven and what is client demand driven.

When a donor pays for a technical service, either through a grant to an MFI or a TSP, it needs to agree explicitly that the MFI is the client for that service. In some cases, the MFI and the donor need to reach such an agreement; in other cases, a discussion needs to take place between the donor and the TSP, or between the TSP and the MFI; in still other cases, the discussion may involve all three parties. This type of arrangement will require a change in mindset on the part of all participants in the process: donors TSPs, and MFIs. Regardless of how technical services are paid for, the MFI must determine what services are delivered.

A simple way to move technical service providers and donors from a supply-driven to a client demand-driven process is through transparent decision making. Each time the process calls for a decision, the MFI must ask: How can we make this decision?

or How can the TSP or donor make this decision in conjunction with us? If the MFI does not have the skills to make a decision alone, it must ask: What skills or resources can we (the MFI) develop that would enable us to make the decision by ourselves? The case studies in this guide all illustrate different ways in which client demand-driven technical services have worked in practice, offering MFIs a range of ideas to enhance their ownership of the process.

How the **C**lient Demand Driven principle is implemented depends on such variables as the vision of an MFI's leadership, the relationship between an MFI and the technical service provider, the source of funding for a technical service, and the stage of development of an MFI. Whatever the stage of development, the MFI should be at the center of the process.

Whereas many large established MFIs are capable of determining their own technical service needs, start-up MFIs may need assistance. Young MFIs can, however, apply the Client Demand Drive principle, even if it means engaging a consultant to conduct a technical service needs definition together with them (see the ANERA/GWTF case study in chapter 3). The Bosnia and Herzegovina case study in chapter 8 provides an excellent example of how a client demand driven process was implemented from the very start with newly created MFIs.

### *Redefining the Role of the TSP*

The **C**lient Demand Driven principle challenges TSPs to step back from their self-interest and first ask what local institutions want. While donors may earmark funding for a TSP to work with a specific MFI, it is crucial that the TSP engage the MFI in the delivery process from diagnosis to definition to delivery. Inclusion of the MFI in every step of the process will ensure that the technical services respond to genuine demand on the part of the microfinance institution.

Although an MFI client may be "right" about its choices for technical services (TS), the technical service provider or donor often thinks an MFI decision is "wrong." Even if a TSP thinks an MFI decision is sub-optimal, the TSP must accept the MFI's right to make its own decision. Differences in opinion often simply highlight the differences in how MFIs, TSPs, and donors approach diagnosis of a situation, definition of technical needs, and subsequently, delivery of technical services. Although TSPs often believe they know better than their MFI partners, this is not necessarily the case; the TSPs do not run the local institutions.

The problem of conflicting viewpoints highlights the importance of the facilitating role of TSPs. If the TSP helps the local MFI identify its own needs for technical services (rather than tell them what they need), this facilitation will reduce the occasions when the TSP and the client have a radical difference of opinion. When an MFI chooses to become the decision maker, the current role of technical service providers will change. Although some TSPs fear this change will make their role less significant, most TSPs involved in the SEEP TAWG have embraced the Client Demand Driven principle as the key to improving the effectiveness of their services.

**Implementing the 1st C:**
**Six Questions for Technical Service Providers**

1. What is the total amount your organization spends on providing or purchasing technical services in a year? What sort of return are you getting on this investment? How do you measure that return?
2. Who decides which technical services will be provided in your organization? What role do the people receiving those services play in that decision?
3. If your organization moved completely to client demand-driven technical services, would the people receiving the services request the same services they are receiving right now? If not, what causes the differences in perception of what services are needed? How would information need to flow in your organization so that people would perceive the same needs?
4. Does your organization have tools in place to assess performance against common standards of performance and best practices of other organizations?
5. Is your organization organized to provide or obtain world-class technical services? If not, what would need to change to make this possible?
6. Have you aligned incentives in your organization in such a way that leaders want to invest in technical services that will produce the greatest results for MFI clients?

### *Defining Technical Needs*

For an MFI to determine its technical service requirements, it needs to undertake a self-assessment. The preparatory process should include the following steps:

1. **A commitment by senior management to evaluate its own institution.** Most MFIs are assessed by external agencies for a variety of different purposes. Sometimes these evaluations are useful for the MFI, other times they are not. A self-assessment differs from these external assessments in two key ways: it addresses areas which the MFI thinks are important (as opposed to areas which are priorities of external agencies), and it provides more freedom for honest evaluation (a self-assessment will not jeopardize funding). Careful self-evaluation is never easy, however, which is why prior commitment by senior management is essential.
2. **A decision by senior management to use the most appropriate assessment tool for the institution.** Annex 1 ("A Comparison of Key Elements of MFI Self-assessment Tools") provides a summary comparison of tools that MFIs can use to assess their performance. The annex summarizes the purpose, methodology, and major areas of assessment of each tool. MFI managers should choose the self-assessment tool they believe is most relevant to their situation or best achieves their purposes.
3. **A commitment by senior management to allocate the resources necessary for the internal evaluation.** The amount of time and staff resources necessary for a self-assessment depends on the tool and whether the key information is easily available. Unless needed resources are committed to the process, however, a self-assessment will not yield optimal results.

4. **An understanding of the purpose of the self-assessment on the part of the board and staff of the institution.** It is important that the board of directors and staff see themselves as active participants in the self-assessment process and understand how they will benefit from it. Without this understanding, it is possible that the process will not be taken sufficiently seriously to produce useful results.
5. **A commitment to take action on the results of the self-assessment.** A self-assessment will identify the areas in which the MFI can make improvements (it may also identify priority areas for action). Senior MFI management then needs to develop an action plan to address these areas, which may or may not require external technical services. If management decides that external technical services will best address areas needing improvement, the MFI can use the 7Cs to ensure effective technical services delivery.

In the Opportunity International (OI) case study, OI understood the importance of having its partner MFIs assess their own performance and identify their technical service needs. Consequently, it developed a self-assessment tool specific to the network. The results of partner assessments, together with the reorganization of how OI provides technical services, led to significant improvement in partner MFI performance.

### *Accepting the Client Demand-Driven Principle*

Incorporating the Client Demand-Driven principle into the technical service delivery process is a new concept for many, mostly because little has been written about technical services to date. (By contrast, think of the volume of publications on microfinance methodology.) The process is now changing, but change is difficult for many reasons, including conditions such as the following:

- MFIs typically receive technical services from donors or TSPs at the same time they receive financial resources for their loan funds. These services are generally not requested and are often provided at no charge. Switching to a client demand-driven process will involve a major change in the amount of work MFIs will have to do.
- At times, TSPs and MFIs are supported by the same donors, which mandate a working relationship between a TSP and MFI, regardless of whether the MFI needs the technical service provided by that particular TSP. Changing such policies can be difficult.
- In order to ensure they can pay staff salaries , TSPs often provide the services they are able to provide, not the services an MFI wishes to receive.
- The entrenched process is difficult for all parties to change. To cite but one example, a TAWG member which is a TSP described cases in which a donor pre-selected MFIs for a fixed two-week workshop with a predetermined content and budget. In such cases, even if the TSP wished to adapt the content of the workshop for the various MFIs designated to attend, it would be impossible to accommodate their differences. Given that the donor had fixed the timeframe and budget for the workshop, the TAWG member concluded that it would not

do much good to invest time in working with the selected MFIs to define their needs.

### *Assessing the Client Demand-Driven Process*

Following the delivery of a technical service, an external evaluator can assess whether the delivery process was truly client demand driven. Such an evaluator would want to inquire whether the MFI felt pressured to accept TS it did not want, or whether the services it received were, in fact, a priority for the institution, as identified by an institutional self-assessment. The evaluator would also observe whether clients have taken ownership of the process by following the advice they received and/or applying the skills they have learned.

An external evaluator might want to include the following questions in his or her evaluation:

- What decision or decisions were made on behalf of the local institution or individual that either the institution could have made independently or it could have been helped to make?
- What skills or resources could be developed to enable the local institution or individual to make those decisions next time?
- What institutional barriers prevent local institutions or individuals from making key decisions about TS? How can these barriers be removed?

### *Conclusion*

**A client demand-driven process challenges donors and TSPs to build local institutions capable of making their own decisions about technical services. Allowing the demand of local institutions to drive the technical service delivery process is the key to improving the effectiveness of those services.**

It is important to note that the client demand-driven process should not be followed independently of the other six principles explained in this guide. In order to ensure that MFIs contract for outside technical services which are compatible with previous or ongoing services, it is crucial that they apply all seven principles to the delivery process. Proper use of the 7Cs will, for example, allow MFIs, TSPs, and donors to minimize cases in which a TSP arrives at a client site only to discover that a previous TSP had worked at the site earlier and provided a service at odds with the new service.

The two case studies that follow—Opportunity International and Compartamos—show how a TSP and an MFI respectively implemented the client demand-driven principle to take ownership of the technical service process, define their needs, and contract required services.

Opportunity International, a large network of MFIs, used the 1st C to completely reorganize the way in which it provides technical services to its members. As a result, it has seen a radical improvement in both the performance of its MFI partners and the funds available to them for technical services.

Compartamos, a Mexican MFI with over 40,000 clients, used (and continues to use) the 1st C to successfully manage the technical services required to build (and then maintain and upgrade) a management information system.

## TSP Case Study: Opportunity International

Opportunity International is a network of partner organizations committed to solving poverty instead of merely treating its symptoms. OI partners have successfully provided loans and basic training in business practices to the poor for three decades, breaking the cycle of poverty while fostering social and spiritual transformation. By 1999, however, OI was maintaining a precarious balance on the playing field of microenterprise development: the combined performance of its partners had fallen significantly behind their projections and Opportunity International itself had begun to fall behind the leaders in microfinance.

### *Responding to Member Needs: A Philosophical and Organizational Change*

Opportunity International (OI) found itself facing a mismatch of expectations. Its implementing partners had the desire to grow, but most were not achieving the high-quality standards needed to attract donor or commercial funds. The organization's structure was built around developing new nongovernmental organization (NGO) credit programs, rather than supporting the growth of existing programs. The result was an organization whose staff had an excellent understanding of the need for high-quality standards, but were unable to effect change and meet needs where they mattered most: within microfinance institutions at the local level.

Until the year 2000, OI was organized as a geographic network. Regional offices in Africa, Asia, Eastern Europe, and Latin America provided technical services and worked to develop new partners. These offices served as the main link among implementing partners, support partners, network services, and resources. They served the needs of many partners, helped them form relationships, and encouraged their growth and performance.

Over time, OI grew in size and in scope. Greater financial resources allowed it to work with more MFIs, which employed a wide range of lending models to deliver credit to the poor. Demands upon the regional offices became increasingly varied and technical in nature; OI partners began to look elsewhere for expertise. At the same time, partners found it difficult to support the overhead costs of the regional offices. Although the number of OI partners and their demand for services had increased, the money to pay for these services had not.

The ability of the OI network to provide the technical services needed by its partners had not kept pace with their growth. Without specialists prepared to meet the identified needs of these MFIs, OI was in peril of losing the "business" of its partners..As an international network , OI is a TSP with an established market of "customers" who need technical services. OI's ability to supply efficient, high-quality services to meet this demand would determine the future of the organization.

### *Change or Die*

To remedy the situation, CEO Larry Reed determined that OI had to acknowledge its current method of delivering technical services was not succeeding. He issued a memo (which later became known as the "Change or Die" memo) in which he said,

> "What we have now is a supply-side push of services that is not met by a demand-side pull for training and technical assistance. Implementing Partners do not need the services we provide, do not want them, or are not capable of implementing them, because all too often the services result in very little change. They become like water spilled in the desert, leaving no visible trace."

After acknowledging that current methods were not working, Opportunity International sought to identify why its member MFIs were not driving the technical service process. Using a process that sought input from the regional and local levels, the organization launched a network-wide strategic planning initiative that included partner self-assessments and performance rankings. By asking OI partners to identify their needs and priorities, the initiative led to a comprehensive three-year strategic plan prepared by and for partners.

One former country director spoke out for fundamental change, noting that focusing on smaller changes would be little more than "rearranging the deck chairs on the *Titanic*."

Opportunity International then took a big step by committing, at the senior level, to provide technical services driven by the MFIs. In June 1999, the Board agreed that "services should be provided based on the demand by Partners, which should be motivated by the desire to meet standards and reach a greater number of clients. This may involve having services paid for by the Partners that receive them."

With a focus on investing in the clients who represented the face of it its mission, Opportunity International committed to provide them the best possible technical services—driven by their own demand.

### *Implementing a Demand-Driven Process*

Opportunity International implemented a four-pronged process to implement a client demand-driven approach. It (1) created demand for technical services, (2) created the expertise to meet that demand, (3) secured the financial resources to fund quality technical services, and (4) measured the results.

**Creating demand for technical services.** The first prong of the client-driven process was to enable local OI partners—the MFIs—to assess their own need for technical services in order to achieve performance goals. OI focused its attention on creating, assessing, and supporting client demand through (a) accreditation, (b) performance standards, and (c) funding incentives for partners.

*a. Accreditation.* Opportunity International first developed an accreditation process that served as a self-assessment tool for its partner members. Using a standard set of performance measurements, the accreditation process commences with an extensive partner self-assessment exercise, followed by an objective peer review. The process is intended to allow partners to look into an assessment mirror and objectively measure their strengths and weaknesses. Standardized measurement and scoring

establishes a common denominator for all OI partners and determines their eligibility to receive priority network funding.

*b. Performance standards.* Performance standards set a benchmark for OI partners and enable them to compare their performance with industry leaders and one another over time. Performance standards are measured using a system approved by the OI board of directors and are published internally on a quarterly basis. Partners with consistently high performance are recognized; those which failed to report or showed poor performance can be disqualified from future funding.

The accreditation process and the use of performance standards both identify operational areas that need improvement, creating client demand for technical services. This demand in turn prompts OI to secure the financial resources needed for client members to take action and improve their performance.

*c. Funding incentives.* In order to be of value, partner accreditation and performance rankings had to accepted by OI members. There would be no incentive for OI partner members to improve their performance and no demand for resources to initiate such improvement unless a direct correlation between funding and high-quality performance was established. Support partners in the network aligned themselves behind accreditation and performance rankings because these processes gave them access to resources for technical services.

**Creating the expertise to meet client demand.** The second prong of the client-driven process was to reorganize OI to deliver the technical services needed by MFI partners. Once identified, member needs quickly become demands, and the infrastructure, expertise, and resources had to exist to satisfy those demands. Unless the organization was able to respond to the technical demands of partners, OI had little chance of meeting its own goals and expanding outreach.

As OI began to institute partner accreditation and performance rankings, the organization began to streamline its operations to serve the greatest number of clients as effectively as possible. It reorganized its operations along "product" lines and adjusted its funding structure accordingly. Generalist regional offices were eliminated and the number of regional directors was scaled back. Priority was given to supporting partners, coordinating the accreditation process, and assisting partners with strategic planning.

A three-year strategic plan was developed by and for each partner by identifying their needs and priorities. The plans identified MFI member needs and, consequently, the types of technical expertise OI needed to develop. A comprehensive strategic plan then became the basis of OI fundraising efforts and defined the strategic direction of the organization as a whole.

As a result of the client-driven process, Opportunity International designed a Technical Services Division (TSD) to meet the growing needs of its partners. The TSD began by corralling the expertise of specialists already working within the network into one, accessible resource. The department then positioned itself to develop training tools in specialty areas such as management information systems (MIS), financial products,

organizational development, and transformation tools. Its expansion would directly depend on partner demands, as indicated by their accreditation, performance, and strategic plans.

**Securing the financial resources to fund quality technical services.** The third prong of the client-driven process was to restructure the financing of OI technical services. First, OI restructured the financing of member technical services to ensure that funding was contingent on client performance. The network thus moved from funding all technical services with partner dues to a new structure whereby core member services were paid by member dues and demand services were paid directly by individual members. Fundraising would be based on member priorities for technical services, as identified in their self-assessments and strategic plans.

OI then created an Investments Services Division (ISD) to provide specific financial and organizational assistance to partner members that were consolidating into national-scale institutions or converting from NGOs to formal financial institutions. In addition to organizational assistance, ISD also assesses possible new partners. Both new divisions—TSD and ISD—provide client demand-driven services that are expected to be funded solely by individual partners or designated grants and/or donations within three years.

**Measuring the results of technical services.** The fourth prong of the client-driven process was to identify the results that OI, as the technical service provider, would deliver to its clients. This focus on results would ensure that (1) money once spent on administration would now go directly to technical services and (2) technical services provided by OI would improve the institutional performance of its members.

As table 1-1 illustrates, the organizational restructuring of Opportunity International eliminated the overhead costs of the generalist regional offices and improved the stewardship of partner resources by dropping overall network costs by US$1.1 million.

At the same time, OI sought to ensure that the client-drive process would result in a radical improvement in the performance of its partners. Since the "Change or Die" memo of 1999, the performance of its network members has steadily improved. Total active clients of OI members more than doubled in four years: from 102,236 in 1997 to almost 260,000 in first quarter 2001, growing 85,000 in the second two years alone. Overall member arrears rates of greater than 30 days were cut in half at the same time, dropping from 11.98 percent in 1998 to 5.41 percent in 2001.

**Table 1-1. Savings from OI Organizational Restructuring, 2000-2001 (in USD)**

| | 2000 | 2001 |
|---|---|---|
| Service Centers/Technical Services | $ 261,000 | $1,608,865 |
| Regional Offices/Coordination | $3,768,000 | $ 879,000 |
| Investment Services | $0 | $ 615,000 |
| MIS Services | $ 432,000 | $ 499,720 |
| Network Office | $_759,000 | $ 565,000 |
| Total | $5,220,000 | $4,167,585 |
| Total Savings: $1.1 million | | |

## *Conclusion*

The Technical Services and Investor Services divisions of OI are gearing up to meet the new challenges of the coming decade. Partners are consolidating into national-scale institutions and converting into banks, new partners are being created, and new demands for technical service are being generated. The OI network now has its ears attuned to these demands. The overhaul of the network structure was difficult and more challenges lie ahead, but the new structure has oriented the network to the voices that must define its success in the coming years—those of its clients.

The Client Demand-Driven principle not only improved the effectiveness of OI technical services, it has also improved the performance of its partners and enabled more funding to be directed toward TS. In its **strategy document,** "The Next Decade of Opportunity" (October 2000), OI has committed to being "as rigorous in measuring the spiritual, economic, social, and political impact on our clients, their families and their communities as we are now in measuring the financial performance of implementing partners." In the same spirit, the organization promised to "link funding interests to programs" and "reduce dependence on undesignated funds." The information on MFI priorities gained from the client-driven process now forms the foundation for improved OI program design.

**How Opportunity International Implemented the 1st C**

Every Technical Service Provider will implement the Client Demand-Driven principle slightly differently, depending on their organizational structure, goals, and funding resources. In this case study, the international network Opportunity International took the following steps:

1. Acknowledge that the current method of delivering technical services is not succeeding.
2. Identify why TSP technical services are not being driven by MFI clients.
3. Commit at senior levels to providing technical services that are driven by MFI client demand.
4. Undertake a four-pronged process: create demand for technical services, create the expertise to meet that demand, secure the financial resources to provide quality technical services, and measure the results.
5. Create demand for TS: enable local partners, the MFIs, to assess their own needs for technical services in order to achieve performance goals.
6. Create the expertise to satisfy that demand: reorganize in order to deliver technical services that MFI partners want and need.
7. Secure the financial resources to provide quality technical services: make funding contingent on MFI performance, align fundraising with strategic technical priorities of MFI members.
8. Measure the results for the TSP: money previously spent on administration now goes directly to technical services.
9. Measure the results for partner MFIs: benchmark MFI performance and measure improvements.

## MFI Case Study: Compartamos

Financiera Compartamos, a regulated microfinance institution based in Mexico City, is dedicated to helping low-income entrepreneurs gain the financing they need to generate income. In 1996, Compartamos ("Let's Share") decided to develop a computerized loan portfolio management system. The MFI had been operating for a little more than three years using a modified village banking methodology and had about 17,000 clients—enterprising people trying to improve their lives by running small businesses.

Executive Director Carlos Danel determined that staff members who used the existing manual loan portfolio system should develop the new automated one. Although the existing loan portfolio system had some data in Microsoft® Excel spreadsheets, it was basically a manual system. No staff members had specific information technology (IT) experience, but they did use a computerized accounting system. Mr. Danel realized that the discussion of a new system had to begin with the staff—the people who understood the issues and who would use the system. He knew that the staff, as the client, would demand certain things of a new automated system and should therefore drive the process.

### *Defining the Technical Needs of the MFI*

To conceptualize the new loan portfolio management system, Compartamos took five steps: (1) it formed a task force responsible for the new system, (2) it asked the task force to define the results required of the system, (3) it determined what technical services were feasible and defined the basic parameters of a management information system (MIS), (4) it assessed different MIS options to achieve desired results for an approximate cost, and (5) it asked the task force to report on its findings.

**Forming a task force.** To initiate the development process of the loan portfolio system, Mr. Danel organized a task force of about eight people representing operations, finance, accounting, and the board of directors. Although the task force was large and thus harder to manage, it was rich in terms of the breadth and depth of contributions its members made to conceptualizing the new system. Carlos Danel headed the task force, which reported to the board.

Initially, Compartamos had neither an IT staff person nor an IT consultant on the task force. The MFI was unclear about what it would do with the new loan portfolio management system, so it was uncertain about the type of person to hire or contract with.

**Defining the requirements.** This step involved documenting existing policies and procedures, defining information needs and flows, assessing the current system, and projecting future needs.

The task force recognized that to understand the needs of the new system, it needed first to understand and document the existing system. The existing computerized accounting system was working well and all its policies and procedures had been carefully worked out. At a later time, the task force would address the issue of interfacing the new system with the accounting system.

The task force identified four main areas within the lending process: (1) promotion (group formation, which generates information about clients), (2) loan approval, (3) disbursements, and (4) repayments. In identifying the needs and flows of the new computerized loan portfolio system, the task force decided to track loans at the individual client level instead of at the group level. The consequence of that decision meant multiplying the number of transactions by about 30, since most groups were comprised of about 30 women.

Having made the decision to track individual loans, the task force then assessed the existing manual loan portfolio system. This part of the process was difficult, as it created a sense of urgency among task force members who, once they identified the weaknesses of the existing system, were anxious to get the new system up and running immediately. The growing dissatisfaction with the existing system at times created a sense of crisis.

At this point it was important to secure management buy-in and to focus the task force on the entire process. The group had to look at what did not work with the old system and fix some things, while at the same time members had to be willing to let secondary issues go and concentrate on developing the new MIS in the shortest time possible.

To avoid getting bogged down in the immediacy of change, the task force examined all the **business** processes of the MFI, which gave members a clear idea of the practices and policies of the institution as a whole. It then looked ahead to future needs by reviewing the strategic plans for the entire institution.

After examining the Compartamos five-year business plan, the task force addressed how four main issues would affect the new system: (1) institutional growth, (2) product development, as it had historically occurred in the institution, (3) regulatory requirements, and (4) technology (how current technology would play out in the future).

**Determining what technical services are feasible.** The task force assessed the technological issues and options for the loan portfolio management system in terms of platform, language, and cost. It was important to select a tool that enjoyed a wide market and thus offered flexible technical support, thereby avoiding a trap whereby an expert in an obscure programming language could snare the institution into an expensive dependency.

Addressing the cost issue was more difficult—and frustrating—for the task force. Using available information, it attempted to create a general budget. Without clear knowledge of what the project involved, however, it was virtually impossible to determine what system development would cost. The selection process for the software, discussed below, shows how variable the cost factor can be.

**Assessing the options.** Although the task force did conduct "live" tests of off-the-shelf software, it used information from existing documentation to determine that no such product could provide the banking interface needed for Compartamos operations. The task force found seven small-banking software packages that were more complex than the MFI needed, but because of their modular structure, could be easily adapted

by replacing or modifying specific modules. In the end, however, the modified off-the-shelf system was not a viable option because none of the programs had strong local technical support.

Having abandoned the search for an off-the-shelf or modified off-the-shelf software product, task force members next explored developing a custom-made system. They identified four companies that specialized in financial software development, provided each the basic requirements for the system, visited the clients of these companies to see what kind of service they had received, and reviewed proposals from the companies.

Three companies suggested they could deliver cheaply and quickly. Yet it was the fourth company to which the task force members awarded the contract. The winning company would not commit to a timeframe or a price until it had received full information about what the MFI needed. Only after the company's programmers had worked through the design process with Compartamos would the company commit to time and cost.

**Reporting the findings.** Before system development could begin, the task force prepared an MIS needs assessment report that described main features Compartamos sought from the software. On this basis of this requirements document, the MFI contracted with the software development company.

### *Assessing the Client-Demand Driven Process*

When asked if the client demand-driven process worked, Carlos Danel gives a resounding "Yes….and it still does." In fact, five years later (2001), Carlos Danel says the MIS department of Compartamos has grown to employ 10 full-time programmers and operators. The specialists hired by the MFI for the first version are no longer needed since Compartamos staff has acquired the necessary skills and knows every line of code in the software.

"I can tell you that there has been constant maintenance and development on our MIS," says Mr. Danel. "Currently, we are working with a second version of our loan tracking system, and we have upgraded our accounting system to an off-the-shelf, medium-size solution. The second version of our MIS was actually developed in house. The main upgrades were made to the product module, which is now a bit more flexible. We also did major upgrades to the communications, security, and accounting interfaces. It is an essential part of our operation, so we try to always keep up and invest."

**Lessons Learned by Compartamos: Questions for MFIs regarding the 1st C**

Do you have a clear management commitment to drive the decision-making and delivery process for technical services?

1. Do you have the in-house expertise to evaluate whether your MFI has all the information it needs to maintain control of the process?
2. Have you documented everything for your staff: management decisions about the technical service, technical requirements or outputs of the service (e.g., software functionality), how those outputs will be measured, and the consequences for the TSP if the outputs are not delivered?
3. Have you built in enough time for close communication between TS providers and your staff to ensure that the MFI is driving the process and for periodic reviews to make sure your objectives are being met?

# 2nd C

# Chapter 2
# Context

The **C**ontext principle recognizes that MFIs operate within the context of multiple partnerships, networks, and relationships at local, regional, national, and international levels, as well as within specific organizational, cultural, economic, and political conditions. In order for client demand-driven technical services to be effective, they must take into account the context of an MFI's operations and its existing relationships with other microfinance players such as donors, TSPs, and government agencies. The **C**ontext and **C**lient Demand-Driven principles together provide a framework for improving the effectiveness of technical services.

## Definition

The **C**ontext principle asks MFIs, donors, and TSPs to identify and openly communicate concerning external variables that could influence the choice and effectiveness of a technical service. Such variables can range from a political process to develop new regulations for the microfinance sector, to a longstanding relationship between an MFI and TSP, to the quality of infrastructure needed for a service (e.g., reliable electricity for a computer system), to the economic and political environment in which the institution operates.

The **C**ontext principle recognizes that the wide range of relationships enjoyed by an MFI can impact its choice of technical services. It pays particular attention to existing relationships between microfinance institutions and technical service providers, noting that these relationships can influence the effectiveness of technical services. Improved transparency about how such contextual variables affect the technical service choices of

MFIs will enhance their effectiveness, allowing all parties to concentrate on matching the specific technical needs of MFIs to the best providers for those services.

## Discussion

If an MFI wants to improve its technical services (TS), and if a TSP wants to effectively support an MFI, both parties must clearly communicate with one another about the context in which they function. A working relationship of long duration between an MFI and TSP can either enhance or undermine the effectiveness of technical services. Transparency about such a relationship is crucial when planning for and implementing a technical service.

The relationship between an MFI and its major technical service provider can be especially important if the TSP has been working with the institution since its inception and the MFI is heavily reliant on full-time TSP staff. Such a relationship can become a major variable in the technical services delivery process if, for example, the MFI seeks to implement a specific methodology (for example, village banking) that is not employed by its principal TSP. In order to properly understand context, then, one must comprehend the approach, or methodology, of the principal TSP and the degree to which the MFI is dependent on this TSP.

The purpose of transparency is not to make a value judgment about the relationship between the MFI and TSP, it is simply to encourage MFIs and TSPs to look for ways to improve the effectiveness of technical services, including recognizing those aspects of their relationship which could impact those services.

Open communication about the constraints under which both parties operate, as well as the challenges they may encounter (e.g., competition, infrastructure, the local legal framework) ensures that both parties share the same priorities, end goals, and methodology for the technical service. An MFI might, for example, be under pressure locally to improve the quality of its services quickly because competition is increasing. A technical service provider might be under pressure to show that it can deliver results or lose its funding. The local legal framework might limit the services or products an MFI can offer, such as savings. Finally, the simple problem of unreliable electricity may hamper the ability of an MFI to improve its management information system (MIS). All these contextual factors will affect both the choice and effectiveness of the technical service.

### *Matching MFI Needs to TSP Methodologies*

To understand how the **C**ontext principle relates to the effectiveness of technical services, it helps to understand that TSPs utilize different methodologies, which in turn affect the types of technical services they can deliver. It is often not clearly understood that an MFI cannot look to a TSP to deliver a technical service if it does not specialize in the relevant methodology.

MFIs that feel dependent on a particular technical service provider may eventually face a situation where, due to the methodology of the TSP, the service they seek is not

offered by their provider. In the discussions that led to the publication of this book, the SEEP TAWG identified four basic methodologies of technical service provision in microfinance. Although there is considerable overlap among the methodologies, it is useful to consider them individually to illustrate the difference in emphasis among TSPs:

**Institution Led.** The primary objective of this school is to strengthen the service capacity and financial viability of a microfinance institution. TSPs using this methodology approach MFIs in the manner of a management consultant.

**Needs Led.** In this approach to technical services, largely multisectoral organizations that are also TSPs seek to create specific impacts (such as poverty reduction) with particular constituencies (such as the poorest).

**Product Led.** In this approach, technical services are primarily driven by a specific product or model promoted by the TSP.

**Sub-sector Led.** In this approach, the demands of a sub-sector and the role of the microentrepreneur in that sub-sector drive the technical services offered by the TSP.

In addition to methodologies, TSPs also differ in the ways in which they typically assess the effectiveness of their technical services. A matrix of the methodologies and assessment "schools" employed by several SEEP members (TSPs) is shown in table 2-1 below. (See annex 2 for more detailed explanations of the assessment schools).

Table 2-1
Methodologies and Assessment Schools of Several SEEP Members (TSPs)

| | | Methodology of Technical Service Delivery | | | |
|---|---|---|---|---|---|
| | | Sub-Sector Led | Product Led | Needs Led | Institution Led |
| Schools of Assessing Technical Service Effectivemess | Market School | | | | • Mennonite Economic Development Agency (MEDA) |
| | Quality School | | | | • Opportunity International<br>• Developemnt International Desjardins (DID) |
| | Capacity Development School | • Enterprise Works | • Freedom from Hunger<br>• Foundation for International Community Assistance (FINCA) | • World Vision (WV)<br>• Catholic Relief Services (CRS) | • Women's World Banking (WWB)<br>• American Near East Refugee Aid (ANERA)<br>• SOCODEVI |
| | Training School | | | | |

**Questions on Context for TSPs**

1. How much effort is given to preparation work, particularly to understanding the needs of the MFI and defining the technical service? Is there a common appreciation and mutually agreed diagnosis of what the client needs? If not, how can the TSP facilitate this diagnostic process?
2. What is the level of client confidence in the TSP? How candid can the client be with the TSP and vice-versa?
3. Who are the key individuals in the client organization? What roles do they play (for example, decision maker, influence peddler, recipient, audience)? What are the dynamics of their relationships?
4. What level of input has the TSP committed to? What level of input is expected by the client? When are enough inputs considered sufficient? Where does the TSP draw the line?
5. What items are non-negotiable for both the TSP and the client? How flexible and open to change are the arrangements?
6. Are there any hidden issues, concerns, or agendas? What are the benefits for each party involved?
7. Do the TSP and the client have a culture of working on the basis of TORs or clearly written arrangements? If not, how can the TSP develop this culture?
8. Are there agreements regarding the who, how, when, and where (not the what and the why) of the technical service process? Is there closure built into the process?
9. What related concerns or broader issues does the TSP need to address before, during, and after the technical service (TS)? How will not addressing these concerns affect the final outcome or results of the TS?
10. Is there a system for evaluating the TS both in real time and in hindsight? Are the lessons learned from the delivery of each TS captured and incorporated in the delivery of future services?

Components of all four assessment schools have been integrated into the seven principles for improving technical services delivery. This guide can therefore provide a common ground for MFIs and TSPs seeking to make technical services effective within a given context.

### *Including Donors in Contextual Analysis*

The way in which donors pay for technical services can affect the nature of the services received by an MFI. Even for MFIs that pay for some of their technical services, it is important to include donors in a contextual analysis because donors continue to play a large role in funding technical services in the microfinance sector as a whole. For example, donors may prefer to give large amounts of money to networks, rather than to individual MFIs, for technical services, thus requiring MFIs to obtain technical services from a network.

Some donors may prefer long-term consultants to short-term consultants, and vice-versa. Some donors may not be prepared to consider innovative technical services or may prefer cost reductions over quality improvements. In these and many other ways, donors can inadvertently subvert a client demand-driven process, making comprehension of

how donors operate an important component of improving the effectiveness of technical services delivery.

## Using the Context Principle

The **C**lient Demand-Driven principle cannot be effective on its own; it gains strength when it is linked to the **C**ontext principle. While the **C**lient Demand-Driven principle asserts that to increase the effectiveness of technical services, the MFI needs to drive the process, the **C**ontext principle recognizes that all MFIs work within the context of established relationships, as well as specific organizational, cultural, political, and economic environments. Such contexts often influence the choices and effectiveness of technical services and need to be explicitly analyzed.

As a framework for improving the effectiveness of technical services, the **C**ontext principle requires a willingness on the part of MFIs and TSPs to be transparent about the external factors that might affect the delivery process. Failure to identify an important external variable, lack of transparency, or failure to communicate clearly on mutual goals can have a negative impact on the effectiveness of technical services and, consequently, the ability of MFIs to grow into self-sufficient institutions. Good communication thus becomes a cornerstone of effective technical services.

The two case studies that follow (SOCODEVI and MICRODEV) show how the **C**ontext principle significantly impacts the technical services delivery process for both TSPs and MFIs, respectively.

SOCODEVI, an international cooperative that provides technical assistance to MFIs, cooperatives, and credit unions, uses the 2nd C to ensure that the TSP and its partners share the same goals and expectations of technical services and together identify all variables that could impact their delivery.

MICRODEV, a young MFI in an unnamed country, contracted a legal expert to represent the institution on a regulatory working group. Although the consultant delivered the outputs specified in his contract, the consultancy damaged the reputation of MICRODEV because it failed to consider the context of the technical services. The working group was comprised of the peers of MICRODEV and government officials with whom the institution had established relationships. By sending the consultant alone to the group without sufficient understanding of MICRODEV's relationships with its members, the MFI alienated its peers and lost their respect.

## TSP Case Study: SOCODEVI

Founded in 1985 by Québec Mutual and cooperative organizations, Société de coopération pour le développement international (SOCODEVI) specializes in strengthening cooperative institutions, MFIs, and credit unions in Africa and Latin America. SOCODEVI believes sustainable development depends on understanding the context in which the development takes place; that is, the context of the relationships and partnerships established by organizations and countries.

Active in the microfinance sector for more than 10 years, SOCODEVI focuses on innovative interventions on behalf of women. The cooperative recognizes that access to good-quality financial services at an affordable price is essential to the growth of economic activities that lead to development. While most inhabitants of the countries where SOCODEVI intervenes do not have access to such financial services, women are especially marginalized and almost always excluded from decision-making positions in existing financial institutions.

In coming years, the cooperative's main challenge will be to disseminate and adapt the most successful approaches for the benefit of the greatest number of institutions at the lowest possible cost. At the same time, SOCODEVI strives to offer its partners in developing countries assistance that is adapted to their needs and delivered in a way that respects their situation (their context).

To understand the context in which it provides technical services, SOCODEVI uses the **C**ontext principle to ensure that both the MFI and TSP: (1) discuss their relationship and whether they share the same goals for a technical service; (2) present their actual institutional situation and expectations to one another; and (3) consider other contextual factors that might affect the technical service.

### *Implementing the Context Principle*

1. **The MFI and the TSP discuss their relationship and whether they share the same goals in technical services (TS).** SOCODEVI recommends that MFIs discuss their options for technical services (in many cases, an MFI may require additional information about providers or funding sources), whether they feel dependent on a particular TSP, and how they can increase the degree to which they drive the TS process. TSPs are advised to discuss their particular expertise and the value they would bring to a particular MFI.

As a technical service provider, SOCODEVI has adopted the following position with respect to its technical services:

> *"As a TSP specialized in credit union development, we are looking for MFI partners with a similar mission and strategy. We would not work with a group of business persons whose mission was too far away from ours."*

Another large network has decided that its unique competitive advantage in providing technical services to affiliate MFIs is being *"a trusted advisor"* and *"an effective catalyst for change."*

**How SOCODEVI Implements the 2nd C**

SOCODEVI applies the Context principle through three distinct steps:

1. The MFI and the TSP discuss their relationship and whether they share the same goals for a technical service (TS).
2. The MFI and TSP present their actual institutional situations and expectations to one another.
3. The MFI and TSP together consider other contextual factors that might affect the TS.

2. **The MFI and TSP discuss their actual institutional situation and expectations.** This step asks the two parties to share their strategies, objectives, challenges, expectations of one another, and the reasons they are contemplating working together. The TSP would present what it can do and how it can do it. Using the client demand-driven approach, the MFI would describe the technical area it seeks to work on. Frankness in this initial exchange will save time and avoid distrust down the road—it is crucial that the needs of the MFI find a match in the capabilities and/or specialization of the TSP.

During such an exchange with SOCODEVI, MFI clients made the following two frank statements:

> *"We have a plan to open branches in all major cities of the country while offering commercial and agricultural loans. What is limiting our growth is that we can't afford to buy a Jeep to visit the branches. We also need to pay back the loan we received in foreign currency and with the devaluation, we can't. Because of that problem, we are presently unable to pay the credit officer's salary and keep on making new loans."*

> *"What we would like to receive is financial support to be able to repair the MIS that was paid for by another donor who left without giving us enough money to buy new computers. If you believed that along with those computers you could also give us technical services, why not?"*

3. **The MFI and TSP together consider other contextual factors that might affect the technical service.** In this step, the MFI and TSP list other contextual factors in order of importance, including donors, legal constraints, logistics/infrastructure, and other TSPs. Some questions that can elucidate these factors are:

*Donors*

- What is the available budget?
- What are the expectations of the donors, and are they relevant?

*Legal*

- What legal constraints, if any, might shorten the list of TS options?

*Infrastructure/Logistics*

- What infrastructure/logistical limits—for example, lack of Internet connection, major distances, numerous points of services—must be considered?

*Other TSPs*

- Are one or both partners a member of a TS network that would limit the capacity of the TSP to offer a given TS or that would cause it to offer the service in a peculiar way?
- What conflicting technical services, if any, are being provided to the MFI that would need special treatment or would affect the way the TS would be delivered?

## MFI Case Study: MICRODEV

The Microfinance for Development case study tells a different story about context. MICRODEV carefully defined the results it wanted from a technical service and those results were achieved. However, the service also produced unintended negative results, partly because MICRODEV did not fully consider the context in which the technical services were delivered.[1]

Mr. George Samson is the executive director of MICRODEV, a three-year-old, locally registered MFI with 3,000 female microentrepreneur clients. The MFI reach financial sustainability in early 2001 and is a member of a large international network. When Mr. Samson joined MICRODEV it had 22 clients and no funding—so he has brought it a long way! To contribute to MICRODEV's rapid growth, Mr. Samson had received technical services from the international network and had also contracted his own technical services.

### *Context for the Technical Service*

In 2000, the legal environment for microfinance in the country where MICRODEV was situated was in turmoil. The national government was rewriting the laws for nongovernmental organizations (NGOs) and on banking. Changes in these laws would directly affect all the microfinance institutions. A Working Group on the Regulatory Environment for Microfinance, which included MFIs, national and local governments, and major donors such as the World Bank, had been set up to draft the new laws.

### *Determining the Need for Technical Services*

Mr. Samson had been participating in the Working Group but soon realized that it was going in a direction he and his international network did not like. He also realized that he did not have the legal expertise to argue with the lawyers about the issues. He struggled with how he could explain to them the importance of community savings and how it could be integrated into the structures being considered.

In light of the situation, Mr. Samson thought it would be much more effective if a leading international expert on the legal environment for community savings represented MICRODEV in the meetings. Mr. Samson was focused on getting results, not on how the results would be achieved, and assumed that a consultant would appreciate the context in which MICRODEV was working.

### *Defining Concrete Results*

Before contracting the services of a legal consultant experienced in community savings, Mr. Samson identified the following three results that he wanted to build into the consultant's contract:

- To represent MICRODEV in the meetings and discussions of the Working Group on the Regulatory Environment for Microfinance.

[1] This case study uses ficticious names and locations; all other information is accurate.

- To ensure that the working group agreed to a community-based savings structure (such as a village bank or credit union).
- To ensure that the capital requirements for such a community-based savings structure would be possible for MICRODEV to achieve.

Mr. Samson then hired a top-class legal expert from the United States who knew international legal structures for savings extremely well. He had been recommended by a number of sources, including the international network.

### *Results*

Although the consultant achieved all three contracted results, his work also yielded two unforeseen results:

- The Working Group decided to recommend only one NGO structure to the government because they wanted to be sure to get one structure approved. It was for a credit-only NGO. After that structure was passed, the Working Group planned to propose the more complex structures, including the one MICRODEV sought.
- The consultant's approach to the negotiations put him in conflict with several members of the Working Group. This was not a problem for him because he left the country; however, it created a big problem for Mr. Samson.

Mr. Samson and MICRODEV's reputation were tarnished in the eyes of the Working Group for two reasons. First, Mr. Samson was not considered a serious player in the legal discussions because he had sent a consultant and not attended the meetings himself. Second, Mr. Samson had to apologize to working group members whom the consultant had offended.

### *Four Lessons Learned*

MICRODEV learned four lessons from its experience that apply to all MFIs:

1. Any technical service must always be led by the MFI, not by the consultant, and all the possible results of the technical service must be thought through beforehand.
2. Because the MFI, and not the consultant, must always lead any technical service, the MFI must learn to do even the most technical, non-microfinance tasks itself. The MFI must learn from the consultants and not leave the work to them.
3. The MFI must look at the long-term cost effectiveness of a consultant doing a task versus the MFI learning from the consultant how to do it. In the long term, it is almost always more cost effective for the MFI to learn.
4. The MFI must take responsibility for ensuring that a consultant fully understands the context in which he or she is working.

**Lesson 1. The technical service must be led by the MFI and all the possible results of the service must be thought through beforehand.** One result of the consultancy was that Mr. Sampson placed his reputation with his peers, the

government, and donors in the hands of a consultant whom he did not know and who did not fully understand the complexities of the local context. Afterwards, he realized that this was something he would never do again.

Mr. Sampson decided that in the future, he would lead the process himself. He now knew that no one should represent the MFI in place of the manager. If he thought he did not have the technical expertise—whether in law or information systems or any non-microfinance issue—he would attend the relevant meetings and hire a technical expert to be his advisor.

**Lesson 2. The MFI must learn from consultants and not leave the work to them.** Mr. Samson realized that MFI managers may be experts in microfinance, but they also must become experts in all fields that affect their institution. If managers do not have these skills, they need to be prepared to invest the time to learn them. There is no other option. MFI managers need external technical services to train and advise them and their staff, but they should not hire consultants to do their work for them. The best consultants train the MFI to actually do the task itself.

**Lesson 3. It is more cost effective for an MFI to learn how to do a task than to contract it to a consultant.** If a consultant has the dual objective of ensuring that an MFI achieves a particular result and training MFI staff in the process, it will save the MFI money in the long run. This approach to a technical service requires a greater investment of time on the part of the MFI and may also increase the time the consultant is needed, thus increasing the cost in the short term. However, the consultant will not be needed the next time the situation is faced.

**Lesson 4. The MFI must take responsibility for ensuring that a consultant fully understands the context in which he or she is working.** MICRODEV was operating in a highly complex set of relationships, but the consultant did not appreciate that complexity. The MFI had international relationships with its network and donors (all of which had local representatives), other local MFIs and the MFI network, and (very importantly) with many different government departments at different levels. All these relationships had been carefully developed and nurtured over the years. The consultant either did not take the time to understand those relationships, or Mr. Samson did not take the time to explain them fully. In either case, the effectiveness of the technical service was compromised by the failure to consider context.

### *Applying Lessons Learned*

The next time MICRODEV faced a difficult legal situation—the registration of MICRODEV—Mr. Samson implemented the above lessons. This time, he did not hire a legal expert. Mr. Samson, with his board members, did all the groundwork for the registration process. They acquired and read all the papers, put together their draft registration (including statutes and bylaws), and then sent it to a legal expert to review the documents and make comments and recommendations. Mr. Sampson and the board received his recommendations and then made their own decisions.

This process ensured the following for MICRODEV:

- MICRODEV learned how to do a legal registration itself; the consultant helped the MFI master the tools it needed. If any questions were to arise about the MFI's statutes and bylaws, Mr. Samson would be able to answer them because he knew them all and why they were chosen.
- MICRODEV did not put its reputation in the hands of a consultant. It made its own decisions about its statutes and bylaws. In the long run, this approach was more cost effective. It required the time of Mr. Samson and board members, but saved the MFI the money that would have paid a consultant. As a bonus, they can now do any registration updates themselves.
- MICRODEV drove the whole process and got the results it wanted.

# 3rd C

# Chapter 3
# Clearly Defined Results

Defining the results of technical services is critical if MFIs are to measure the impact of these services and improve their effectiveness. Only by establishing concrete deliverables can MFIs and TSPs design technical services that will enable MFIs to improve the performance their performance, attain sustainability, and reach more poor clients over the long term. *Not* to define results is not an option for either party. It is, by definition, worth the time of both MFIs and TSPs to carefully define the results of technical services.

## Definition

The **C**learly Defined Results principle encourages microfinance institutions to identify and agree on clear, time-bounded results (with interim steps if appropriate) to be delivered by a technical service provider. These deliverables should include concrete outputs for:

- *individuals*, in terms of their level of knowledge, skills, or attitudes;
- *systems* (e.g., informational or accounting), in terms of their performance and/or capabilities; and
- *the institution,* in terms of performance goals related to the technical service.

These results need to be appropriate for the size, age, and capacity of the institutions receiving technical services and the institutions providing the services. Depending on the maturity of the MFI, one desired result may be that the MFI gains the skills necessary to perform the technical service in the future. In general, if an issue is

important enough to require external technical services, it is important enough for key MFI managers to understand and handle—meaning the ability to do so should become a desired result.

Given that the ultimate goal of technical services is to create financially self-sufficient MFIs capable of responding to the vast unmet demand for financials services for the poor, results should focus on improving the overall institutional capacity of an MFI. In many cases, this means looking ahead to define what the organization should look like in the future (e.g., specific financial and social performance, management capacity, personnel), and then designing technical services to help the MFI reach these institutional goals.

## Discussion

The **C**learly Defined Results, **C**heckability, and Focus on **C**hange principles are at the core of improving the effectiveness of technical services delivery. These three principles are difficult to separate, as they concern defining the results sought from a technical service, determining how to measure those results, and taking baseline performance measurements in order to monitor change.

It is impossible to determine whether desired results have been achieved unless indicators are established to measure their achievement. (Only those indicators that measure the results an MFI seeks to achieve should be tracked.) Unless an MFI has a baseline against which its performance on these indicators can be compared, it will be impossible to assess the impact of the technical service.

While these principles are essential to improving the effectiveness of technical services, they are not easy to implement. Kaplan and Norton have stated that measurement is an essential performance improvement tool, but is hard to do (Kaplan and Norton 1994).

### *Aligning Expectations with Clearly Defined Results*

When defining results, the MFI and TSP need as much detail as possible. The more concretely the deliverables of a technical service are specified, the better the TSP can tailor the service to achieve those results. It is important that a TSP carefully define the services it will deliver so that an MFI understands what it will receive. If the desired outputs of these services are clearly defined, there is less likelihood that a TSP will market what it prefers to sell and instead of providing precisely the services sought by a client.

For example, if a TSP markets itself as “a trusted advisor” and “an effective catalyst for change,” it should define a list of characteristics and skills that MFIs will receive when they work with the TSP. These concrete outputs should then be incorporate into its service contract.

MFIs and technical service providers may have differing, and sometimes unrealistic, expectations about the results that a technical service can deliver. For example, the MFI driving the process may have high expectations of a TS, while the pragmatic TSP may not want to oversell its services or simply may not want to work 24 hours a day to

achieve overly ambitious results. To ease the potential tensions that could arise, both the MFI and TSP must communicate openly and negotiate a deal to which both parties agree; otherwise, they should not agree to work together.

Consultants and their clients the world over deal with such tensions by negotiating expectations, goals, and performance measurements. When negotiating, a TSP needs to be careful not to make promises it cannot deliver. An MFI, on the other hand, may need to accept that a TSP may be more expensive than anticipated in order to deliver the results sought. In some cases, the MFI may want to define what the TSP will *not* do in order to ensure absolute clarity.

### *Goals and Deliverables*

If an MFI uses a results-based management approach to draw the line between goals and deliverables of a technical service, it will carefully document both. Yet it is the experience of the SEEP Technical Assistance Working Group (TAWG) that MFIs and TSPs find it much easier to agree on goals than to clearly define concrete outputs for technical services.

For example, an MFI may seek an external technical service to learn how to manage for growth, but find it difficult to define the specific results of such a service. Similarly, an MFI may need a specific software program that can handle a certain number of clients. Defining the concrete functionalities that the software will deliver is much more difficult than identifying the maximum number of client transactions the software will process.

To make sure both parties commit to the goals and outputs of a technical service before the service begins, an MFI and TSP can set pre-conditions that both parties must meet before the technical service starts. The MFI needs to be clear about what the TSP will do and what MFI staff will need to do to achieve desired results. This idea is discussed more fully in the chapter on a**C**countability (chapter 7).

Because technical services are undertaken to achieve specific results, achieving those results should be the paramount consideration for both the MFI and TSP. It is important that both parties use the **C**ontext principle (see chapter 3) to identify any unwritten goals, issues of transparency, or other agendas of either organization that could interfere with achieving agreed results. Such agendas are acceptable only if they will not compromise the deliverables of a technical service.

### *Making Room for Change*

Along the journey toward the goal, the definition of desired results may need to change. Once the MFI and TSP carefully define results and begin tracking indicators, one of the parties may seek to redefine the results to better reflect the realities of the service—not necessarily a bad sign. The more specific the results, the more effectively the service will solve a specific problem. Without a clear definition of client needs, however, it is impossible to determine the concrete deliverables of a technical service. Accurate needs definition based on client demand (see chapter 1) is thus a precondition of desired results.

Unfortunately, the delivery of technical services can occasionally run into circumstances that are difficult to overcome. A TSP can, for example, encounter an MFI that is either unable or unwilling to recognize an underlying problem, such as inappropriate procedures or inefficient personnel that stands in the way of desired results. If an MFI cannot or will not address such a problem, the TSP may be limited to focusing on those tasks the TSP has committed to accomplish and waiting until the MFI is prepared to address the issue.

### *External Technical Services vs. In-House Expertise*

Some results can be more complex than an MFI believes it has time to understand. Accordingly, an MFI must exercise judgment as to when it is best to rely on outside expertise on a contractual basis and when it is best to develop expertise in house. This decision will often directly depend on the MFI's level of institutional development.

For example, a young MFI that does not yet have information technology specialists on its staff may need to outsource the design of an information system to a firm that specializes in the field. In the Compartamos case study in chapter 1, the MFI outsourced the software development process, but closely involved its staff in the software design. Eventually, however, Compartamos developed in-house expertise that precluded any further need for an external software contractor.

By contrast, an MFI working to change the legal and regulatory environment in a country may find it more effective to develop its own regulatory expertise than to outsource this crucial political task to a consultant. This was a major lesson learned by MICRODEV in the case study in chapter 2.

## Using the Clearly Defined Results Principle

The **C**learly Defined Results principle identifies practical ways to identify the results an MFI seeks from a technical service. If technical services are to be effective, concrete deliverables of those services must be defined in terms of the performance and skills of individual MFI staff, systems, and the institution as a whole.

Identifying and measuring the effects of a technical service are not easy tasks and may require adjustment over time. A focus on results, combined with flexibility on the part MFIs and TSPs, is crucial to ensuring that technical services help build sustainable financial institutions that can serve ever greater numbers of the poor.

The case studies following demonstrate how effective technical services can be when a TSP and MFI work closely to define the technical needs of the MFI (1st C) and then agree on the concrete results sought from technical services (3rd C).

It took twelve months for the Negros Women for Tomorrow Foundation (NWTF) and Women's World Banking (WWB) to agree on all the elements of a technical service. First, they needed to accurately identify the technical needs of NWTF, after which they could define the results required from the technical service. The time invested was worthwhile because it allowed WWB to provide focused technical services and successfully achieve all results.

In the American Near East Refugee Aid (ANERA)/ Gaza Women's Loan Fund (GWLF) case study, a microfinance program worked closely with an external consultant to conduct a needs assessment (the technical service) that provided an action plan to improve specific areas of the microfinance operation (the results).

## TSP Case Study: Women's World Banking /Negros Women for Tomorrow Foundation

> *"Our values include a belief in the power of self-determined organizations, bound by mutual accountability for results." —Address by Nancy Barry, Conference Board/ Drucker Foundation Conference on Organizations for the Future, New York, February 2000*

Women's World Banking is a network of MFIs that share a common vision for providing women microentrepreneurs with access to finance, information, and markets, resulting in economic empowerment. The network is committed to extending technical services that provide real, value-added deliverables to the affiliates, the core of the WWB network. A TSP to its affiliates, WWB responds to their requests according to the:

- priority needs of the affiliate
- potential of the affiliate to use the services and grow
- ability of WWB to provide the necessary technical expertise and ensure maximum impact
- the technical service budgets of WWB and the affiliate

Negros Women for Tomorrow Foundation (NWTF) is one of the leading microfinance institutions in the Philippines, enjoying a near monopoly in the province where it has its main presence. The microfinance provider employs a group-lending methodology adapted from the Grameen Bank. In early 2000, NWTF had about 15,000 borrowers in thirteen branches in three provinces of Negros and Cebu islands and was projecting 50,000 active clients by 2004. It had recently become an affiliate of WWB and rated very satisfactorily along many dimensions of WWB performance standards as a "high-potential" MFI.

A Partnership Agreement and Action Plan (PAAP) between WWB and NWTF defined the three- to five-year strategic plans of the affiliate, a one-year action plan, a financial projection, and the commitments of the parties to each other. The PAAP both provided the context and governed the way in which WWB would deliver technical services.

### *Software Evaluation Request*

Cecilia del Castillo, Executive Director of NWTF, wanted help from WWB on the NWTF management information system. Specifically, NWTF wanted WWB to evaluate a loan tracking and accounting software program that NWTF had been invited to take part in developing.

Prior to the evaluation, the Information Systems Development Department of NWTF had sent staff for training on Grameen software in Bangladesh and FAO MicroBanker in Thailand. The institution was now simultaneously developing its own homegrown MIS, consulting with a number of MIS consultants, and considering local software that was being paid for and promoted by a major national apex organization and the latter's principal donor.

The design of the software was based on inputs from a national multisectoral group that included NGOs, rural banks, and cooperatives. The apex organization had contracted the development of this software to a local software company, and sought to promote the software among its clientele to facilitate operational and financial reporting.

NWTF decided to adopt the local software, but asked WWB to evaluate it. NWTF wanted a confirmation of its decision, but remained open to reversing its decision if the evaluation so warranted.

### *Delivering Results Sought by the Client*

A team of three WWB staff initially handled the NWTF request: Gil Lacson, Ces Zacarias, and Saiful Islam. Lacson managed the Network Services Team that functions as an internal service provider to WWB regional teams. Zacarias was the credit and financial management coordinator at WWB and had significant experience working on management information systems issues. Islam was the WWB Asia relationship manager who first communicated the NWTF request to WWB.

The WWB team followed six steps to provide technical services to its MFI affiliate. Note in particular how these steps ensured that the technical services would produce the concrete results sought by NWTF:

1. **Take the attitude that the results that count are the results the client wants and needs.** NWTF wanted WWB to evaluate the local loan tracking and accounting software in order to make an informed decision about whether to adopt the software. WWB thus concentrated on providing NWTF an understanding of its MIS needs and the functionalities of the local software in order to make that decision.

2. **Identify the key players and their roles in the technical service (TS) process.** In this case study, NWTF was the client and WWB the TSP. WWB focused on identifying who in the MFI was the client of the technical service, who was the actual recipient, who comprised the key audience, as well as other key players in NWTF whose participation would be needed, such as the executive director and finance manager.

In addition to NWTF, there were a number of other players were involved in the TS process: the national apex organization whose software would be evaluated, the funders of the apex, the local software designers, and, finally, the WWB staff and consultant who would undertake the TS. Mr. Lacson of WWB decided to hand over the management of the technical service, including relationship management with all parties involved, to Ms. Zacarias.

3. **Define the goals and concrete results of the technical service.** For the WWB team, goals were the key issues that needed to be addressed by the technical service, while results were the expected outputs of the service. Objectives answered the question, "Why does the client want the TS?" Outputs answered the question, "What results will the TS deliver?"

As part of the definition process, WWB conducted a technical service scoping and planning exercise that clearly defined the content, timing, and results expected from the TS. Over a period of one year, Mr. Islam, Mr. Lacson, and Ms. Zacarias spent a great

**How the WWB Implements the 3rd C**

All TSPs approach the delivery of technical services from a slightly different angle. WWB follows six steps to ensure that WWB technical services produce the concrete results sought by its client affiliates:

1. Take the attitude that the results that count are the results the client wants and needs.
2. Identify the key players and their roles in the technical service (TS) process.
3. Define the goals and concrete results of the TS.
4. Draft a detailed agreement for the TS.
5. Hold meetings between the MFI and TSP before, during, and after the TS.
6. Submit a written report to the MFI immediately upon conclusion of the TS.

deal of effort and energy in conversations with NWTF to understand (and influence) the MFI's idea of the optimal TS. Specifically, they encouraged NWTF to broaden its request to include an analysis of its MIS strategy and feedback to the software developer/owner/funders for the benefit of the Philippine microfinance sector. Although this exercise took considerable time, the TSP believed it would be worth it in the end.

4. **Draft a detailed agreement for the TS.** The terms of reference (TOR) agreed by WWB and NWTF were very specific and based on the latter's existing work plan. Since most TS engagements have both longer- and shorter-term components, WWB defined both the short-term focus of the TS, while recognizing and including longer-term considerations.

While a TOR serves as the road map for a TS, it is critical that the parties observe flexibility in its implementation. In this case, the TOR included a contingency for WWB being unable to implement the TOR as originally defined. In this case, WWB would be required to deliver a written report that explained why there had been a deviation from the original TOR.

The level of detail included in the TOR included:

- key activities (how will the TS be undertaken?)
- key persons (who will be involved?)
- duration (when and where will the activities be done?)

The TOR was drafted in an iterative process that began with WWB writing an initial draft and sending it to NWTF for comments. The final agreement (see annex 3) specified that the TS would consist of a six-day visit by the WWB consultant, the goals of which were:

- to help the affiliate understand and define its MIS needs
- to evaluate the apex software to determine its general quality[1]

[1] As part of the service it provided, the WWB tested its MIS assessment framework on the apex software in order to gauge its usefulness as an MIS evaluation tool.

- to evaluate the apex software to determine the degree of congruence between the proposed software and the needs of NWTF, and to submit recommendations, as necessary, to improve its adaptability

More strategically, the TS was expected to contribute to the following longer-term goals:

- to develop an MIS strategy for NWTF
- to build in-house MIS capability at NWTF

5. **Hold meetings between the MFI and TSP before, during, and after the technical service.** NWTF and WWB met before the technical service to establish expectations, during the TS to clarify and report on progress, and after the TS to present the initial TSP findings on the TS.

6. **Submit a written report to the MFI immediately upon conclusion of the technical service.** The final WWB report included its findings, conclusions, and recommendations, as well as an explanation of the limitations of the TS and possible next steps.

### *Did the TSP Achieve the Defined Results?*

The TOR defined the following outputs for the WWB technical service:

- Assessment of "local" vs. WBB MIS Framework: an evaluation of the "local" software against the different dimensions of the WWB MIS Assessment Tool
- Findings and recommendations on the suitability of the local software to NWTF.

NWTF Executive Director Castillo was very happy with the results of the TS, even though it took 12 months from request to delivery. In her opinion, NWTF had become empowered to make an informed decision about its MIS as the result of the service. The MFI also chose to follow several recommendations of WWB, including hiring an MIS manager. In fact, Ms. Castillo asked for Ces Zacarias of WWB to help the MFI interview candidates for the manager position. And she requested that WWB continue to provide TS in other areas.

## Case Study: American Near East Refugee Aid/Gaza Women's Loan Fund

In 2000, the Gaza Women's Loan Fund (GWLF) was one of three credit funds in Gaza for microentrepreneurs. The GWLF microfinance program was jointly created and administered by a local NGO, the Culture and Free Thought Association (CFTA), and the American Near East Refugee Aid (ANERA) organization, which together covered its initial operational costs.

In its first three years, GWLF created a sizeable portfolio (US$900,000) and positioned itself strategically in the local credit market as one of very few facilities that supported women-owned small businesses. Its niche was to provide women individual loans of a size (US$2,000) that no other financial institution offered. In the context of the rigidly controlled borders that inhibit Palestinian commerce, the Gaza Women's Loan Fund succeeded in quickly growing from a mere idea to a microfinance institution making an important contribution to women's small business development.

Most GWLF clients are traders who manage small, family-run businesses in local marketplaces or neighborhoods. Average loan size is US$2,500 and loan terms run from 1 to 2 years, averaging 20 months. Clients use GWLF loans primarily for working capital (inventory), and secondarily for fixed assets (mainly equipment) or start-up costs. As of January 2000, GWLF had disbursed 457 loans. With a portfolio approaching US$1 million, the microfinance program urgently needed to build its institutional capacity in order to sustain further growth.

### *Defining Results Based on Client Needs*

In order to address institution building, GWLF needed to identify and prioritize operational areas in need of improvement. Neither of the two organizations that administered the microfinance program had sufficient expertise to offer this technical service, so it was agreed to engage an external consultant to work with all three organizations—ANERA, CFTA, and GWLF—to conduct a needs assessment of the microfinance program and develop an action plan for capacity building.

GWLF and its parent organizations followed six steps to ensure that their technical services produced the results sought by the MFI. Note in particular how the **C**learly Defined Results principle was used to focus the consultant and the MFI:

1. **Understand the MFI, its clients, and its organizational and cost structure.** It was important to GWLF that a TSP understand the microfinance program—its context, history, affiliations, and clients—as well as its organizational and cost structure.

GWLF had limited start-up funds, which mainly covered the cost of two staff and their transportation. The microfinance program did not have an office of its own; its staff worked out of CFTA and ANERA offices in Khan Younis and Gaza City, respectively. In this way, GWLF running costs (office supplies, rent, telephone) were absorbed by the CFTA and ANERA budgets.

The fundraising efforts of ANERA were initially focused on raising capital for the microfinance loan fund so that GWLF could reach as many borrowers as possible.

As the GWLF program grew, however, so did its operational costs and need for staff training and regular technical services. As a local organization starting on a shoestring budget, GWLF did not have access to funding that would support these needs. In addition to the operational costs covered by CFTA and ANERA, interest on deposits and service charges came to be important sources of revenue for the growing MFI. Nevertheless, training and technical service costs exceeded its basic budget.

2. **Consider the options—including cost—for meeting the technical service needs of the MFI.** GWLF and ANERA looked at several options for meeting the technical service needs of the microfinance program. After an initial phase of fundraising to capitalize the loan fund, GWLF now needed institutional strengthening.

Although ANERA headquarters staff visited GWLF once a year to offer TS, they soon recognized that yearly visits were insufficient to address the institutional needs of the loan program. Likewise, peer visits to other MFIs were not sufficiently structured to produce the group learning that ANERA considered valuable.

Given the scarcity of local resources in microenterprise TS, an external consultant seemed the best option for conducting a needs assessment to build the institutional capacity of GWLF. ANERA and GWLF decided to select a specialist with a broad background and experience. ANERA chose the external consultant based on her experience and presented its recommendation to GWLF, which concurred with its selection.

3. **Ask the MFI to undertake a self-assessment.** Prior to her visit, the consultant requested that GWLF conduct a self-assessment to baseline its institutional performance and identify the results it sought from the technical service. GWLF performed the self-assessment using an MFI sustainability index developed by the consultant. The index rated the microfinance program in the following categories: lending policies, lending methods, economy of scale, collection methods, cost recovery, range of services (credit plus other services), cost recovery, financial strategy, management, management systems, governance, and values.

The rating helped to identify the strengths and weaknesses of GWLF, which the consultant could then address on site. At the same time, ANERA had extensive discussions with the consultant, which resulted in a proposed work plan for her. In the end, the assessment provided both the framework for the consultant's visit and defined the scope of her consulting work, ensuring that the technical service she provided would be exactly what the microfinance program needed.

The timing of the consultant's visit was based on the availability of key stakeholders in the GWLF microfinance program: GWLF staff and board members and staff of ANERA and CFTA.

4. **Assess the total cost of technical services (not simply the cash expense) against achievement of the desired results.** All parties to the GWLF technical service process were aware that total costs included several components:

*Consultant costs:* fees, travel, and accommodation.

*MFI costs:* Preparation and working time with the consultant by GWLF staff, plus the opportunity costs of *not* having such a consultancy (what the MFI would lose if it did not seek expert outside advice).

*MFI administrator costs:* These costs included preparation and working time with the consultant on the part of board members, headquarters, and field staff of ANERA and CFTA.

5. **Agree to specific results: identify both the activities and outputs for the technical service.** The consultant's scope of work was to undertake a diagnostic review of GWLF in the following specific areas:

*Financial Services, Policies, and Procedures*

- nature of financial services, niche, and potential market
- clientele, client satisfaction, and client dissatisfaction
- financial service delivery: lending procedure, forms, and productivity
- payment procedures and payment rate
- loan monitoring: handling of problem loans
- growth experience: trends, accomplishments, and problems

*Financial Administration*

- GWLF accounting system
- financial management information system
- financial reporting
- cost center issues
- credit information system and portfolio reporting
- performance ratios

*Institutional Configuration and Governance*

- governance structure: composition effectiveness, formally constituting GWLF
- strategic and business planning
- GWLF as a social enterprise rather than a social program:
  → price, volume, and cost considerations
  → staffing and personnel issues
  → technical assistance
  → agenda and sequencing of institutional upgrading

The 10-day consultancy would culminate in a day-long workshop with CFTA, ANERA, and GWLF with the following outcomes: (i) a review of the consultant's findings and recommendations, based largely on the analyses of GWLF, CFTA, and ANERA, and (ii) development of a plan of action for the following operational and institutional areas:

- *Loan Policies.* Develop policies (incentives and sanctions) for late payers and defaulters.
- *Lending Terms and Practices.* Educate borrowers to be more disciplined about repayment; decrease term (length) of loans; increase loan prices and fees; decrease or eliminate grace periods; require more collateral, both formal and non-formal.
- *Loan Collection.* Improve payment tracking; calculate "on-time repayment" and age of arrears each month; visit every late payer to encourage repayment.
- *Efficiency.* Define sectors of borrowers and assign staff accordingly; standardize loan packages; consider grouping.
- *Program Governance and Management Structure.* Create a management advisory board; appoint a GWLF manager; train new credit officers.
- *Planning.* Prepare an annual budget; develop a marketing strategy and plan, a business plan that projects growth, and a funding plan.
- *ANERA-CFTA Agreement.* Revise to incorporate new management structure of GWLF.
- *Accounting/Information System.* Produce monthly credit portfolio report, income statement, and balance sheet; establish GWLF as a separate cost center from ANERA and CFTA; audit the loan fund; open a set of books; investigate, select, and acquire a financial management information system.
- *Reporting.* Prepare two program reports per year; prepare monthly credit statistics and financial reports; define and track four to eight "lead indicators" for healthy growth.
- *Loan Guarantee Fund.* Obtain specific information about the proposed Arab Bank loan guarantee; conduct a financial and feasibility analysis of this mechanism.

**How GWLF Implements the 7Cs**

Each MFI will apply the 7Cs in ways that best suit its technical needs and organizational context. In the case of GWLF, it recommends that TSPs follow the six steps below to ensure that the results of their services respond to MFI needs. Note how the Clearly Defined Results principle sets the tone for the delivery process.

1. Understand the MFI, its clients, and its organizational and cost structure.
2. Consider the options—including cost—for meeting the technical service needs of the MFI.
3. Ask the MFI to undertake a self-assessment; use the assessment to define the results needed from the technical service.
4. Assess the total cost of technical services (not simply the cash expense) against achievement of the desired results.
5. Agree to specific results: identify both the activities and outputs for the technical service.
6. Assess whether the results were achieved.

The consultant's final report closely followed her scope of work and was translated into Arabic before being shared with GWLF and CFTA.

6. **Assess whether the results were achieved.** The MFI assessed the accomplishments of the technical service based on the original scope of work. Its evaluation of the technical service found that the consultant had effectively addressed the institutional requirements of the MFI and that her action plan spelled out policies and strategies to achieve the specific results identified in the scope of work.

In the months following the workshop, ANERA embarked on a campaign to raise money for GWLF to implement these institution-building measures. It succeeded in raising money for staff training from the Alexandria Business Association (Egypt), New Hampshire College (USA), and the Institute for Banking Studies (Jordan), as well as to open a sub-office in Gaza—all important components of GWLF's growth and development as an MFI.

The consultancy was a formative visit of great value. The consultant worked well with CFTA, GWLF, and ANERA and remained in contact with ANERA after her consultancy. Since her first assignment, the consultant was available by phone to advise ANERA on a variety of GWLF-related matters, including impact assessment, financial information systems, bank agreements, and staff training opportunities. Both ANERA and GWLF highly valued the consultant's inputs and found her suggestions helpful and constructive.

### *Conclusion*

After contracting an external consultant GWLF performed an institutional self-assessment using an MFI sustainability index developed by the consultant. This analysis helped identify the strengths and weaknesses of the microfinance program, which provided the basis for defining the results needed from the technical service. These results were then written into the consultant's scope of work.

In the opinion of ANERA, the benefits of the technical service for GWLF clearly exceeded the cost to ANERA and CFTA. The needs assessment and action plan developed by the consultant set GWLF on a course of institutional strengthening and program development. The cost-effective, results-oriented technical service was a milestone event for all parties.

The fact that the consultant was periodically available at the conclusion of her assignment to advise ANERA informally on GWLF matters amounted to an important "no-cost" contribution. Such a contribution cannot, of course, be planned—it derived from the consultant's commitment to the project and people she met in the course of her work. ANERA and GWLF greatly appreciated this "bonus" technical service, which underlines the importance of selecting a committed technical expert who will work well with the MFI (and, in this case, its administrators).

Eighteen months later, as the GWLF program continued to mature, the consultant returned to Gaza to help GWLF develop a business plan.

# 4th C

# Chapter 4
# Checkability
## (indicators to check results)

Using indicators to verify results is critical to the technical services delivery process. *Not* to use indicators and *not* to establish baseline performance data as a way to measure results are simply not options for anyone concerned with improving the effectiveness of technical services.

### Definition

The **C**heckability Principle encourages microfinance institutions (MFIs) to design and agree on indicators that will determine whether the technical services achieve agreed results. These indicators are essential for measuring how much has changed at the MFI as a result of a technical service and must be negotiated prior to the commencement of the service.

As mentioned in chapter 3, the **C**heckability principle works in tandem with the **C**learly Defined Results and Focus on **C**hange principles. Indicators to measure the impact of a technical service only make sense when (i) concrete outputs have been defined for the technical service and (ii) the MFI takes baseline measurements of its performance against which change can be monitored.

## Discussion

It is important that an MFI and TSP agree on indicators to measure the results of a technical service in advance of the service. Only this information will enable both parties to improve the effectiveness of technical services in the future. Repeat requests for a technical service provider do not necessarily mean that a TSP failed to achieve results during a previous visit. However, it is difficult to make this judgment without measuring performance improvements resulting from each service contract. The use of indicators allows an MFI to recognize whether repeated requests for a TSP are based on a failure to achieve goals or unrelated organizational problems or even personal relationships.

An MFI has the choice of several methods for measuring performance results, from indicators used in normal performance reporting to more rigorous methods developed specifically to isolate the effects of a particular technical service from other general improvements in an MFI. The method chosen will depend on the type of TS, the types of indicators established, and what the budget permits. Even if the method selected is imperfect, it is imperative to measure results so that the money invested in technical services is not wasted. (See the discussion of the **C**ost Effectiveness principle in chapter 6.) Should the original indicators fail to adequately measure progress, an MFI should be prepared to change them during the course of a technical service. Indicators should serve the MFI, not vice versa.

The use of indicators sometimes focuses all parties on the indicators to the detriment of areas that are not being measured. This problem has been well researched. Morgan, for example, notes that establishing indicators can indeed distort the focus of an organization (Morgan 1997). This problem can be overcome, however, by choosing indicators that are simple to calculate, easy for everyone to understand, and directly relate to desired results.

MFIs may be tempted to allow the managing director (MD) to determine which indicators to use in order reduce the cost and time involved in the selection process. Although it may be quicker for an MD to select the indicators, an MFI would realize only a short-term gain. Kaplan and Norton have found that greater participation in the process of developing and agreeing on performance indicators results in greater performance change (Kaplan and Norton 1994). Their findings show that because staff understood why they were tracking certain indicators, actual service delivery also improved.

### *Maintaining Flexibility*

Indicators may need to be changed after technical services have started, often because the MFI and TSP find better options once they begin tracking the initial indicators. In fact, research shows that a flexible and experimental attitude towards indicators—"these are the best we have for now, but they can always be improved"—is less threatening for staff and fosters an attitude of continuous improvement (Kaplan and Norton 1994). Improvement in the indicators will improve their ability to assess the effectiveness of the technical services.

If no good indicators for measuring desired results are apparent, an MFI needs to be flexible. The process of identifying results and indicators is not easy initially. An MFI may need to rethink how it has defined the results and use an iterative internal process, or an iterative process with the technical service provider, to refine both results and indicators until they make sense to everyone.

### *Types of Indicators*

Both quantitative and qualitative indicators are important to measure the results of technical services. Quantitative indicators allow for easier comparison over time and across organizations, but because all important results cannot be measured quantitatively, qualitative indicators are also essential. The latter type of indicators can be developed and tracked in a rigorous manner that minimizes personal bias. Depending on the nature and length of a technical service, short- and long-term indicators may also be necessary. The text below reviews the various types of indicators used to measure the impact of technical services on MFI performance.

**Short-Term Indicators.** When a technical service is very specific and short, an MFI will identify short-term results and relevant indicators. After a brief training course, for example, an MFI may not be able to measure improvement in financial self-sufficiency, but it may be able to see improvement in a person's ability to measure financial self-sufficiency. Another example of a short-term indicator can be found in the CARE/Opalad case study at the end of chapter 5, in which the MFI chose to measure improvements in portfolio risk after its management team attended a short course on delinquency management.

**Long-Term Indicators.** In long-term situations, an MFI will need interim indicators and end-result indicators. The institution will need to maintain the flexibility to revise these indicators based on what it learns over the course of the technical service. In the Bosnia-Herzegovina case study in chapter 7, all parties agreed on indicators that would measure the longer-term (two-year) achievement of results, after which individual MFIs tracked their own progress against the identified indicators.

**Financial Indicators (quantitative).** For many aspects of microfinance, several standard indicators for measuring MFI performance are beginning to emerge. Nowhere are such standards as advanced as for financial performance, largely because such indicators are quantitative and easier to standardize. The actual calculations used in financial performance measurement vary, however, so it is important that an MFI be aware of the methodology behind a financial ratio and the consequent advantages and disadvantages of a specific indicator.

MFIs are advised consult *Definitions of Selected Financial Terms, Ratios, and Adjustments for Microfinance* (November 2002). This guide was the result of a collaborative process between the Financial Services Working Group of the SEEP Network and a broad array of microfinance organizations (including Microrate, Alternative Credit Technologies, the *MicroBanking Bulletin,* CGAP, the IADB, USAID, PlanetFinance, and M-CRIL). The goal of the collaborative effort was to establish standard definitions of financial

ratios and adjustments in microfinance and encourage their use by microfinance institutions worldwide.

**Institutional Indicators (non-quantitative).** Regarding other aspects of MFI performance, many self-assessment tools have developed indicators for vision, governance, human resource management, and the like. These indicators measure such "intangible" results as whether an MFI management team functions cohesively, job responsibilities are clearly defined, or clear communication characterizes MFI management.

MFIs are encouraged to consult the self-assessment tools in annex 1 as a starting point for identifying useful indicators for a particular technical service. Many qualitative indicators used in these tools can easily be adapted to the particular results that an MFI seeks to track. As with all other types of indicators, it is imperative that an MFI establish a baseline for qualitative indicators in order to monitor the changes effected by a technical service after it concludes.

Qualitative indicators used by TSPs to measure two such "intangible" results—board effectiveness and improvement in the leadership of a managing director (MD)—are outlined below.

Indicators to measure board effectiveness:

- *Catholic Relief Services (CRS):* Does the board show sufficient independence to guarantee management accountability? Does the board have sufficient influence over management to affect strategic planning and policy making?
- *Opportunity International:* Are processes for the appointment of new board members documented? Are these processes designed to minimize vulnerability to nepotism, cronyism, gender bias, and other forms of corruption?

Indicators for improvement in the leadership of an MFI managing director:

- *Baldrige Tools* (created in 1987 by the U.S. Congress to encourage improvements in U.S. businesses): How do senior leaders set and deploy organizational values, short- and longer-term directions, and performance expectations (including a focus on creating and balancing value for customers and other stakeholders)? How do senior leaders create an environment for empowerment, innovation, organizational ability, and organizational and employee learning?
- *Women's World Banking (WWB):* Is the MD taking the lead in achieving the reach and sustainability goals of the organization? Is the MD orchestrating an institutionalized and responsive strategic and business planning process?

### *What is NOT an Indicator?*

Satisfaction with technical services may or may not relate to results and is therefore not used to verify whether agreed results have been achieved. For example, if an MFI conducts a training course at a beach resort, the participants may have a high level of satisfaction from the course, but this satisfaction is unrelated to whether or not they developed the required skills.

In the same way, a technical service occasionally will not accomplish the results it was meant to achieve, but something better. Even though the final result is superior to what was anticipated in the contract, an MFI still needs to track the indicators established at the start of the service. Although this situation is rare, an MFI still needs to assess the effectiveness of the TS as originally conceived. Along the way, the MFI will learn many lessons about improving the design of TS and establishing more effective performance indicators.

## Using the Checkability Principle

Establishing indicators to measure the results of technical services is the central task of the **C**heckability principle. MFIs and TSPs are recommended to refer to the self-assessment tools found in annex 1. These tools are a rich source of potential indicators to measure the impact of long-term technical services on MFI institutional performance, as well as verifying the results of more focused, shorter-term technical services.

In the case study that follows, Calmeadow identified very specific indicators to measure the results of its technical service. The detailed indicators left the clients with a framework with which they could continue to monitor the performance of the Microfinance Information Centers created by Calmeadow. The Bosnia and Herzegovina case study in chapter 8 also provides an excellent illustration of how to use indicators to measure the results of technical services delivery.

## TSP Case Study: Calmeadow

Calmeadow was a Canadian non-profit NGO that provided demand-driven technical services to the microfinance sector from the 1980s through 2001. Calmeadow specialized in the provision of information services to microfinance networks, including library start-up assistance, and was the original publisher of *MicroBanking Bulletin (MBB)*. Its work on the MicroBanking Standards Project led numerous microfinance networks to request Calmeadow to work with them on collecting and reporting on performance standards by their members.

This case study outlines the manner in which Calmeadow provided technical services—the establishment of specialized microfinance libraries—for microfinance networks in Ghana and South Africa in 1999. Although the study is more procedurally oriented than the other case studies in this guide, it provides an excellent illustration of the **C**heckability principle: Calmeadow and its clients established a set of specific indicators to measure results in several concrete areas.

### *Purpose of Technical Services*

Calmeadow technical services aimed to enhance the capacity of the African microfinance networks to establish effective and lasting information systems to advance their missions. From Calmeadow's perspective, supporting networks was a more effective and efficient intervention to support the microfinance field than supporting institutions independently. Given that networks are often involved in policy advocacy, local training, and capacity development, they offered greater potential for both outreach and long-term change.

The end-goal of Calmeadow services in this case was to develop regional information hubs (Microfinance Resource Centers) in Ghana and South Africa that would have the capacity to locate, collect, and adapt information to local needs.

### *List of Services*

The information services offered by Calmeadow included:

*MicroBanking Standards Project*

- support in establishing a system for collecting and reporting performance indicators for network members
- regional and international performance comparisons of members with peer groups
- specialized performance comparisons

*Knowledge Bank*

- support in establishing an affiliate microfinance library for the use of network members
- access to new and wide-ranging information (resources, institutional experience, information sources)

- value-added packaging of information (primer list of relevant resources; key web sites; contacts; relevant bibliographies and training materials)
- support in building capacity and skills in information exchange
- digitized copies of key materials on CD-ROM
- specialized information searches
- backstopping of information requests received by network; training course and tools development

Calmeadow used several different means to provide these services, including: (i) providing clients continuous access to a comprehensive database of resources on microfinance, (ii) exchange of lessons through visits, referrals, and listserve discussions, and (iii) lateral exchanges between networks.

### *Delivery Process*

Calmeadow delivered technical services using the five steps documented below.

1. **Request received from microfinance network.** The African microfinance networks had heard about Calmeadow services from other networks, personal relationships, and donors. At that time, there was no publicly available information source about technical service providers that developed resource centers for microfinance.

2. **Draft a concept paper that leads to a terms of reference (TOR).** As part of the concept paper, Calmeadow and its client networks decided on the business partnership model that best suited the goals of the Microfinance Resource Centers. The four models offered by Calmeadow were:

Affiliated Knowledge Bank. This model created linked database systems between the clients and Calmeadow, provided them a Knowledge Bank membership and CD-ROM of digitized materials.

Affiliated Resource Center. This model facilitated an exchange of materials between Calmeadow and the networks, but did not required that both parties use the same operating system (for a topical resource centre). It also included Knowledge Bank membership and a CD-ROM copy of the Knowledge Bank database.

Hourly/One-Time Fee for Services. This model charged non-member based institutions specific one-time fee for services such as a copy of the CD-ROM or research/information requests.

Contract Information Services. This model provided support in establishing learning systems in the following areas:

- performance standards and reporting
- collections policy development
- identifying and assessing information user needs
- systems and strategies for information exchange
- monitoring and evaluation framework for information system
- services development
- cost-recovery strategies

- dissemination and marketing strategies
- training and curriculum development

Clients did not generally draw up their own Terms of Reference. After extensive phone and e-mail correspondence, Calmeadow would usually take the first stab at a TOR and pass it to the client for revision. This process was used due to time constraints. The original TOR and budget were subsequently included with every status or trip report for comparison purposes.

At the same time, Calmeadow clients were also provided with information about complementary service providers. Depending on the services required, it referred clients to other network service providers such as SEEP, PACT, the World Bank, and Bellanet/IDRC. These organizations offered several technical services that complement those of Calmeadow, such as:

- network development and management (SEEP)
- software selection and development
- connectivity
- support in information and communication technology development
- translation
- buying and ordering materials in bulk (PACT)

3. **Negotiate technical service delivery contract with implementation scheme and evaluation framework, including indicators to evaluate results.** This step of the delivery process involved three separate components.

*Agree with partner on indicators for each of the **C**learly Defined Results.* Goals for the technical service were established at many levels. The initial TOR included broad objectives, deliverables, and indicators for monitoring and evaluation. The chart below shows examples of each taken from the Ghanaian Microfinance Institutions (Ghamfin) agreement for a Microfinance Resource Center (MRC).

| *Objectives* | *Results/Deliverables* | *Monitoring Indicators* |
|---|---|---|
| Continual access for the MRC to international and regional best practices and training materials | Link MRC and Calmeadow databases<br><br>Create a database template to catalogue new materials to add to Calmeadow database | Sustainability of the linked information systems |
| A system or forum where MRC members can make use of materials and training tools | Calmeadow and Ghamfin to determine software, technological and human resource needs for the MRC. | Number of institutions making use of the information in the MRC |
| Internal capacity development to ensure effective use of information systems by the MRC | 5 days of on-site training for the MRC Training Coordinator | Evidence of improved use of information for training, programming and policy |

*Establish pre-conditions to ensure that the technical service achieves results.* A number of conditions were considered prerequisites for a change-focused environment in a Calmeadow project. While Calmeadow might be able to provide services without all of these conditions in place, it was important to justify why an exception was made. The TSP considered the following conditions crucial for success in supporting networks:

- demonstrated commitment from affiliates in the network to use the MRC as a forum for information exchange
- staff capacity and time to manage and maintain information systems (e.g., to collect and adjust performance data and to promote information dissemination and exchange)
- commitment to long-term sustainability of the information systems

*Establish comprehensive performance indicators with baseline data.* This set of complete monitoring and evaluation indicators for an MRC tracked not only the results of the Calmeadow technical intervention, but also the institutional performance of the MRC. These indicators were always included up-front in the TOR before the contract commenced. Calmeadow accordingly requested the network to prepare baseline data for the complete set of performance indicators so that the network could later track them for its own purposes and continuously improve the MRC. These indicators included:

Demand for information services
- number of members requesting services
- in-kind commitment: MFI investment in staff capacity and time to maintain information systems

Access to information
- number of resources to which the MFC has access
- number of institutions (network members) making use of the information
- improvements in nature of information access (from one-time/reference to established system)
- number of institutions in MicroBanking Bulletin database for comparison purposes

Contribution to capacity building and skills development
- increased capacity of network to manage performance reporting from its members
- increased capacity of network to respond to member information and resource needs
- evidence of improved use of information for training, programming, and policy
- more effective use of information systems by network members

Establishment of effective long-term systems

- sustainability of systems (evidence of applied, long-term change; decreased dependence on individuals)
- increase in affiliate use of network as an information source (measured by requests)
- increase in the number of institutions reporting their performance standards to the network

Link to Changes in Programs, Policy and Research

- analysis of information use by network members
- an in-depth evaluation perhaps by an external evaluator

4. **Delivery and Payment for Services.** Costs of Calmeadow technical services were shared between the client and Calmeadow. Clients requested support from Calmeadow and other funders to pay for the services, but also paid for some services directly or through in-kind contributions such as staff time.

5. **Post-delivery evaluation and longer-term, follow-up assessment.** In addition to evaluating its performance based on the indicators above, Calmeadow was also accountable to its clients via a joint evaluation of the services conducted after the conclusion of the contract.

**How Calmeadow Implemented the 4th C**

Calmeadow began to identify monitoring and evaluation indicators at the TOR stage, when a complete set indicators was initially determined. The TOR then provided the basis of the service contract negotiated between Calmeadow and a microfinance network. The indicators to which Calmeadow and its clients agreed included indicators to track the results of the specific technical service (creation of a Microfinance Resource Center for a network) and the institutional performance of the MRC itself.

Calmeadow always requested the network to prepare baseline data for the complete set of performance indicators prior to the commencement of technical services. In this way, a client network could later track the indicators for its own purposes and continuously improve its performance.

The steps below summarize how Calmeadow provided technical services to its clients. Note how the Checkability principle governed its contractual arrangements with clients.

1. Receive request for technical services from microfinance network.
2. Draft a concept paper that leads to a terms of reference (TOR). Decide which of four partnership models best suits the technical service needs of the client: affiliated knowledge bank, affiliated resource center, hourly/one-time fee for services, contract information services.
3. Negotiate technical service delivery contract with implementation scheme and evaluation framework. Establishing comprehensive performance indicators and gather baseline data. Develop indicators to monitor results in the following areas:
    - demand for information services
    - access to information
    - contribution to capacity building and skills development
    - establishment of effective long-term systems
    - link to changes in programs, policy, and research
4. Delivery and payment for services, with cost-sharing between Calmeadow and the client.
5. Post-delivery evaluation and longer-term follow up evaluation.

# 5th C

# Chapter 5
# Focus on Change

**(baseline indicators)**

A microfinance institution (MFI) must be able to measure changes produced by technical services. Yet it can do so only if the MFI documents baseline performance measurements for the indicators used to verify results. These baseline measurements serve as a benchmark against which progress is monitored. The process of documenting baseline indicators is worth the time and expense involved, as only this type of information will enable MFIs to improve the effectiveness of technical services over time.

## Definition

The Focus on **C**hange principle focuses the attention of an MFI on what needs improvement and keeps it focused by measuring progress against an initial baseline. Applying the principle means documenting the (i) baseline knowledge, skills, practices, and/or attitudes of key MFI staff members, (ii) baseline performance and/or status of systems (e.g., management information or accounting systems), and (iii) baseline institutional performance of the MFI. Baseline levels must be documented for all indicators that have been selected to verify the results of a technical service.

As discussed in the previous two chapters, the Focus on **C**hange principle is inseparable from the **C**learly Defined Results and **C**heckability principles. Used together, these three principles allow an MFI to take ownership of the technical services delivery

process by identifying its technical needs, defining the results it seeks from a technical service, and documenting a baseline against which it can monitor change.

Ideally, the Focus on **C**hange principle is applied first. Baseline institutional measurements are actually part of the **C**lient Demand Driven principle because they enable an MFI to accurately define its technical needs. An MFI committed to driving the technical service process will undertake an institutional self-assessment—or, preferably, undertake regular performance monitoring—to identify operational and/or institutional areas in need of improvement. After identifying its technical needs, the MFI will engage a TSP qualified to deliver services that will improve performance in these areas. The two parties will then negotiate the end-results of the technical service and the indicators to measure those results.

## Discussion

The Focus on **C**hange principle means that MFIs—and not technical service providers (TSPs)—assume responsibility for putting together baseline data. An MFI puts together its own baseline data for two reasons:

1. The MFI is the party that most benefits from having baseline data against which it can measure progress. The MFI thus has the primary responsibility for establishing a performance baseline, whether it documents the baseline itself or asks another technical service provider to help it establish such a baseline. One key lesson learned by Opalad Cooperative in the case study at the end of this chapter was that the cooperative needed to be responsible for gathering its own baseline information.
2. If a TSP undertakes the baseline assessment prior to delivering technical services, two conflicts of interest can occur. First, if a TSP is paid to help the MFI but also has to assess the institution, the MFI may find it difficult to be fully open with the service provider because it views the TSP first and foremost as an assessor. Second, a TSP may have a vested interest in showing poor MFI performance in a baseline so as to enhance the apparent benefit of its technical services.

### *Measuring Baseline Indicators*

How an MFI begins to collect information on baseline indicators depends entirely on the stage of development of the MFI and the types of indicators selected. For example,

- If a mature MFI already has a detailed performance reporting system in place that includes the selected indicators, it need do nothing more than prepare the relevant reports on the day the technical service commences. For example, Opportunity International affiliates all use the Opportunity International Accreditation System, which provides a solid set of indicators for a range of areas that the affiliates track on a regularly basis.
- Alternatively, a mature MFI may decide it wants to implement a completely new system for measuring its performance. For example, MFIs in the Katalysis

Network in Central America agreed to start using the Baldridge quality assessment tools to measure their performance and hired a consultant to help them implement the new system. Following implementation of the system, Katalysis partners then had the tools in place to measure the results of technical services against their baseline performance.

- Less-developed MFIs may not have the funds to implement an elaborate performance monitoring system. Such institutions may decide to track just a few basic indicators for a focused or short-term technical service. In some cases, they may have baseline data prepared for them by their network (by means of a standard assessment tool). This was precisely the situation of Opalad Cooperative in the case study at the end of this chapter.

As previously noted, annex 1 of this guide provides descriptions of all publicly available self-assessment tools and their main elements. MFIs at any stage of development can use these tools to undertake a self-assessment against which it can monitor progress. The steps involved in implementing a self-assessment are spelled out in detail in chapter 1 (**C**lient Demand-Driven principle), but it bears repeating that an MFI assessment will only be useful if it has the firm support of senior management.

When self-assessment tools do not include indicators that an MFI and TSP have agreed to use, the MFI will need to add additional indicators to the relevant section of a self-assessment tool, being sure to note how the institution will grade the indicator in a manner consistent with the other measures.

## Using the Focus on Change Principle

As the third principle that identifies practical ways to measure the effects of technical services, Focus on **C**hange requires that an MFI establish its own baseline against which it can assess the changes produced by technical services. It is important that MFIs become familiar with the tools that can establish such a baseline.

In the case study that follows, the TSP played an instrumental role in ensuring that concrete improvements in MFI performance would result from the provision of technical services. The TSP (CARE International) first conducted an assessment of the MFI (Opalad Multipurpose Cooperative), then led the institution through its own institutional self-assessment to benchmark its institutional performance. Unfortunately, Opalad did not incorporate the assessment—including the regular measurement of baseline indicators—into its regular self-reporting procedures, leaving it less able to drive the delivery process and fully evaluate the utility of the different strategies it adopted.

## MFI Case Study: CARE/Opalad Multipurpose Cooperative

In June 2001, Opalad Multipurpose Cooperative in the Philippines had been in operation nine years and had 400 clients.[1] It was surviving financially and was feeling no real pressure from its members to make changes. Yet General Manager Jose de la Cruz knew the cooperative could do more for its members. To help the cooperative expand financial services to its members, Mr. de la Cruz and the board decided to apply to a CARE project for a loan.

The loan included a compulsory 2 percent fee for CARE technical services in addition to a 14 percent interest rate. The fee for technical services covered group training, an annual meeting of all cooperatives that received loans, and the percentage of the CARE project officer's time directly spent on delivering technical services. Interest on the loan covered the percentage of the project officer's time spent on loan monitoring and assessment of new cooperatives, as well as other overhead costs such as a project manager and human resource expenses. Interest and fees on the loans covered approximately 90 percent of CARE project costs.

The CARE loan agreement made Opalad responsible for improving its performance as the result of using CARE technical services: if the MFI failed to make improvements, it risked being denied further technical services as well as having its loan terminated. This a**C**countability factor (see chapter 7) predicated the delivery of further technical services on successful results. In short, CARE would deliver technical training and, in return, expected the client MFI to translate that training into improved performance.

### *Establishing a Performance Baseline and Identifying Technical Needs*

As a precondition to the loan and technical services, CARE conducted an assessment of Opalad using the PEARLS Framework of the World Council of Credit Unions (WOCCU), which is summarized in the box below. Opalad passed this basic assessment, which gave CARE a basic understanding of the context (**C**ontext principle) in which the cooperative operated.

After CARE approved the loan, it trained Opalad how to use the PEARLS framework. Mr. de la Cruz found this interesting since he was able to see for himself the gaps between Opalad's performance and that of a model cooperative, as well as the operational areas that required priority action. The assessment tool enabled him to use the **C**lient Demand Driven principle to identify what operational areas were in most urgent need of improvement. Mr. Cruz agreed with CARE that these areas were:

- reducing the number and amount of delinquent loans
- increasing member savings
- reducing costs
- analyzing the yield of different credit and savings products

This was a tall order for Opalad to tackle, but Mr. de la Cruz knew that if he did not address these issues, Opalad would be unable to improve member services. He wanted to work on the issues.

[1] This case study uses a ficticious name for the cooperative; all other information is accurate.

**Brief Summary of PEARLS Monitoring System of Women's World Banking**

P—Protection

Are the assets protected by adequate loan-loss provisions?

E—Effective Financial Structure

Do assets, liabilities, and capital meet optimal ratios?

A—Asset Quality

Is the delinquency below 5 percent of total loans outstanding?

R—Rates of Return and Costs

How do yields on the four main areas of investment rank against other co-ops and credit unions?

L—Liquidity

Are adequate liquidity reserves available to address more volatile savings?

S—Signs of Growth

Is growth linked to increases in profitability?

### *Agreeing on Desired Results*

During one of the regular monthly monitoring visits of the CARE project officer, Mr. de la Cruz discussed technical service options available to Opalad for its 2 percent loan fee. (Opalad wanted to get the maximum for its money.) CARE and Opalad agreed that Opalad would start with a two-day, regional delinquency management training course. Three Opalad representatives—the general manager, a board member, and a loan officer—would participate. By attending a regional training event with several other cooperatives, Opalad would keep down its costs.

The conditions for participating in the training were designed to maximize the results of the technical services. Opalad had to commit to the following clearly defined results prior to undergoing the training:

- to replicate the training for other staff in Opalad within two weeks
- to prepare an action plan at the end of the training that would be monitored by the CARE project officer

If Opalad did not act on the above commitments, it risked not receiving further training and having its loan terminated.

### *Establishing Indicators to Measure Results*

Following the course, Mr. de la Cruz and his two colleagues developed an action plan for reducing delinquent cooperative loans. The plan defined several key results and corresponding indicators to measure their achievement, including:

- *Goal:* collect 30 percent of past-due loans over the next 3 months.
- *Strategy:* make house-to-house visits to clients who have past-due loans.
- *Activity:* classify clients and select which clients to visit. Schedule visits.

- *Person responsible:* loan officer and, if a client is difficult, a board member.
- *Budget:* cover travel to the clients and related costs, such as lunch.

Opalad staff then began to implement the action plan. After 3 months, the results were significant. The cooperative's loan delinquency was reduced from over 10 percent to 8 percent, which can be attributed both to the training and lessons learned from other cooperatives that attended the training.

The enhanced collection effort generated more funds to provide new loans. Member savings improved with the provision of more loans. In addition, lessons learned from the PEARLS assessment led the cooperative to set aside provisions for its institutional capital out of earnings generated from the improved collections.

### *Lessons Learned*

Although the technical service delivery process proved very successful for Opalad, the MFI might have derived more benefit from the technical service if it had:

1. More carefully documented its own baseline performance prior to commencing technical services.
2. Tracked and documented its own progress over the 3 months following the delinquency workshop in order to assess which strategies were successful and which were not.

At the time, all relevant parties were well aware of Opalad's baseline performance and its action plan. Mr. de la Cruz had documented some baseline information in the PEARLS analysis, but that was several months before the three-month collection period began and this information was not updated. Opalad did not see the need to document its baseline more carefully in part because this information was documented in the monitoring reports of the CARE project officer.

Looking back, however, Mr. de la Cruz realized that it would have helped him as a manager to incorporate the PEARLS framework into Opalad's own performance monitoring process, rather than treat the self-assessment as a one-time training event to identify problem areas. Such an internal process would have better documented both the baseline and progress made against the indicators that Opalad and CARE agreed to track. With internal documentation, Mr. de la Cruz and his board also could have better assessed their strategies and helped their staff understand why they were taking certain actions. Instead of becoming a part of the individual memories of Mr. de la Cruz and the CARE project officer, the process would have become part of Opalad's institutional memory.

# 6th C

# Chapter 6
# Cost Effectiveness

If MFIs are to become self-sustaining financial institutions, they must be able to calculate the total costs of a technical service when evaluating whether or not to engage a TSP. The typical supply-driven model means that many microfinance institutions receive services that are paid for by a second party and delivered by a third, or even a third in conjunction with a fourth! As a result, total costs are often not transparent to anyone. To increase efficiency, technical service costs need to be defined from the perspective of microfinance institutions—not that of donors or technical service providers.

## Definition

The **C**ost Effectiveness principle means maximizing the cost efficiency of the entire technical service delivery process, including a cost-benefit analysis of the indicators used to measure results. The cost in **C**ost Effectiveness includes all direct payments for technical services (e.g., fees, travel, accommodations, manuals), plus all indirect costs incurred that would not have been incurred without the contracted technical services (e.g., staff time of MFI and TSP headquarters staff).

The principle encourages microfinance institutions (MFIs) to make sure that total costs of a service are commensurate with the results achieved. It thus requires that all technical service costs—direct and indirect—be transparent.

## Discussion

Why does an MFI need to know the full cost of a technical service if someone else is paying for the service and it achieves results? It is imperative that *all* parties know the full costs of a technical service for the following two reasons:

1. Donors currently pay for a significant percentage of MFI technical services, but this funding is being reduced. In the future, MFIs will have to cover more of the cost of technical services. These institutions need to learn the full cost of services in order to build these costs into their financial projections (as well as to appreciate the value of the services that they are now receiving).
2. As MFIs mature and become more independent of donors and TSPs, they will need the skills to manage their own technical service needs. Unless they understand the full costs of technical services, they will not be prepared for this transition.

When several organizations are party to a service contract, it can be difficult to calculate total costs due to the lack of transparency regarding the role of each organization. This is especially true when donors, networks, and consultants are all involved in delivering a service to an MFI. If an MFI directly pays for a service, it is far easier to assess total costs. In that case, the MFI is responsible for ensuring that the services received are justified by their expense. This concept is well illustrated in the CARD case study that appears in chapter 8.

Unfortunately, donor funding for technical services (TS) can present a major challenge to cost effectiveness. Certain donors structure TS to make cost effectiveness a requirement, as shown in the Bosnia and Herzegovina case study in chapter 8. Other donors, however, operate within constraints that impact cost efficiency, such as disbursement deadlines or a requirement that a TSP be from the donor's country. In other cases, donors may need to disburse significant sums for TS and thus choose a TSP based on its ability to manage funds, not the cost-effectiveness of its services.

### *Paying for Technical Services*

Ideally, MFIs would achieve maximum cost effectiveness by paying for the full cost of technical services. An MFI would then know both the direct and indirect costs and be able to optimize both.

Today, however, funding for technical services may be contributed by an external donor or paid out of an MFI's own earnings. In either case, the MFI needs to become fully aware of the total costs and treat the expense as if it were to be paid from its own funds. In keeping with the **C**lient Demand-Driven principle discussed in chapter 1, local microfinance institutions must make their own decisions about what technical services are needed. One part of this decision is to estimate total costs and conduct a cost-benefit analysis of the proposed technical service.

### *Managing Technical Service Costs*

When determining whether a particular technical service meets a cost-effective standard, optimally, it is the responsibility of the MFI to make an informed decision. As these institutions begin to pay for the technical services they receive, they will be in a better position to assess cost efficiency.

When facing a situation in which TSP costs differ (e.g., one requires business-hotel accommodations, another does not object to accommodation in a cheaper hostel, and a third is locally based and has no accommodation costs), an MFI can resolve the dilemma by using the other six principles of the 7Cs. If the MFI is driving the process, it will know the results it wants to achieve (**C**learly Defined Results) and can decide whether or not the additional cost of a TSP is justified by the superior results it would deliver.

No absolute standard can be set regarding how much time or money an MFI should spend on a particular technical service. For example, if an MFI wanted to learn how to use the Microfin Business Planning Model, it could choose from several options (Reed and Otero 1997):

- one or more staff members could attend a regional business planning course
- one or more staff members could attend a course in the United States
- a short-term regional consultant could train several staff members
- a short-term international consultant could train several staff members
- a long-term consultant could work alongside the staff member responsible for business planning
- a peer exchange could be arranged with another MFI that is using the model
- a combination of the above

If the MFI is driving the process, it will know the results it seeks from the service—which may include goals beyond learning the model (e.g., networking with national MFIs on a common reporting format, which would favor national or regional training; or easily available follow-up training, which would favor a local consultant). The MFI can then assess the options.

### *Network Services vs. Consultants*

When a technical service provider is an MFI network, it is particularly important that it provides cost-effective services. Network TSPs usually receive an annual budget contribution from donors to provide technical services to their members. In such cases, recipient MFIs generally pay little or nothing for the technical services, do not know the full cost of the TS, and are unaware of alternative options for the services. The way in which network TSPs judge the cost-effectiveness of providing particular services also varies, from informal cost-benefit analyses to rigorous formal accreditation processes.

Perhaps the most constructive way for network TSPs to work with their MFI members would be to involve them in negotiations with the network and any external consultant it engages. This process would teach MFIs how to negotiate their future TS needs. This was the process used by Women's World Banking in the case study in chapter 3. Also

in that chapter, the other case study of Gaza Women's Loan Fund (the MFI) illustrated how the MFI decided on a technical service based on negotiations with its parent organization and the consultant. In both cases, all parties knew the full costs of the service in advance and expected the same results.

When consultants manage a technical services budget, they must manage the expectations of both MFIs and the donors who subsidize the budget. This means being explicit about the tradeoffs between less-expensive group training and more-expensive individual consulting. It is imperative that external consultants involve MFIs in the decision-making process so these institutions learn to consider such tradeoffs *and* remain within budget. The Bosnia and Herzegovina case study in chapter 8 is a good example of how explicit cost-benefit analysis was applied to the provision of technical services.

## Using the Cost Effectiveness Principle

The true measure of cost effectiveness lies in the question, "What is cost effective for the MFI?" Unless technical services are designed with this question in mind, they are likely to conflict with the other six principles explained in this guide.

In the following case study, cost-effectiveness is the guiding principle of the Association for Social Advancement in Bangladesh, an MFI serving over a million clients in rural Bangladesh. The MFI has consistently chosen to develop internal expertise rather than engage external technical service providers because this choice is more cost efficient and enhances the institutional capacity of the MFI.

To see how a TSP can successfully use the **C**ost Effectiveness principle, see the Bosnia and Herzegovina case in chapter 8.

## MFI Case Study: Association for Social Advancement

Since 1979, the Association for Social Advancement (ASA) has been at the forefront of efforts to empower the poor in Bangladesh. A nongovernmental organization (NGO), ASA identifies with the hopes and aspirations of the poor, recognizing that they can solve most of their own problems by increasing their incomes through the use of microfinance services.

Specializing in credit programs, ASA today empowers landless and disadvantaged poor villagers, both urban and rural, by disbursing credit to small groups that promote solidarity in their communities. ASA offers women's groups a highly standardized, and therefore very economical, credit service.

Over the last 10 years, Managing Director Shafiqual Haque Choudhury has been instrumental in leading ASA to full financial sustainability. One of the first generation of innovative leaders in microfinance, Mr. Choudhury oversaw ASA growth to 1.3 million borrowers and nearly 800 branches. As of June 31, 2001, ASA had an outstanding loan portfolio of approximately US$100 million and 99.57 percent on-time recovery.[1]

In Choudhury's opinion, most technical experts in microfinance have learned from first-generation MFIs like ASA, so what could ASA have to learn from them? In his experience, no consultant has known more than he, his staff, or his clients. He thus believes that the best learning for ASA comes from the organization's continuous internal self-evaluation process, not from what external experts could tell them.

Choudhury acknowledges that large, innovative, private-sector corporations seek external consulting services. But MFIs are different—it is a new business. When donors offer ASA funds for technical services, he always takes the same approach: (i) he asks what they think needs improving and why; (ii) if he agrees, he asks for some time to see if ASA can first make that improvement themselves; and (iii) if ASA is found to be incompetent, the donor can then suggest technical services—but that has not yet been necessary.

At the same time, Choudhury recognizes that many second-generation MFIs do benefit from external technical services, and that in fact, he himself has provided technical services to many such MFIs. Within the context of its history and experience, however, ASA chooses to continually evaluate itself so that it can provide all services internally without needing to seek services from outside providers.

### *Continual Self-evaluation*

ASA uses the four steps below to undertake a continuous internal self-evaluation process (an essential component of the **C**lient Demand Driven principle), which makes the need for external technical services unnecessary. Note how the cost-effectiveness principle led the institution to become self-sufficient both financially and in terms of technical services.

[1] Data is self-reported.

1. **Undertake a five-year planning process to establish performance targets (with a ten-year financial projection).** This undertaking sets aggressive targets for ASA financial performance and client service, to which the staff then commit.

2. **Continuously compare current performance with targets.** ASA always looks at where it is now (a baseline), and then seeks ways to decrease costs and increase efficiency to meet the targets in the five-year plan, including new ways to serve customers. Certain staff members are assigned to think about such innovations one hour per day or one hour per week.

3. **Make sure staff members are accountable to the management, and management to the Board, for meeting the targets.** More importantly, ASA makes sure that staff and management see themselves as accountable for meeting the targets they have set. No consequences are built into the system for not meeting the targets because everyone at ASA expects to meet the targets, and they do.

Mr. Choudhury believes these three steps are the key to running a serious professional organization that continually improves itself and is not dependent on external technical services. (In his opinion, most MFIs are not this type of organization.) There is a cost associated with investing time in continuously searching for innovations, but in his opinion, this cost is less than that of external technical services and it builds the skills and morale of the staff.

4. **After identifying a potential way to decrease costs or increase efficiency, compare the total cost of the innovation with the cost of the previous method… and make a choice.** Instead of hiring an external consultant to tell them how to reduce costs, ASA looks at all aspects of cost reduction. Choudhury's approach is to "dig down" to find all the factors that affect the organization's cost structure and productivity. For example, when ASA considers increasing staff productivity, it analyzes how to simplify paperwork, reduce staff travel time, and shift some work to lower-grade staff.

**How ASA Applies the 6th C**

ASA puts internal self-assessment and benchmarking at the core of its operations, using the Cost-Effectiveness and Checkability principles to drive continuous improvement and dispense with external technical service providers. Rather than seek to meet a static "best practice" model, the MFI seeks always to do better. The four steps used by ASA for continual self-improvement are:

1. Continuously compare current performance with targets.
2. Make sure staff members are accountable to the management, and management to the Board, for meeting the targets. More importantly, ASA ensures that staff and management see themselves as accountable for meeting the targets they have set.
3. After identifying a potential way to decrease costs or increase efficiency, compare the total cost of the innovation with the cost of the previous method. . . and make a choice.

# 7th C

# Chapter 7
# aCcountability

If technical services are to enable MFIs to achieve their mission of serving the poor over the long term, accountability must be improved. This means improving the mutual accountability of microfinance institutions and technical service providers for achieving the agreed results of technical services.

## Definition

The a**C**countability Principle encourages MFIs to build mechanisms into technical service contracts that ensure accountability of a TSP to the client and vice-versa, clearly identifying the roles and responsibilities of each party. Such accountability mechanisms should include incentives or penalties to ensure that the client and the TSP fulfill their commitments to one another.

## Discussion

Microfinance literature talks about accountability, mutual accountability, accountability for results, and accountability between network partners, but it does not clarify what difference such accountability makes in practice. When negotiating a technical services contract, it is important that an MFI and TSP identify specific actions that will or will not occur as a result of compliance/fulfillment or non-compliance/non-fulfillment of their responsibilities under the contract. Microfinance institutions should use extreme caution in dealing with technical service providers that are not willing to be held accountable for what they do.

If a donor or network is paying for the cost of a technical service, explicit accountability mechanisms must also be defined between the funding organization and the MFI.

Although it is hard to enforce, accountability is critical to the future success of the microfinance sector. In some cases, political instability or acute economic crisis may make it impossible for a TSP, or a TSP and MFI together, to achieve agreed results. In other cases, close relationships—such as those between network TSPs and their partner MFIs—may make strict accountability mechanisms difficult to implement. In fact, accountability is dependent on how networks set up their family relationships. In the same way families develop norms that require specific behavior on the part of their members, a network must establish and manage expectations about acceptable behavior on the part of MFI members.

Even if a technical service is "free" or its cost is nominally shared with the MFI, a technical service contract should still include a penalty for the TSP if it fails to adequately achieve agreed results of a technical service.

### *Building Incentives and Penalties into Service Contracts*

Accountability between an MFI and TSP should be established before a technical service begins. For example, their contract could include a clause requiring the TSP to continue providing services until agreed results are achieved, or denying the MFI further services until the latter completes its obligations under the contract. The Freedom from Hunger (FFH) case study at the end of this chapter provides a good illustration of this principle: FFH incorporates accountability requirements and clearly defined roles and responsibilities for both the MFI and TSP in all its contracts, regardless of whether FFH provides the service through a foundation, an international TSP, or an individual consultant.

Some examples of how MFIs have included accountability mechanisms into service contracts with TSPs include:[1]

- An MFI that contracted an information systems company included a detailed scope of work, a maximum fee, and a deadline in the contract, with consequences for both parties for non-compliance.
- The contract of a multinational donor with an international technical service provider for a significant MFI development project defined clear roles and responsibilities for each, in addition to clear consequences for not fulfilling these responsibilities.
- The contract of a large donor with an individual consultant contained a clause for withholding payment should the results not be adequately achieved.

Although these contracts are unusual, they show a move toward accountability in the microfinance sector.

[1] See annex 4 for the complete technical service contracts referred to here.

### *Accountability Means Commitment*

Although contractual clauses may ensure accountability, the personal commitment of both parties to achieving the results really makes accountability work. In cases where there is strong a**C**countability, both contractual obligation and personal commitment are evident.

In the Bosnia and Herzegovina case study in chapter 8, clear contractual obligations were established between the technical service provider and the MFIs. The mutual commitment of the TSP and the MFIs to one another and to achieving agreed results, however, made the technical services particularly effective. It is possible to contractually define relationships to facilitate this kind of commitment, but unfortunately, contractual clauses do not always translate into commitment.

## Using the a**C**countability Principle

The a**C**countability Principle depends on the previous six principles. It would be difficult to build accountability mechanisms into a technical service contract unless the contract defined clear results of the service, together with indicators to verify those results and baseline measurements of the indicators. In the same manner, accountability mechanisms governing payment would mean little if the contract was not based on cost-effective considerations. Likewise, it would be difficult to build a personal commitment on the part of both the TSP and the MFI unless both parties were comfortable with the process and understood the context in which the other institution operated.

In the following case study,[2] the Mali Credit Unions (the client) and Freedom from Hunger (the TSP) incorporated two significant accountability mechanisms into their service contract for the FFH Credit with Education product. (1) Freedom from Hunger set up a five-year institutional study to assess the results and impact of Credit with Education on credit union performance, and (2) FFH established two different processes for clients to evaluate its technical services. One process solicits direct client feedback on a specific TS activity and the other employs an independent external assessor to conduct interviews with clients about their working relationship with FFH.

[2] A complete account of the FFH case study is presented in chapter 8, where it is used to review all seven principles for effective technical service delivery. The account here focuses esclusively on the a**C**countability principle.

## Case Study: Freedom from Hunger

Freedom from Hunger (FFH) is an international development organization that developed the first integrated microcredit/health and nutrition education program: Credit with Education.

To ensure its accountability as a TSP, FFH included incorporated two significant accountability mechanisms into its technical service contract with two credit unions (Nyèsigiso and Kafo Jiginew) in Mali.

### *First Accountability Mechanism: Institutional Study*

FFH set up a five-year institutional study to assess the impact of the Credit with Education product on the performance of the two credit unions. The study tracks the four results that FFH committed to deliver to the credit unions:

1. **Outreach Survey** to determine whether the relative levels of poverty of *Credit with Education* clients is lower than that of other credit union members, as promised.
2. **Member Intake Survey** to determine the degree to which the Credit with Education product is increasing membership, as promised.
3. **Financial Performance Tracking** that collects information on growth and financial performance of the credit union over a five-year period.
4. **Operational Assessment** to regularly assess the influence of the Credit with Education product on the human and operational systems of the credit unions.

The initial *Outreach Survey* showed that a cross-section of socioeconomic groups was participating in the Credit with Education program. The relative wealth of program clients closely matched the distribution of wealth in the communities at large. The percentage of member households categorized in the target wealth categories of "vulnerable" to "chronically food insecure" was 87 percent for Nyèsigiso and 69 percent for Kafo Jiginew. The percentage of clients classified as destitute and chronically food insecure, and who even had a member in one of the credit unions, was 39 percent for Nyèsigiso and 14 percent for Kafo Jiginew. (More poor clients were captured by the Credit with Education product in the former credit union because it is located in a poorer rural area.)

Interestingly, Credit with Education clients were not significantly poorer than borrowers of financial products designed for farmers. Products offered in villages generally reached a relatively poorer clientele. Extending credit union services beyond the towns and large villages in which their branches are typically located appeared to be the most important variable in reaching lower-income clients. It was even more important than loan terms or, as in the case of Credit with Education, preferential lending, to reach a relatively poorer clientele.

All four components of the study were not complete at the time this guide was first published (2002), but FFH reported on their *Operational Assessment* experience in other contexts. This assessment is particularly important because the Credit with Education program has a significant impact on the institutional systems of a credit union,

regardless of the financial and membership gains the program may bring.

- When Credit with Education is delivering desired results, client institutions have a tendency to expand without adequately investing in the general improvements needed for the product to perform (supervision, information systems, and internal controls). This is because a mobile banking system that usually represents 10 to 20 percent of the portfolio confronts the organization with a need to adapt all of its systems. Given the percentage of the portfolio represented by the Credit with Education product, the need to invest is not apparent.

  In terms of technical services, this situation becomes problematic. As a product specialist, FFH is perceived as knowing the methodology for Credit with Education, but not much about credit unions. Also, because many northern credit union institutions provide general technical support on the institutional side, Freedom from Hunger runs into the problem of competing priorities and, sometimes, conflicting advice from other TSPs.
- When Credit with Education is not delivering the desired results, the situation is the same: Freedom from Hunger can work with the institution to clean up the methodological and basic extension system issues, but if the institution needs to invest in more staff capacity, general supervision, general information, and control systems, negotiating and acceptance become harder.

One example of how FFH took action to improve the results of its technical service was a workshop for eight African credit union partners (including the Malians) to troubleshoot issues with Credit with Education at a higher level and deal with them more systematically. The workshop proved very successful, giving credit union leaders the opportunity to focus their attention on the product not only with their staffs, but with their peers from similar networks and other external collaborators. By moving the process from one-to-one vertical assistance to facilitating a lateral dialogue among peers, Freedom from Hunger was able to get greater institutional buy-in and focus on the product, thus ensuring better results.

### *Second Accountability Mechanism: Client Evaluation of FFH*

FFH set up two processes for its clients to evaluate their technical services: evaluations of specific TS activity and an independent external assessment of how clients evaluated their working relationships with FFH.

The first process is client feedback after a specific technical service (TS) intervention. The working outline of this assessment, detailed below, is given to the clients upon the conclusion of each intervention.

Clients are also asked the following questions:

- What did you like about the way the technical assistance was provided?
- What would you change about the way the technical assistance was provided?
- What information or tools from this technical assistance activity will you use in the future?

They were then invited to send suggestions and comments via e-mail.

Table 7-1

**Freedom from Hunger Client Evaluation Form**

| Please indicate your agreement or disagreement with the following: | Strongly Agree = 5 | Agree = 4 | Neutral = 3 | Disagree = 2 | Strongly disagree = 1 |
|---|---|---|---|---|---|
| Our institution was involved in the topic selection and planning for this technical assistance activity. | | | | | |
| The objectives of this activity were clearly outlined from the beginning. | | | | | |
| Appropriate materials and/or activities were used to accomplish the objectives of this technical assistance visit. | | | | | |
| The visiting staff of Freedom from Hunger had appropriate knowledge of this subject. | | | | | |
| The visiting staff of Freedom from Hunger was prepared for this activity. | | | | | |
| The visiting staff of Freedom from Hunger respected the skills, knowledge, and attitudes our institution has in this subject matter. | | | | | |
| The length of time of the technical assistance visit was appropriate. | | | | | |
| I will continue to use information from this visit in the future. | | | | | |
| Overall, the technical assistance visit met my expectations. | | | | | |

In the second process clients evaluate their institutional relationship with Freedom from Hunger. The aim of the assessment is to improve the quality of technical service collaboration between FFH and its partners. Rather than undertake this assessment itself, Freedom from Hunger decided it would get more honest feedback if an independent contractor undertook the assessment.

The Institute for Development Research (IDR) in Boston was contracted to work with Freedom from Hunger staff to develop a research framework and questionnaires for the assessment, as well as to conduct institutional interviews in a manner that would ensure each interviewee utmost confidentiality. From November to December 2000, IDR conducted 42 in-person interviews with 19 organizations.

IDR first consolidated the feedback into a preliminary report that it shared with FFH staff in January 2001. It further refined the report and shared a new draft with the

FFH Board of Trustees in February of 2001. Finally, IDR developed a report for FFH partners in April 2001. Freedom from Hunger staff then began meeting one-on-one with its partners to debrief them on the findings and analysis of the report in order to validate its content and to discuss how to improve their institutional relationship.

The assessment proved very useful because it encouraged FFH to be more flexible with its technical package and process, more open about how to structure its relationships with other organizations, and more strategic about combining its core competencies with existing local capacity. It is expected that this process will develop into a general satisfaction tool that FFH can give its partners every 12 months.

The quotes below are excerpts from the independent assessment and describe how FFH partners view their technical service relationship with FFH:

Strengths

*FFH's strength is in the educational materials and the way [these materials are] presented by trainers in the meetings. The materials and the TOT are what they do best.*

*The FFH partnership permitted us to expand to the marginalized population of women, which we would not have been able to reach otherwise. Overall, it permitted us to achieve growth in lending vis-à-vis the poor.*

*The collaboration has permitted an end to the myth that lending to the poor in general and women in particular is not a profitable exercise.*

Weaknesses

*FFH had little consideration for needs and themes outside that found in its product.*

*FFH wanted to hear nothing from us on the question of program extension and education themes. It was a partnership that was too rigid and lacked flexibility. We love the methodology and believe in it, but we do not agree to limit our program to the dictates of FFH.*

*CwE is a very costly program. Without [donor funding], local programs couldn't pay for it. They need to look at ways to make it cheaper and more accessible so others can do it. They need to continue testing the model with different countries and adapting for different levels of capacity. Its very technical and challenging.*

Threats and Opportunities

*To most improve the partnership, FFH should agree to develop a real strategy for transferring competence from FFH to the national NGO. We need to transfer to our people what the FFH Regional Trainer or other experts have mastered. We need to limit the amount of FFH technical service.*

*I'm monitoring the costs. If we find it is very efficient we will implement it throughout the organization. If it's not efficient, we will find ways to make it more so ourselves.*

# 7C Review

## Chapter 8
## Reviewing the 7Cs

The previous chapters of this guide each explored one of the seven principles (7Cs) for effective technical services delivery. The case studies used in those chapters were chosen to illustrate one specific principle, bringing to life the ideas explored in the Definition and Discussion sections. As this guide has repeatedly emphasized, however, the 7Cs must be used together to ensure best results.

This chapter uses three comprehensive case studies to review all seven principles. The three studies take place in Asia, Eastern Europe, and Africa, respectively, and show in detail first how a microfinance institution and then how two technical service providers applied the principles to an actual technical service. Before the reader proceeds, he or she is invited to quickly review the principles.

**Client Demand Driven.** This principle addresses the need for the client—the MFI—to own the process of technical service delivery and drive the choice of technical services.

**Checklist of the 7Cs**

- Client Demand Driven
- Context
- Clearly Defined Results
- Checkability
- Focus on Change
- Cost Effectiveness
- aCcountability

The principle implies that the management team of an MFI undertakes an institutional self-assessment to define the organization's technical needs and then obtains the technical services required to improve institutional performance.

**Context.** This principle addresses the need to identify the external contextual variables that can influence the choice and effectiveness of technical service delivery, including economic, cultural, political, and institutional variables. It especially considers relationships between MFIs and technical service providers, both within networks and within the context of long-standing relationships among MFIs, service providers, and donors.

**Clearly Defined Results.** This principle encourages MFIs to define and agree to clear time-bounded results (with interim steps if appropriate) to be delivered by the technical service provider. These deliverables should include concrete outputs for:

- *individuals*, in terms of their level of knowledge, skills, or attitudes;
- *systems* (e.g., information or financial), in terms of their performance and/or capabilities; and
- *the institution,* in terms of performance goals related to the technical service.

It is important to note that deliverables should be appropriate for the size, age, and capacity of the institutions receiving and providing the technical services.

**Checkability (indicators to check results).** This principle encourages MFIs to design and agree on performance measures, or indicators, that will verify the delivery of the specified outputs by the technical service provider.

**Focus on Change (baseline indicators).** Inseparable from the idea of Checkability, this principle requires MFIs to collect baseline information on its own performance in order to measure the results of technical services. Benchmark indicators may include staff attitudes, knowledge levels, skills, and system and institutional capabilities or performance.

**Cost Effectiveness.** This principle ensures that cost-effective measures will be used to select and verify delivery of technical services. The principle encourages MFIs to measure the results of technical services against their total cost (direct and indirect) to discern whether such services are worth the expense incurred. It also cautions an MFI to select cost-effective indicators to measure the agreed results of a technical service.

**aCcountability.** This principle encourages MFIs to build mutual accountability mechanisms into technical service contracts. It emphasizes the need to assign clear roles and responsibilities to each party to achieve specified results, using incentives and/or penalties to ensure that the client and the TSP fulfill their commitments to each other.

## MFI Case Study: Center for Agricultural and Rural Development

The Center for Agriculture and Rural Development, a nongovernmental organization (CARD NGO) and CARD Bank in the Philippines are jointly referred to as CARD. CARD has 28 branches concentrated in two regions of the Philippines. With more than 40,000 active borrowers—all women—and 78,000 savers (as of 30 June 2001), CARD is one of the largest and most successful microfinance institutions in the country. Without the uncompromising principles developed by Dr. Jaime Aristotle Alip and his team to guide the institution's technical service contracts, CARD would not have achieved this success.

CARD initiated its lending and savings operations in 1990 under the Landless People's Fund with the goal of improving the quality of life of the Filipino poor, especially those in the countryside. After operating for several years as an NGO, CARD Rural Bank was registered in 1997 with the Securities and Exchange Commission and the Central Bank of the Philippines. Its initial capital was PP 5 million (US$167,000). Twelve of CARD's 25 branches at that time became part of CARD Bank; the remaining branches continued to operate as the CARD NGO. CARD (both the Bank and the NGO) became an affiliate of Women's World Banking in 1999.

In this case study, CARD sought to secure long-term financing by introducing voluntary savings products to its clients. The text below explains how CARD used the 7Cs to identify its specific technical needs and then engage a qualified technical service provider to help it achieve its goals.

### 1st C and 6th C: Client Demand Driven and Cost-Effectiveness Principles

#### *Identify Technical Service Needs*

CARD identifies the technical services it needs based on the institution's five-year mission/ strategy/business plan. The plan is a living document that is reviewed each year. CARD recognizes that to achieve the goals of this plan, technical services are required from national and international technical experts. In these cases, CARD focuses on exactly what it needs for institutional development in order to avoid wasting funds.

In this case study, CARD was at a decision point about how to ensure its future financing. CARD had identified three options: (1) grants from donors, (2) subsidized funds from the government and international agencies, and (3) savings from the general public. Since CARD realized that grants and subsidized funds were not a reliable source of financing, its only real option was to add voluntary savings to its credit with compulsory savings products.

Instituting this option would be a major undertaking, with only one chance to get it right. CARD knew that it did not have the expertise to facilitate the project itself, so it looked for a highly qualified technical service provider to be its strategic partner.

### *Assess the Cost and Quality of Technical Service Alternatives*

CARD assesses all technical service alternatives in terms of quality and price, but considers only those services that are (i) consistent with CARD priorities and (ii) the best available on the market. To get what it needs, CARD would rather pay for technical services out of its own funds than accept "free" services (which the organization says do not really exist). There are always costs for "free" services: even if CARD does not pay the consultant, the organization will still incur costs for staff time and resources, etc..

CARD also only accepts TS that it considers high quality—for CARD, the only way to achieve real cost effectiveness is through quality services. CARD has, in fact, sent experts back if they were not performing to standard or if they were not a good fit with the institution. The MFI sees no point in wasting either a donor's money or its own time.

CARD evaluates all available alternatives for the technical service it seeks using criteria such as the track record of the TSP, the provider's regional experience and credibility in the market, and the total cost to CARD. The comparison process is iterative and intended to find the most cost-effective solution for CARD. Although the process takes time, the results make the time investment worthwhile. After it decides on a high-quality service, CARD builds enough time into the contract to allow the institution to learn all it can from the TSP. This extra effort maximizes the benefits of the technical service for the organization.

In the case of this savings project, CARD took eight months to research all available technical services and assess their relative quality and price. The assessment process alone was expensive because it included investigating what services were available locally, assessing international experts, and traveling to the United States to discuss the MFI's considerations with WWB.

Women's World Banking (WWB) shared the values of CARD and was prepared to work with it to hire the best international expert available to help launch the voluntary savings products. CARD would partially fund the primary consultant and additional consultants, as well as hire new staff, purchase hardware, undertake training, and the like. Given the significance of this investment, CARD had to be prepared to tolerate lower financial performance ratios that it had achieved in the past.

## 2nd C: Context Principle

For CARD, technical services are appropriate only if they precisely correspond to its institutional context: its priorities, goals, and ability to absorb a given technical service. CARD believes there is no point in contracting technical services that would exceed what it could effectively use at a given time; such a service would waste both money and time.

After WWB introduced Marguerite Robinson to CARD, the MFI decided that Ms. Robinson was the best available consultant for the project. WWB was prepared to hire

her and support her (with a significant contribution from CARD) for the amount of time needed for the project.

Ms. Robinson was also prepared to work with CARD: she knew that the MFI was serious about the project and that it understood the effort could take three to five years before the new products were fully sustainable. It was clear that CARD was prepared to do the work necessary to achieve that goal.

### 3rd C: Clearly Defined Results Principle

CARD identifies the outputs of a technical service and defines all skills the staff will learn from the delivery process. It then includes these skills in the technical services contract. This step guarantees that CARD receives the maximum value from the technical service.

CARD defined several types of outputs that would be delivered by the savings expert, including;

- a savings demand study in the CARD operational region that would identify the scale of demand and the types of products sought by potential clients
- specific skills for field staff to mobilize savings
- specific skills for finance staff to manage savings, including setting interest rates and managing liquidity

### 4th and 5th Cs: Checkability and Focus on Change Principles

CARD, WWB, and the consultant agreed on how to measure the outputs of the technical service before the work began. Two of the most important indicators were:

- *Specific skills for field staff to mobilize savings.* This indicator would be measured primarily by increases in the number of savers and the amount of savings mobilized. Measurements would include checks to ensure that all relevant staff had learned the appropriate skills.
- *Lower cost of funds.* Since the cost of interest on savings plus related costs are still lower than the cost of borrowed funds, it was planned that the savings products would lower CARD's cost of funds over the long term.

Current measurements of these and other indicators were then gathered in order to have a benchmark against which the results of the technical service could be monitored.

### 6th C: Cost-Effectiveness Principle

In addition to the exhaustive quality and cost review of technical service options conducted by CARD at the beginning of the process, the MFI maximizes the cost-effectiveness of the technical services that it receives by documenting all lessons learned. Documentation ensures that lessons learned are disseminated extensively to its staff and do not just sit in a report on a shelf. CARD's full-time research and documentation team was assigned to document every aspect of the pilot savings project.

CARD will eventually turn the documentation into training programs for its staff to ensure that lessons learned become part of its institutional memory. The documentation will also be an input into the WWB knowledge product on savings, so as to leverage the CARD experience for the benefit of the entire network.

### 7th C: aCcountability Principle

One accountability mechanism built into the CARD technical service contract was the requirement that all consultants regularly meet and brief the chairman of the board. This mechanism was designed to ensure that information directly reached the board and provided a "backstop function" for management. Another mechanism required consultants to report to the full board if it met during the technical service mission.

Specifically, CARD integrated the following several levels of accountability into the TS contract with Ms. Robinson and WWB, and into its funding agreement with WWB:

1. The TSP (Ms. Robinson) was assigned counterparts from both CARD management and WWB who would be in constant contact with her.
2. The TSP, CARD management, and WWB would undertake frequent management meetings by conference call.
3. The TSP and WWB would have an initial meeting with the CARD board chairman in New York. Ms. Robinson would then travel to the Philippines to meet with the full board.

(In reality, the consultant was unable to travel at the scheduled time for personal reasons. Because CARD felt the urgency of starting the pilot as soon as possible, three board members, together with senior staff of its Product Development Team, traveled to New York to attend a planning meeting with Ms. Robinson and WWB.)

4. At several junctures during the pilot stage, the TSP and WWB would travel to the Philippines to examine the progress of the pilot and report their findings to the board through the chairman.
5. The TSP and WWB would provide progress reports to the board through the chairman, by phone, as often as opportunity permitted. (The board did not wish to micro-manage the project, but its high level of interest demonstrated the importance of the technical service to both the TSP and CARD staff.)
6. A consultant from Indonesia would undertake the market research and train CARD staff in the process. He would also report to the board on the progress of the pilot project. This consultant had previously worked with Ms. Robinson and would be on site with CARD during the pilot phase. It was agreed that he would work under the supervision and guidance of Ms. Robinson and be assisted in his work by WWB.

**How CARD Implements the 7Cs**

1. Identify CARD's technical service needs based on its five-year vision/strategy/ business plan.
2. Assess all alternative technical services in terms of quality and price, but select only those services that are (i) consistent with CARD's priorities and (ii) are the best available on the market.
3. Contract only the technical services that are exactly what CARD needs at the time—not more, not less.
4. Carefully define the outputs of the technical service.
5. Agree on how to measure the outputs.
6. Build accountability mechanisms into the contract.
7. Document lessons learned in manuals and training programs for CARD staff so that these lessons become a part of CARD's institutional memory.

### *Conclusion*

CARD only began working with the technical service provider in **2001**; the results of the service will not be known for three to five years. If CARD's history of managing technical services is any indication, however, the project will be a success.

## TSP Case Study: The Local Initiatives Project in Bosnia and Herzegovina

The first Local Initiatives Project (LIP I) was a World Bank-sponsored project designed to promote self-employment and microentrepreneurship in Bosnia and Herzegovina by increasing the availability of credit to microentrepreneurs. The intended target clients of the project were low-income microentrepreneurs or would-be entrepreneurs who did not have access to commercial financing and required limited amounts of capital (less than 20,000 euros) to start or expand an income-generating activity or microenterprise.

The project was launched in early 1997. An individual consultant was then contracted by the World Bank in to be the Principle Technical Advisor to the project, with the responsibility for managing technical services for eight MFIs (known as MCSPs).

### 1st C: Client Demand-Driven Principle

The Technical Advisor delivered effective technical services to the MCSPs by taking the **C**lient Demand-Driven principle as far as practical. Her experience in MFI development was that MFIs with strong leadership made the best use of technical services because they were best able to identify their technical service needs. She therefore provided all the new MCSP leaders with a forum in which they could formulate their technical service needs together, and sought their continuous input into the program over time. She also retained the flexibility to adapt the program to their evolving needs. Finally, she documented the results achieved by the client demand-driven process. The steps she used to implement this process are explored in detail below.

1. **Take the Client Demand-Driven principle as far as practical. Start by building the leadership of new MFIs.** The consultant sought to involve the MCSPs right from the beginning in the decision making on the technical services they would receive (i.e., the operational/institutional areas that should be addressed, how services would best be provided, and when it made most sense for the MCSPs to receive the services).

It was not realistic to think that the MCSPs would initially be able to participate in every single decision regarding technical services. For example, most of the organizations were unable to identify appropriate consultants or other resources on their own. Nonetheless, it was important that these budding MFIs take part in defining their own technical needs, even if they needed help in making concrete decisions.

The consultant's experience in other countries had led her to conclude that the quality of technical services will only be as high and responsive as the organization to which they are delivered. Even excellent technical services cannot help a truly weak and ineffective organization. This was also borne out in the Bosnia context.

What differentiates weak, ineffective organizations from strong, effective ones? How does a consultant know which MFIs will be helped by technical services and which are unlikely to be helped? Her answer to these questions lay in the organization's leadership. In her opinion, it does not matter whether one or several leaders are active, or whether leaders are at the management or board level. What is important is that an organization has clear leadership. This means there is strong leadership on the part of the person

or small group of people who were the initial leaders of the institution, and that those leaders have the capacity to develop leadership qualities throughout the organization.

According to the Technical Advisor, the four important ingredients of a leader is that he or she

- have clear purpose and vision. They must be able not simply to come up with a canned mission statement, but also to define the organization's purpose and vision, based on human values;
- be able to communicate the organizational purpose and vision to everyone in the institution, and maintain an ongoing discussion about their evolving definition;
- be caring. Leaders are people who have clear individual values themselves and who value other people; and
- be learners. Leaders are open and receptive to new ideas and news ways of doing things, that is, they are open to change and innovation.

In the consultant's experience, if this "right stuff" is not manifested in organizational leaders, no amount of technical services will make a difference in the long run. One may see short-term improvements in performance, typically measured by the numbers. But in the long term, the organization is unlikely to excel, or in many cases even to survive, and will be unable to integrate outside technical services to improve its performance. Therefore, the first step is to build the leadership of an MFI.

2. **Provide a framework in which MFIs can formulate their technical service needs.** In most situations, MFIs need some kind of framework within which to define and prioritize their technical needs. In the Local Initiatives Project, the framework was provided by a two-day meeting in December 1999. Facilitated by the consultant, the meeting was attended by four representatives from each of the eight MCSPs (the executive director, the credit manager, the finance manager, and a representative of the board of directors), who were given the opportunity to articulate what they wanted and needed to design technical services themselves. It was useful that the consultant already knew the organizations—having worked in Bosnia and Herzegovina since 1996—and was able to incorporate her understanding of their institutional development into the technical service plan that was developed.

The first day, the consultant led the MCSPs through discussions and exercises designed to help them identify what technical services they needed. The group agreed that several vital principles should guide the technical service program. In their opinion, the technical services should:

- *Be responsive and demand driven*. The MCSPs wanted to be sure to have as much input as possible into both the design of the overall program and individual activities within the program, such as the design of specific workshops.
- *Ensure continuity.* Wherever possible, the MCSPs wanted to continue to work with consultants who had worked with them in the past. It was and continues to be very important to these organizations to work with people they believe know them and understand the Bosnian context.

- *Be consistent.* The MCSPs sought consistency among the messages received from various consultants, whether in person or in written materials.
- *Be as tailored as possible to individual institutions.* Although this principle is self-explanatory, it has particular importance when designing a program for eight organizations of widely varying capacity.

The consultant added the following two principles, to which the MCSPs also agreed. The technical services program should:

- Be as cost effective as possible. This principle prompted the MCSPs to identify their common needs.
- Be partially paid by the MCSPs.

The young MFIs then worked in small groups to define as clearly as possible their specific technical service needs, including the what, how, when, and even the who. First, they worked within their own group to define individual organization needs. They then worked cross-organizationally in "position groups" comprised of all executive directors, all finance managers, etc., to compare their individual needs and find common areas for shared technical services. After this first day, a local consultant and the Technical Advisor pulled together their collective input into a draft plan of technical service for the coming year.

The next day, the organizations again worked cross-organizationally in three groups to review the plan, compare it to their work of the previous day, and present their feedback to the consultant and the group. The plan stipulated that the following types of technical services would be provided over the course of the following year:

- *Access to Information.* This commonly articulated need would be addressed by two means: (1) The consultant would prepare and disseminate a "Monthly Microfinance Update" that highlighted a particular theme of interest to MFIs and included extensive information on available publications, Internet resources, and training, as well as events of interest to the practitioner community; and (2) the consultant would help build a resource center of key microfinance publications, which would be gradually translated into local languages.
- *Workshops.* Over the course of the year, workshops on topics important to the continued development of the MCSPs would take place. By the end of the first year, the following seven workshops had been held:
    1. Accounting and Financial Management in the Bosnian Accounting Context (a preparatory workshop)
    2. Accounting, Financial Analysis, and Internal Controls
    3. Organizational Structures and Personnel Management
    4. Board Development
    5. Effective People Management
    6. Internal Controls and External Audits
    7. Delinquency and Portfolio Management.
- *Study Tours.* By the end of the year, the organizations undertook two study tours to observe first-hand the operations of MFIs in other countries. The first

visit was to Bangladesh and the second was to Fundusz Mikro in Poland. The consultant used input from the participants to design the study tours, which she also facilitated.

- *Individual Consulting.* Each organization would be given access to approximately four individual consultant days, paid for by the technical service budget. In February, the consultant met with each organization to explain who would be coming to Bosnia to deliver the various workshops and, in most cases, gave them the actual curricula vitae of the consultants. Each organization then chose which consultants it wanted and when (for consultants who would be in Bosnia several times), based on its own needs.

  Some organizations could not define their own needs without some individual assistance. A number of these organizations noted, "We don't know what we don't know." This is perhaps particularly true in a place like Bosnia and Herzegovina in the 1990s, where no one knew what microcredit was, let alone what was meant by a sustainable microfinance institution.

3. **Ensure continuous client input into the technical service delivery process.** It soon became apparent that a delivery process that required evaluations or inputs in writing on the part of the MCSPs would not be effective. What worked was ongoing face-to-face communication, whether one-on-one with individual organizations or in a facilitated group discussion. In the opinion of the Technical Advisor, nothing substitutes for this method of communicating—it should be built into the design of any technical services program.

To assure continued input, a second meeting of all MCSPs was convened in late June 1999 to evaluate the success of the technical service program to date and to redesign the second half of the year, if necessary. The meeting turned out to be a very important initiative that resulted in a fairly radical redesign of the second six months of the program. While most organizations gave the quality of the technical services and the professionalism of program management very high marks, several key criticisms arose.

The most important criticism was that the pace of the program was too intense to allow the MFIs adequate time to apply lessons learned. Secondly, the varying capacity levels of the different MCSPs were becoming increasingly evident. While the group addressed this only indirectly, their joint request made clear the need for more tailored, individualized consulting and fewer cross-organizational workshops. As a result of this input, one workshop and one study tour were eliminated from the second half of the year, and intensive individualized consulting was substituted for this time.

4. **Maintain flexibility when delivering technical services.** While it can be cumbersome and annoying to rethink and restructure a nicely developed approach to technical services, it is critical to have the flexibility to throw the blueprint out the window and start again. A program is only truly responsive if the TSP can recognize what has not worked and finds a better way to meet the expressed needs of its clients.

**Context: Implementation of Local Initiatives Project I**

The Local Initiatives Project was administered by Local Initiatives Departments (LIDs), which received and managed all donor funds for the project in each of the two constituent entities of Bosnia and Herzegovina: the Federation of Bosnia and Herzegovina and the Republika Srpska. The LIDs were departments of Employment and Training Foundations (ETFs) created for the project; the ETFs were government-created foundations managed by government-appointed boards of trustees. Although the LIDs were organizationally a part of the ETFs, they operated largely independently of both the ETFs and the government.

Following a pilot project implemented by six nongovernmental organizations (NGOs) in 1996, the project was launched in early 1997. Using an intensive screening process, the LIDs contracted seventeen NGOs to implement microcredit lending, twelve in the Federation and five in Republika Srpska. Contracts were signed with these organizations in 1997. The number of implementing partners was reduced in 1998 after the LIDs carried out performance evaluations. As of 1999, there were five implementing agencies in the Federation and three in the Republika Srpska. These implementing agencies were commonly referred to within the project as microcredit service providers (MCSPs).

In the Federation, the five MCSPs were LOK; Sunrise; the Bosnian Committee for Help (BOSPO); the AMK Posusje, a limited liability company (AMK); and Mercy Corps/ Scottish European Aid (MCI/SEA). Of these five, the first four were locally owned and managed organizations, while MCI/SEA was an international organization. The latter organization operated the microcredit project as one of its programs.

In the Republika Srpska, the three MCSPs were Mikrofin, Sinergija, and Benefit. Mikrofin began as a program of CARE International, but was spun off as an independent local institution in early 1999, while the other two organizations have been locally owned and managed since their inception.

The LIDs achieved the goals of the project by financing the implementing agencies (the MCSPs) and ensuring that they received the technical services (TS) necessary to develop into sustainable microfinance institutions (MFIs). Initially, the LIDs financed a loan fund and subsidized the operating costs of the MCSPs, which were contractual agents of the LIDs. As agents, the MCSPs did not legally own the loan capital provided by the LIDs, but were delegated full authority to manage the loan funds and make loan approval and disbursement decisions independently of the LID. By 1998, some MCSPs had raised additional loan funds directly from other donors, while others remained fully dependent on the LIDs for loan capital.

## 2nd C: Context Principle

### *Country Context*

It is important to understand that when the World Bank introduced the pilot project in 1996, microcredit had never been heard of in Bosnia and Herzegovina. Additionally, the inception of the Local Initiatives Project created an enormous incentive and opportunity for interested and entrepreneurial people. Therefore, most of the MCSPs (or microcredit projects, in the case of the international organizations) were created as organizations only in early 1997. Only one organization was already in existence at that time, which provided different types of social services, while two were spin-offs of existing organizations.

### *Technical Services "School"*

The institution-led "school" of technical services that dominated the Local Initiatives Project provided another important context for the technical services program. This meant that the primary objective of all technical services was to strengthen the service capacity and financial viability of the institutions. As a key contextual factor, the institutional emphasis contributed to the design of the technical services as well as to how the effectiveness of those services would be evaluated.

Table 8-1

**MFI Performance Standards of the LIP Project**

| Area of Operation | Standard To Be Achieved (Clearly Defined Results) |
|---|---|
| Institutional Capacity | |
| Legal Registration | Currently legally registered or able to be legally registered under the appropriate law, once a capital grant is received |
| Governance | Statutes that require an independent Board of Directors and give clear ethical and operational guidelines |
| Human Resources | Staff necessary for prudent management of a financially viable MFI within a defined organizational structure |
| Business Plan | Strategic plan projecting updated financial and institutional goals |
| Financial Management | |
| Accounting and Internal Controls | Accounting system that meets international standards, with adequate internal controls |
| Loan Tracking System | Loan tracking system able to provide weekly situation on total loan portfolio, including aging of arrears |
| Financial Projection System | System that provides reliable financial forecasting for the institution, especially cash flow |
| Clients | |
| Client Group | Clear commitment to low-income entrepreneurs in the business plan and statutes |
| Loan Size | First loans less than 10,000 euros; average loan size of less than 20,000 euros |
| Financial Performance | |
| Portfolio Quality | Less than 5% portfolio at risk after 30 days; less than 3% annual write-off (of average outstanding portfolio); less than 5% rescheduled loans within active portfolio |
| Profitability | Covering all costs from non-grant sources, including loan loss reserve, cost of funds and donor subsidies |
| Capital Requirement | Minimum 10% of equity compared to earning assets |
| Local Resources | Minimum 10% of assets funded by local sources other than retained earnings |

### *Organiational Context*

Since the inception of the project, it had been the responsibility of the LIDs to ensure that the MCSPs received the technical services needed to help them develop into sustainable microfinance institutions. Initially, it was intended that the LIDs would eventually develop the capacity to provide the necessary technical service to the MCSPs. Their capacity to either provide or manage the technical service program was limited, however, by several factors.

First, the LIDs were just as new to microfinance as the MCSPs, and thus not in a position to either provide adequate technical services directly or to determine the type of technical services that should be provided by others. Second, an inherent conflict existed between the LID financing role, which involved performance assessments, and responsibility for the technical services that would enable the MCSPs to increase their institutional capacity and thus improve their performance.

During the first two years of the program, the World Bank and the consultant assumed primary responsibility for designing the technical services provided to the MCSPs. They determined technical service needs and identified appropriate consultants, with much of the consulting provided by the Technical Advisor. Yet her role was complicated by the fact that she was also responsible for providing technical services to the LIDs, which included helping them undertake periodic assessments of the MCSPs.

As the result of a mid-term review of the LIP project in May 1998—prior to the initial workshop with the eight selected MCSPs—a fundamental shift in the provision of technical services took place. The review recommended that the technical service piece be entirely divorced from the financial assistance piece, and that the LIDs contract out the management of the technical services program. The Technical Advisor was then contracted directly by the LIDs to manage the technical service program for the 1999 calendar year. This decision was made in October 1998, and the consultant began preparing for the program in December 1998.

The restructuring of responsibilities allowed the consultant to manage the provision of technical services based on client demand.

## 3rd C: Clearly Defined Results Principle

As with all technical services, it was important that the Bosnia and Herzegovina program focus on the ultimate MFI institutional capacity that needed to be created. Because organizations are complex organisms, this meant concentrating technical services on more than one facet or group of people at the same time. It required the TSP and the client to assess what the organization should look like at some point in the future, and then put together learning activities and opportunities to ensure that this development occurred.

External MFI performance standards were used to identify clearly defined results for the program. The same client demand-driven process that was used to design the actual content of the technical services was also used to reach agreement on the performance standards that would be the end-goal of the program. This consensual process, detailed

Table 8-2

**Indicators to Check LIP Project Performance Standards**

| Area of operation | Indicators | How to Assess Indicators |
|---|---|---|
| Institutional Capacity | | |
| **Legal registration** | Legally registered as a microcredit/micro-finance institution under the appropriate law | • Review of MFI registration, documentation, including statute |
| **Governance/ Management** | Board of directors independent of management<br>The Board members possess necessary skills and experience to carry out their responsibilities.<br>The Board meetings are on a regular basis.<br>The Board receives needed information from institution on time. The Board minutes are in place with description of meeting and relevant decisions.<br>Management team possesses needed skills to successfully run the institution. Lower-level staff are strongly supported by management and by adequate information, and informed about policies and procedures in the institution. | • Review of previous LID monitoring reports<br>• Review of internal document that regulates Board activities<br>• Analysis of Board members on the basis of their qualification and experience relevant to their responsibilities. If possible, interview Board members or attend Board meeting.<br>• Review of Board minutes<br>• Analysis of skills and experience of management team<br>• Interviews with staff |
| **Human resources qualification, selection, and training** | Staff that possess adequate skills and qualification to carry out their tasks.<br>Transparency of selecting staff and quality of staff training.<br>Adequate staff compensation policy.<br>Sufficient investment in staff training and professional development.<br>Clearly defined and implemented staff performance evaluation process with merit-based compensation strategy. | • Review of previous LID monitoring reports<br>• Review of staff personal files<br>• Review and analysis of internal documents that regulate employee recruiting, hiring, and staff training<br>• Interviews with persons in management team responsible for human resource management.<br>• Interviews with staff<br>• Analysis of incentive schemes, promotion of employees and working environment in general<br>• Assessment of staff training policy and practice<br>• Assessment of staff performance evaluation process |
| **Business plan** | Strategic plan incorporates institutional goals and strategies for reaching goals, based on reasonable assumptions, internally coherent and adaptable to real MFI possibilities. The plan is updated as needed and used in decision-making process. The budget is based on reasonable assumptions and used as a key tool in decision-making process | • Review of previous LID monitoring reports<br>• Analysis and assessment of strategic projections for further period from the point of view of real possibilities of MFI in current economic and legal environment, taking into account realistic projections of future financing |
| Financial Management | | |
| **Accounting system** | Computerized accounting system in accordance with international accounting standards and appropriate domestic regulations that regulate this area<br>System must be capable of producing appropriate reports and financial information in a timely, reliable and manner applicable to institutional needs<br>Accounting procedures must be clearly defined<br>Audited financial statements | • Review of previous LID monitoring reports<br>• Analysis and assessment of internal documents that regulate accounting operations (accounting manual as separate document or as part of financial manual)<br>• Review of accounting system and reports that can be produced from system<br>• Assessment of compliance with legal regulations and accounting standards<br>• Review and analysis of external audit report |

| Table 8-2 (continued) | | |
|---|---|---|
| **Area of operation** | **Indicators** | **How to assess indicators** |
| **Financial Management (continued)** | | |
| **Internal control system** | Internal control system in accordance with the nature and size of the institution with clear internal procedures, defined responsibilities and duties, separated different functions, cross checking, double signing | • Review of previous LID monitoring reports<br>• Analysis of organizational structure: job description, responsibilities, decision-making procedures<br>• Analysis of accounting procedures: adequate policies, procedures, and practice from the point of view of legality and protection of institution property<br>• Analysis of internal control procedures: separation of different functions, cross checking, double signing |
| **Loan tracking system** | Computerized data base able to provide timely (at least weekly) reports on total loan portfolio including portfolio classification.<br>System must meet basic conditions of quality and security, and be capable of meeting the needs of a growing institution. | • Review of previous LID monitoring reports<br>• Analysis and assessment of loan tracking system and reports that can be produced<br>• Technical assessment of system quality from the point of view of security and capability to respond to needs of growing institution |
| **Financial projection system** | Short-term and long-term projections, with budget projections, regularly updated and used as a key tool in decision-making process | • Review of previous LID monitoring reports<br>• Analysis and assessment of financial projections, ways of creating and using data, reality and reliability<br>• Analysis of how projections are revised: are they revised and why, are they used in decision-making process? |
| **Clients** | | |
| **Targeting clients** | Clear commitment to low-income entrepreneurs in the business plan and statutes that are carried out in operation | • Review of previous LID monitoring reports<br>• Review and analysis of business plan and statutes<br>• Portfolio analysis<br>• Regular client visits<br>• Client impact assessments |
| **Loan size** | First loan less than DEM 5.000,00<br>Average loan size disbursed less than DEM 10.000,00 | • Review of previous LID monitoring reports<br>• Review and analysis of business plan and loan products<br>• Portfolio analysis |
| **Financial Performance** | | |
| **Portfolio quality** | Portfolio at risk after 30 days less than 5%<br>Annual outstanding portfolio write-offs less than 3%<br>Less than 5% of rescheduled loans within active portfolio | • Review of previous LID monitoring reports<br>• Review of loan tracking system and financial reports<br>• Analysis of reliability of information from systems |
| **Financial sustainability** | Ability of institution to cover all costs with income from operations.<br>At least three consecutive quarters of more than 100% operational sustainability, and at least two cumulative quarters of financial sustainability | • Quarterly financial statements of MCSPs<br>Financial sustainability = Income from operations/ Adjusted operating expenses<br>Adjusted operating expenses = Operating costs (administrative, loan loss provision, financial costs)+( borrowed funds * market rate)- paid financial costs + ( average equity—average fix assets)*inflation rate |
| **Capital requirement** | Minimum 15% equity via-à-vis earning assets | • Equity/earning assets(cash and bank accounts + investments + outstanding portfolio) |

in the steps below, was critical to the credibility and success of the chosen targets.

1. **Focus on longer-term institutional capacity for clearly defined results.** In order to become capitalized and become independent of the LIDs, the MCSPs all agreed to achieve the performance standards summarized in table 1.

Although these standards were not conceived as the immediate goals of the technical service program *per se*, the program was designed to help each of the organizations reach these goals. (In its first year, the technical service program for the eight MCSPs addressed specific areas of overall capacity.) It is important to note that these standards combined the knowledge, skills, and attitudes of key individuals with the institutional systems needed to support those individuals. Taken together, the standards represent overall institutional capacity. Because the program simultaneously addressed the needs of eight very different organizations, and the goals of the technical service necessarily had to be applicable to all organizations.

2. **Tailor the technical services to allow individual MFIs to achieve agreed results.** Although the agreed MFI performance standards may seem somewhat general as goals for a technical service program, the MCSPs chose areas within the overall performance standards on which they would concentrate each year. Within each area, such as accounting or personnel management, the MCSPs expressed their own, clear and explicit objectives. The various technical service elements were then designed around these objectives. For example, the group expressed goals such as "to have an effective accounting system that meets international standards," or "to become better managers." The consultant then designed workshops to meet these expressed goals by identifying clearly defined results.

For example, each workshop addressed the improvement of the knowledge, skills, or attitudes of individual staff members on a particular "systemic issue," as well as the underlying "systems" needed by the institution. At the request of the MCSPs themselves, the workshops were all designed with a particular audience in mind. For example, various accounting and financial management workshops were specifically designed for finance managers and other accounting staff, with directors joining them on critical days. By contrast, management workshops were designed for staff in charge of designing personnel management systems and/or who had the most direct "people management" responsibilities.

3. **Include on-going evaluation of MFI progress toward the results as part of the process.** The ongoing self-assessment element was critical because, as the institutions evolved and grew, it allowed them to discern more appropriate needs and goals for technical services in the short term.

4. **Ensure that the results of the technical service are also client demand driven.** While the goal of the Local Initiatives Project was to create a certain number of sustainable MFIs, in the early years the definition of a "sustainable MFI" was neither entirely clear nor transparent. The mid-term review in 1998 addressed this problem directly and in a participatory way. The review team held meetings with all program stakeholders, including the the MCSPs. As a result, the agreed performance standards of the technical service program were articulated by the MCSPs themselves. All parties

**Table 8-3**

**Sample Standard Set of Institutional Capacity Indicators (UNCDF MicroStart Programme)**

| | Indicator | Baseline | Year 1 | Year 2 | Year 3 |
|---|---|---|---|---|---|
| **A.** | **Governance and Organizational Structure** | | | | |
| **A1** | Mission Statement | 0% | | | |
| **A2** | Business Plan | 0% | | | |
| **A3** | Legal Capacity/Governance | 100% | | | |
| **A4** | Ownership Structure | 50% | | | |
| **A5** | Organizational Chart | 100% | | | |
| **A6** | Board/Executive Director | 75% | | | |
| **A7** | Institutional Linkages | 100% | | | |
| **B.** | **Human Resources** | | | | |
| **B1** | Staff Recruitment | 100% | | | |
| **B2** | Job Descriptions | 75% | | | |
| **B3** | Evaluation/Compensation | 75% | | | |
| **B4** | Personnel Policies | 0% | | | |
| **B5** | Core Staff | 90% | | | |
| **B6** | Staff Development | 0% | | | |
| **C.** | **Management Systems** | | | | |
| **C1** | Management Information | 10% | | | |
| **C2** | Financial, Cash & Portfolio Management | | | | |
| **a** | Financial Statements | 0% | | | |
| **b** | Cash Flows | 0% | | | |
| **c** | Delinquency and Default | 10% | | | |
| **C3** | Audit and Internal Controls | 20% | | | |
| **C4** | Financial & Program Planning | 0% | | | |
| **C5** | Financial and Program M&E | 0% | | | |
| **C6** | Operating Manual | 0% | | | |
| **D.** | **Services/Delivery** | | | | |
| **D1** | Methodology | | | | |
| **a** | Well-Defined | 50% | | | |
| **b** | Delivery Standardized | 50% | | | |
| **c** | Delivery Minimizes Fraud | 10% | | | |
| **d** | Delinquency Management | 10% | | | |
| **D2** | Market Orientation | 50% | | | |
| **D3** | Financial/Training Services | 50% | | | |
| **E.** | **RESOURCES** | | | | |
| **E1** | Strategy for Funding the Loan Portfolio | 50% | | | |
| **E2** | Adequate Loan Capital | 75% | | | |
| **E3** | Adequate Donor Funds | 100% | | | |
| **E4** | Use of Interest Income | 100% | | | |

were thus clear about where they were heading and what kinds of technical services they needed to get there. Without this common understanding, it is unlikely that the technical services would have worked as well as it did.

### 4th C: Checkability Principle (indicators to check results)

In addition to agreeing on the end-results of the program, the MCSPs in Bosnia and Herzegovina also developed indicators to measure those results. The participatory process used to define the indicators was another crucial element in the success of the program. The steps of this consensual process are outlined below.

1. **Agree on indicators for the results.** It was decided that the indicators summarized in table 2 would be met in 2000, following commencement of the technical services program in 1999. Together with the indicators, the TSP and the MFIs agreed how to measure, or assess, the indicators so there would be complete transparency in performance assessments.

2. **Use indicators to assess whether the results of the technical services were achieved.** As stated earlier, the only assessment undertaken was an assessment of the institutional performance of the MCSPs, not the technical services program *per se*. By June 2000, all eight MCSPs were evaluated to determine if they had met the performance standards set by the program. All but one of the institutions reached the required standards listed in table 1.

It should be noted that almost none of the MFIs had access to technical services other than those provided by the Local Initiatives Project. Although the Technical Advisor correctly observed that correlation does not mean causation, in this case, it is difficult *not* to attribute their success to the technical services program. It can be noted, however, that the young staffs of the MCSPs in Bosnia and Herzegovina were highly educated, which contributed to their ability to quickly absorb and apply technical services to achieve demanding performance standards.

### 5th C: Change Focus Principle (baseline indicators)

The fifth principle taught the MCSPs not only to establish their own baseline indicators, but also to recognize conflicts of interest on the part of the TSP. This conflict was caused by the initial organizational arrangement in which the TSP was also the external evaluator of the MFIs. The Technical Advisor to the Local Initiatives Project recommends that MFIs follow two steps to gather baseline indicator measurements.

1. **Determine who establishes the baseline information of the institution and how to ensure its quality.** Because of the design of the Local Initiatives Project, the creation of baseline data for impact assessment was not entirely straightforward. One of the principal roles of the LIDs was to continually assess the MCSPs to determine whether to continue financing them, and if so, in what amounts and when. However, the LIDs were not responsible for managing the technical service program. There

was thus a definite disconnect between the institutional assessments, which created a baseline for the technical service program, and the program itself.

The assessments undertaken by the LIDs in late 1998 and early 1999 eventually provided the "baseline" of institutional performance against which the impact of the technical services was measured. Ideally, the MFIs themselves should have established their own baselines using a tool such as that shown in table 3 or any of the tools summarized in annex 1. These baseline would then have been used to monitor their performance following the delivery of technical services.

2. **Create specific baselines for individual technical service inputs.** In one instance, specific consultants developed a baseline assessment of overall financial management to monitor the impact of several distinct activities over the course of the year. This work began locally, with the formation of a task force of all interested finance people within the MCSPs. The task force sought to sort out certain fundamental accounting problems specific to the Bosnian environment. Two consultants were scheduled to visit Bosnia three times over the course of the year, first to work with the task force and then to deliver two workshops later in the year.

During their first visit to Bosnia to work with the task force, each of the eight MCSPs were visited by one of the two consultants. The purpose of their visits was to allow the consultants to assess the baseline knowledge of the MCSPs regarding financial management—both the skills and knowledge of individuals, as well as the systems in place in the institutions. These assessments proved to be critical to the success of this part of the technical service program because they enabled the consultants to gain firsthand knowledge of each organization and thus design appropriate interventions based on the existing levels of knowledge and institutional systems.

### 6th C: Cost Effectiveness Principle

The Technical Advisor recommends that TSPs follow the steps below to ensure a cost-effective delivery process for technical services.

1. **Accept that tradeoffs exist between individual and group needs.** When designing the technical service program with the MCSPs, the Technical Advisor addressed how to make the program cost effective. This can be particularly challenging when dealing with the varied needs of eight different organizations. Ideally, each MCSP would have received exactly the services it wanted, when it wanted them. The reality was that they were forced to find common ground in as many areas as possible in order to make the technical service program financially and practically feasible.

The most important lesson learned by the Technical Advisor is that there is a real trade-off between cost saving and effectiveness when designing multi-organizational services. While all MCSPs acknowledged the usefulness and effectiveness of the technical services they received, many believed the services would have been more effective if all services had been delivered one-on-one.

2. **Let MFIs define their common technical service needs.** The Technical Advisor's solution to this dilemma was to have the MCSPs define as much common ground

**How a TSP Implemented the 7Cs in Bosnia and Herzegovina**

1. Take the Client Demand-Driven principle as far as practical. Start by identifying MFIs with strong leadership that would make the best use of technical services.
2. Provide a framework in which MFIs can formulate their technical service needs. Ensure continuous client input into the technical service delivery process.
3. Maintain flexibility when delivering technical services: tailor the technical services to individual MFIs.
4. Focus on long-term institutional capacity when defining results. Ensure that agreed results are client demand-driven and integrate on-going evaluation of MFI progress toward results into the delivery process.
5. Understand that access to low-cost information is critical for MFIs and include this service as a clearly defined result.
6. Agree on indicators for the results.
7. Determine who establishes the baseline information of the institution and how to ensure the quality of this information. (Ideally, have the MFI undertake baseline measurements.) Create specific baselines for individual technical service inputs.
8. Use the indicators to assess whether the results of the technical services were achieved.
9. Accept that cost-effectiveness means tradeoffs between individual and group needs. When cost-effectiveness requires offering technical services to multiple organizations at once, allow MFIs to define their common technical service needs.
10. Have the MFIs pay part of the technical service costs.
11. Create and maintain a long-term relationship between the TSP and the MFI to ensure genuine mutual accountability for results.

as possible within the general institutional development areas they had agreed to address. In this way, she was able to organize a series of workshops to address common concerns—a cost-effective way of delivering technical services. She balanced this type of assistance, designed for a diverse group with differing needs, with the opportunity to access any of the consultants individually.

The combination of more general learning provided by the workshops with individual consulting immediately following the workshops proved very cost effective, since the consultants incurred their major costs (air travel, consultant days for designing and delivering the workshop) for the benefit of a large group of individuals and organizations. It was also effective practically, since each organization which received individual assistance had a better base-level knowledge of the topic, allowing them to make better use of the consultant's time.

The Technical Advisor followed the same principle to design study tours. Each study tour was designed for a particular group of people within the MCSPs (the first was for executive directors and board members, and the second, for credit and finance managers). This enabled the consultant to pick a country and/or institution that would best meet the expressed needs of a particular group of people. Further, it was cost-effective because of group rates obtained for air travel, hotel costs, fees paid to the organizations visited, and the like.

3. **Understand that access to low-cost information is critical for MFIs.** Finally, the consultant's experiences with low-cost means of providing technical services are very promising for the microfinance sector as a whole. It costs next to nothing to provide MFIs access to information that is critical to their operations, whether this means providing them the information they seek or guidance about where to find such information. It is important to consider including such an "information service" in an overall technical services program, not only because it is important in and of itself and because it is low cost, but because many people learn best by reading—not by hearing or even doing.

4. **Have the MFIs pay part of the technical service costs.** The cost-sharing built into the technical services budget is another illustration of the **C**ost Effectiveness principle. Although the actual costs paid by the organizations themselves were minimal compared to overall program costs, their contributions were significant to the organizations at that stage of their development. They paid, for example, all in-country costs of the study tours; their own transportation, room, and board for all workshops; and the hotel, per diem, and some travel costs for the consultants who worked with them individually. A number of organizations also availed themselves of more than the four consulting days paid for by the program budget, paying this additional cost out of their own funds.

## 7th C: a**C**countability Principle

The Bosnia and Herzegovina case is an excellent example of the importance of accountability derived from both contractual and personal commitments over the long term.

### *Commitment Drives Accountability*

The Technical Advisor found it hard to differentiate between the a**C**countability principles and the **C**lient Demand-Driven principle, which establishes MFI ownership of the technical service delivery process. In her opinion, if the latter exists, so will the former. In the Bosnia project, accountability was very real, but it was difficult to attribute to a specific mechanism.

Because of the nature of the program, the Technical Advisor was accountable both to the LIDs and the MCSPs. She was accountable to the LIDs because they contracted her and paid her to achieve results. In fact, she worked as a consultant on a renewable one-year contract: if the technical services were unsatisfactory to either the donors or the MCSPs, she would have been replaced.

Yet the Technical Advisor felt that her real accountability was to her clients, the MCSPs, with whom she had direct relationships. She felt entirely accountable for enabling them to reach agreed performance goals, even though she personally provided almost no direct technical services. It might be inferred that since the MCSPs did not pay her directly, she had no clear accountability to these organizations. Or, likewise, that accountability suffered because she did not have a clear contractual relationship with them.

In this case, however, the strong mutual commitment of the TSP and the MCSPs to achieve agreed results drove their accountability to one another. Accountability is more than monetary, it is also personal because it depends on relationships and not contracts alone. The LIP technical services program was unusual in that accountability derived from the quality of the people, both who provided the services and those who received it.

In the end, the Bosnia and Herzegovina technical service program worked not only because the consultant was able to delivery top-quality services, but because the MCSPs and the consultant were both committed to the program. Accountability is a two-way street. The consultant was dedicated to delivering the best services possible and the MCSPs were, in turn, dedicated to demonstrating to her that they had used the services well. Their mutual commitment was also based on the **C**lient Demand Driven principle, as the consultant continually sought client input and feedback. The MCSPs voiced their concerns and needs and trusted the consultant had heard them and would respond to the best of her ability.

### *Accountability Requires a Long-Term Relationship*

Another factor that contributed to accountability in the Bosnia and Herzegovina program was the length of the consultant's involvement, which began in mid-1996 and extended through 2000. This continuity of service gave the Technical Advisor a real stake in the success of the program and of the individual MCSPs. She believes there is an important lesson to be learned here. ***To create real accountability for results—preferably, mutual accountability—it is necessary to create and maintain long-term relationships.*** The more typical consultant model is to visit many countries and organizations on the fly, assuming that a brief intervention with no continued follow-up will make a difference. In the experience of the Technical Advisor, this approach to technical services does not produce TSP accountability for results, only a sustained relationship does.

## TSP Case Study: Freedom from Hunger

Freedom from Hunger (FFH), an international development organization working in 15 countries, brings self-help solutions to the fight against chronic hunger and poverty. Working with local partners, this nonprofit, non-sectarian NGO equips families with resources they need to build futures of health, hope, and dignity. In 1988, FFH developed the world's first integrated microcredit/health and nutrition education program. As of 2001, its Credit with Education program served more than 176,000 families in some of the world's poorest countries.

The premise of Freedom from Hunger's Credit with Education product is that very poor people—especially women in rural areas—face tremendous obstacles to becoming good financial service clients because of social isolation, lack of self-confidence, limited entrepreneurial experience, and major health and nutrition problems. Since the goal of FFH is to alleviate an entire family's poverty, these clients need more than credit alone—they also need educational services that specifically address these obstacles and provide a framework for their solution.

This case study documents how Freedom from Hunger, a TSP, delivered its Credit with Education product to two credit unions in Mali: Kafo Jiginew and Nyèsigiso. The TSP uses the process described below to ensure efficient delivery of its technical services.[1]

### 1st C: Client Demand Driven Principle

In order to determine whether sufficient client demand exists for the Credit with Education product, FFH reviews the operational and systems requirements of the product with potential clients. A fundamental question that must be answered is whether the client (in this case, the credit unions) is interested in serving the market niche of poor rural women. If so, the client must be willing to adjust its policies to effectively serve this group. This means incorporating the goal of serving the productive poor into its mission and integrating education into regular meetings of borrower groups, which enhances their ability to benefit from microfinance services.

To succeed with the Credit with Education product, FFH believes a client institution needs a "product champion" who is willing to learn the product technology, promote the product, and secure resources for product testing and integration in client institutions.

### 2nd C: Context Principle

Freedom from Hunger uses the Context principle to integrate the Credit with Education product into the context of credit union operations. Without a thorough understanding of the way in which credit unions operate and the constraints they face, it would be impossible to identify what procedures and systems need to be modified to implement the product.

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[1] One section of this case study appeared in chapter 7; for the reader's convenience, the study is printed in its entirety here.

Credit unions are good candidates for the integration of Credit with Education for the following reasons:

- Credit unions are community-based financial institutions.
- Efficiencies can be achieved when working with multiple credit unions to deliver the Credit with Education technology or when disseminating the technology to a single federation of credit unions.
- Because financial service delivery is their primary goal, credit unions are often in a stronger position than nongovernmental organizations to manage a new financial service.
- Credit unions generate their own liquidity (from savings accounts) for lending and, if they are effective, rely on little to no external funding for onlending.
- Credit unions have a social as well as a financial focus—they are concerned about the well-being of their members and open to providing educational services.
- Credit unions are based on the same type of cooperative management principles as the Credit Associations of the Credit with Education product. Both focus on providing high-quality services to their members.

Freedom from Hunger markets the following benefits to credit unions interested in implementing the Credit with Education product:

- *Profitability.* The product provides a profitable business opportunity in which the income generated will be sufficient to cover operating costs, a provision for loan-loss expenses, and the cost of funds. In addition, the product can also contribute to capital formation, absorb excess liquidity, and diversify risk by lending to a new clientele with different loan activities and loan cycles.
- *Outreach.* Credit with Education provides credit unions with a significant membership growth opportunity among poorer clientele. The product can rapidly attract a large number of new credit union members.
- *Quality.* Credit with Education provides a high-quality service, especially if credit union operations and financial performance meet minimum WOCCU standards for a model credit union.
- *Mission.* Credit with Education supports the mission of many credit unions by extending financial services to a lower-income, primarily rural, clientele. Its methodology embodies the democratic and participatory principles of credit unions.

Credit with Education adheres to "best practices" principles and standards of credit unions as defined by the World Council of Credit Unions (WOCCU) in its "New Credit Union Model" framework (WOCCU 1999).

Although a number of policy and operational decisions are needed to integrate the new product into credit union operations, no changes to the basic product-delivery methodology of credit unions are required. Credit with Education is a tested technology that has been packaged for transfer and implementation by local institutions. FFH provides the technical assistance, training, tools and materials needed to transfer the

**Households Wealth Categories used to Rank Malian Credit Union Clients**

**Category I: Food-Secure**

- ☐ They eat to their satisfaction throughout the year.
- ☐ They eat three meals a day even in the rainy season.
- ☐ The new harvest joins the previous one in the granary.
- ☐ They are able to take in other family members.
- ☐ They have cash; they depend on no one.
- ☐ They own a good bed to lie on with a mattress.
- ☐ Their children go to school by bicycle.
- ☐ Their household members are seen at the hospital.

**Category II: Vulnerable to Food Insecurity**

- ☐ They have enough to eat but not to sell.
- ☐ They have just enough to eat but do not set aside money and have no cereal in storage after consumption.
- ☐ They have food problems every two to three years.
- ☐ They are equipped, but all their equipment may not belong to them.
- ☐ Each year, these households rely on credit to farm while those in the first category mostly pay for their inputs with cash.

**Category III: Periodic Food Insecurity**

- ☐ Food is not quite assured throughout the year.
- ☐ Before the new harvest, they have food problems.
- ☐ They do not have enough equipment. Some have plows; others do not. They have difficulties with food three out of twelve months.
- ☐ Between June and September, they eat three times a day but not to their satisfaction. Two to three people do not eat well.
- ☐ They unite with others. They barter labor for equipment and land for food.
- ☐ They manage to cover half their health costs. Their harvest is not enough for them.

**Category IV: Chronically Food-Insecure**

- ☐ They have nothing. It is poverty that reigns from A to Z. They have no means.
- ☐ They have cruel difficulties with food. They have daily food problems.
- ☐ They do not have any equipment. They cultivate with a hoe.
- ☐ They live on the help of others. Their survival depends on others.
- ☐ They send their children to work for other villagers in exchange for some sacks of millet at harvest time.
- ☐ They are not well clothed and they lack shoes.
- ☐ Sometimes the children get sick and they cannot have them cared for. They have no money.

Source: Nteziyaremye and MkNelly, "Mali Poverty Outreach Study of the Kafo Jiginew and Nyèsigiso Credit and Savings with Education Programs," Freedom From Hunger (2001).

technology.

Funding for the technical services (TS) provided by FFH comes from third party donors, including the UNDP, USAID, CRS, and Plan International. The clients (credit unions) do not pay for the TS, but must be prepared to commit the time needed to integrate the new product and make necessary changes to their policies and procedures.

### 3rd C: Clearly Defined Results

FFH and the Mali credit unions defined the results of the technical service as follows:

- *Result A:* broadened outreach of credit unions to include poorer members
- *Result B:* increased credit union membership
- *Result C:* increased growth and financial performance of the credit unions that use the Credit with Education product over a period of five years
- *Result D:* improved leadership, management, and operational structure and systems of the credit unions

### 4th and 5th Cs: Checkability and Focus on Change

FFH implements these principles by first agreeing with its clients on the indicators that will verify the results of the technical service and then documenting a baseline against which results can be monitored.

#### *Indicator A: Broadened Outreach*

The parties did not, at the outset of the delivery process, agree on specific indicators to measure broadened outreach. In early 2000, however, Freedom from Hunger undertook a comparative profile of Credit with Education clients with other credit union clients using a wealth ranking related to food security issues. Credit with Education clients of the Mali credit unions were found to be poorer, on average, than other clients. This finding corresponded to the fact that Credit with Education serviced more marginalized rural communities than did other credit union products, which were primarily based in towns.

The specific indicators of wealth that were used in the comparative wealth ranking exercise can be found in the box on the following page. The intended clientele for the Credit with Education were households in categories II through IV.

**Table 8-4**

**Indicators used to Measure Credit with Education**

| | *1998 Baseline* | *2003 Contracted Results* |
|---|---|---|
| Number of borrowers | 12,465 | 24,783 |
| Outstanding amount of loans | 065,761 CFA | 2,867,475 CFA |
| Portfolio at risk ( > 1 day) | < 2 percent | < 2 percent |
| Operational self-sufficiency | 59 percent | 169 percent |

### *Indicators for Increased Membership and Improved Financial Performance*

FFH and the Mali credit unions agreed to the following indicators for increased number of credit union members and increased growth and financial performance over five years.

In addition, the credit unions and FFH agreed to track the number of members, operating cost ratio, and field agents per credit association on a quarterly basis. These target indicators could be changed by mutual agreement of the parties during the five years of the project.

Depending on the contractual arrangement made with each institution, more comprehensive information could also be reported. In Mali, product-line analyses were planned to specifically compare the Credit with Education product with other product lines offered by the credit unions.

Freedom from Hunger reports: "With one credit union network, there is an ability to do some comparative product-line analysis on an annual basis once they close their books for the fiscal year (which can take three to six months). The analysis looks at the consolidated portfolio for all the credit unions and includes the network costs. Two things are done: (1) a simple profitability analysis to see if revenues covered costs by product; and (2) a share analysis to see what share of outstanding loan balances, gross revenues, financial costs, administrative expenses, loan loss write-offs, net revenues, portfolio at risk, and staff size are represented by the Credit with Education product."

"With this credit union, we have also been able to develop a subsidy dependence index for the Credit with Education product line by factoring in the costs of our own technical service that is not on their books. We cannot do this for the other product lines since we don't have access to the cost of technical assistance financed by other donors, so it is not a comparative internal measure for them, but a measure of our own efficiency relative to other Credit with Education installations."

"The other credit union does not yet have the information systems needed to handle product-line analysis. As a result there is no share analysis *per se*, just a profitability analysis for Credit with Education by year once the books are closed. (We maintain quarterly reports—but these are un-audited so we use the annual reporting to the regulatory institution as the definitive base.) As the reporting systems get better for the overall credit union structure, we will be able to move the product line analysis a little more deeply to better account for the opportunity cost of funds within the network and to develop more accurate transfer pricing mechanisms for using accumulated liabilities and net assets within the networks."

### *Indicator for Improved Leadership*

In order to measure improved leadership, management, and operational structure and systems of the credit unions, FFH used an action plan detailing activities for the installation of certain systems and the delivery of certain trainings. However, the TSP reported, "this proved to be a weak instrument in that there were no qualitative

measures to accompany the process and a lot of these activities were overstated and underdone." Consequently, FFH is now improving the indicators for this result.

### 6th C: Cost-Effectiveness Principle

FFH uses the information from client satisfaction surveys and other assessments, such as the independent evaluation described above, to increase the productivity and thus, cost effectiveness, of its technical services. This step requires FFH to use the previous five principles to evaluate its effectiveness in terms of how the it transfers knowledge, skills, and attitudes; how these transfers lead to changes in organizational behavior; and how these organizational changes lead to enhanced institutional performance of the Credit with Education product.

Improving the ability to transfer knowledge, build skills, and change attitudes will not only lead to greater effectiveness, it will also contribute to greater efficiency by showing Freedom from Hunger how to lower the cost of its technical services delivery while maintaining or enhancing its quality.

FFH has taken the following specific actions to improve the efficiency of its TS:

1. *Development of basic "before and after" tools to assess results.* These tools measure how well the staff trained by FFH understood the content of the training and acquired the skills needed to perform as field agents for Credit with Education. The simple tests enable FFH to assess what the staff took away from the training. In the future, these tools need to be pushed further to assess knowledge and skills retention down the line; they also need to be adapted to assess skills transfer to managers.

   FFH is also developing attitudinal surveys to measure the effectiveness of its TS delivery because the TSP finds that the work environment of credit unions can inhibit the use of newly acquired skills and knowledge on the part of Credit with Education staff. For example, if the management of the credit union does not understand and support performance tracking of the program, then a staff member may be unable to allocate the time needed to measure indicators.

2. *Measuring the attitude of management and board members to determine their support for the changes needed to implement Credit with Education.*

3. *Measurement of total TS costs.* FFH measures cost through the subsidy dependence index (SDI), a tool it now uses with four partners on a pilot basis. Freedom from Hunger's use of the SDI, however, differs from how the SDI is generally used in that the organization includes the full cost of its technical service, whereas other organizations look only at the shadow cost of funds and in-kind transfers such as equipment donations. Technical service costs can be very steep; northern organizations often do share this information with other parties, including their southern partners.

### 7th C: aCcountability

FFH believes it is imperative to build accountability mechanisms into the delivery process. Accordingly, it instituted two significant accountability mechanisms between the FFH (the TSP) and its clients to ensure that the Credit with Education product delivered the agreed results to the Mali credit unions.

#### *First Accountability Mechanism: Institutional Study*

FFH set up a five-year institutional study to assess the impact of the Credit with Education product on the performance of the two credit unions. The study tracks the four results that FFH committed to deliver to the credit unions:

1. *Outreach Survey* to determine whether the relative levels of poverty of *Credit with Education* clients is lower than that of other credit union members, as promised.
2. *Member Intake Survey* to determine the degree to which the Credit with Education product is increasing membership, as promised.
3. *Financial Performance Tracking* that collects information on growth and financial performance of the credit union over a five-year period.
4. *Operational Assessment* to regularly assess the influence of the Credit with Education product on the human and operational systems of the credit unions.

The initial *Outreach Survey* showed that a cross-section of socioeconomic groups was participating in the Credit with Education program. The relative wealth of program clients closely matched the distribution of wealth in the communities at large. The percentage of member households categorized in the target wealth categories of "vulnerable" to "chronically food insecure" was 87 percent for Nyèsigiso and 69 percent for Kafo Jiginew.

The percentage of clients classified as destitute and chronically food insecure, and who even had a member in one of the credit unions, was 39 percent for Nyèsigiso and 14 percent for Kafo Jiginew. (More poor clients were captured by the Credit with Education product in the former credit union because it is located in a poorer rural area.)

Interestingly, Credit with Education clients were not significantly poorer than borrowers of financial products designed for farmers. Products offered in villages generally reached a relatively poorer clientele. Extending credit union services beyond the towns and large villages in which their branches are typically located appeared to be the most important variable in reaching lower-income clients. It was even more important than loan terms or, as in the case of Credit with Education, preferential lending, to reach a relatively poorer clientele.

All four components of the study were not complete at the time this guide was first published (2002), but FFH reported on their *Operational Assessment* experience in other contexts. This assessment is particularly important because the Credit with Education

**Table 8-5**

**Freedom from Hunger**
**Client Evaluation Form**

| Please indicate your agreement or disagreement with the following: | Strongly Agree = 5 | Agree = 4 | Neutral = 3 | Disagree = 2 | Strongly disagree = 1 |
|---|---|---|---|---|---|
| Our institution was involved in the topic selection and planning for this technical assistance activity. | | | | | |
| The objectives of this activity were clearly outlined from the beginning. | | | | | |
| Appropriate materials and/or activities were used to accomplish the objectives of this technical assistance visit. | | | | | |
| The visiting staff of Freedom from Hunger had appropriate knowledge of this subject. | | | | | |
| The visiting staff of Freedom from Hunger was prepared for this activity. | | | | | |
| The visiting staff of Freedom from Hunger respected the skills, knowledge, and attitudes our institution has in this subject matter. | | | | | |
| The length of time of the technical assistance visit was appropriate. | | | | | |
| I will continue to use information from this visit in the future. | | | | | |
| Overall, the technical assistance visit met my expectations. | | | | | |

Program has a significant impact on the institutional systems of a credit union, regardless of the financial and membership gains the program may bring.

- When Credit with Education is delivering desired results, client institutions have a tendency to expand without adequately investing in the general improvements needed for the product to perform (supervision, information systems, and internal controls). This is because a mobile banking system that usually represents 10 to 20 percent of the portfolio confronts the organization with a need to adapt all of its systems. Given the percentage of the portfolio represented by the Credit with Education product, the need to invest is not apparent.

In terms of technical services, this situation becomes problematic. As a product specialist, FFH is perceived as knowing the methodology for Credit with Education, but not much about credit unions. Also, because many northern credit union institutions provide general technical support on the institutional side, Freedom from Hunger runs into the problem of competing priorities and, sometimes, conflicting advice from other TSPs.

- When Credit with Education is not delivering the desired results, the situation is the same: FFH can work with the institution to clean up the methodological and basic extension system issues, but if the institution needs to invest in more staff capacity, general supervision, general information, and control systems, negotiating and acceptance become harder.

One example of how FFH took action to improve the results of its technical service was a workshop for eight African credit union partners (including the Malians) to troubleshoot issues with Credit with Education at a higher level and deal with them more systematically. The workshop proved very successful, giving credit union leaders the opportunity to focus their attention on the product not only with their staffs, but with their peers from similar networks and other external collaborators. By moving the process from one-to-one vertical assistance to facilitating a lateral dialogue among peers, Freedom from Hunger was able to get greater institutional buy-in and focus on the product, thus ensuring better results.

### *Second Accountability Mechanism: Client Evaluation of FFH*

FFH set up two processes for its clients to evaluate their technical services: evaluations of specific TS activities and an independent external assessment of how clients evaluated their working relationship with FFH.

**How Freedom from Hunger Implements the 7Cs**

Freedom from Hunger (FFH) is a TSP that provides product-led technical services. Its services enable clients to add the Credit with Education to their product portfolio and thus reach a poorer market segment than they have previously targeted. FFH follows the steps below to implement the seven principles for effective technical service delivery.

1. Make sure the client wants to implement the Credit with Education product.
2. Understand the context of the technical service provider, the product, and the client.
3. Clearly define the results required from the technical service.
4. Agree on indicators that will verify the results of the technical service.
5. Document a baseline against which results can be monitored.
6. Build in accountability mechanisms between the TSP and the client.
7. Use information from client satisfaction surveys and other ongoing assessments to increase the productivity (and thus cost effectiveness) of the technical service.

The first process is client feedback after a specific technical service (TS) intervention. The working outline of this assessment, detailed below, is given to the clients upon the conclusion of each intervention.

Clients are also asked the following questions:

- What did you like about the way the technical assistance was provided?
- What would you change about the way the technical assistance was provided?
- What information or tools from this technical assistance activity will you use in the future?

They were then invited to send suggestions and comments via e-mail.

In the second process, clients evaluate their institutional relationship with Freedom from Hunger. The aim of the assessment is to improve the quality of technical service collaboration between FFH and its partners. Rather than undertake this assessment itself, Freedom from Hunger decided it would get more honest feedback if an independent contractor undertook the assessment.

The Institute for Development Research (IDR) in Boston was contracted to work with Freedom from Hunger staff to develop a research framework and questionnaires for the assessment, and to conduct institutional interviews in a manner that would ensure each interviewee utmost confidentiality. From November to December 2000, IDR conducted 42 in-person interviews with 19 organizations.

IDR first consolidated the feedback into a preliminary report that it shared with FFH staff in January 2001. It further refined the report and shared a new draft with the FFH Board of Trustees in February of 2001. Finally, IDR developed a report for FFH partners in April 2001. Freedom from Hunger staff then began meeting one-on-one with its partners to debrief them on the findings and analysis of the report in order to validate its content and to discuss how to improve their institutional relationship.

The assessment proved very useful because it encouraged FFH to be more flexible with its technical package and process, more open about how to structure its relationships with other organizations, and more strategic about combining its core competencies with existing local capacity. It is expected that this process will develop into a general satisfaction tool that FFH can give its partners every 12 months.

The quotes below are excerpts from the independent assessment and describe how FFH partners view their technical service relationship with FFH:

Strengths

*FFH's strength is in the educational materials and the way [these materials are] presented by trainers in the meetings. The materials and the TOT are what they do best.*

*The FFH partnership permitted us to expand to the marginalized population of women, which we would not have been able to reach otherwise. Overall, it permitted us to achieve growth in lending vis-à-vis the poor.*

*The collaboration has permitted an end to the myth that lending to the poor in general and women in particular is not a profitable exercise.*

Weaknesses

*FFH had little consideration for needs and themes outside that found in its product.*

*FFH wanted to hear nothing from us on the question of program extension and education themes. It was a partnership that was too rigid and lacked flexibility. We love the methodology and believe in it, but we do not agree to limit our program to the dictates of FFH.*

*CwE is a very costly program. Without [donor funding], local programs couldn't pay for it. They need to look at ways to make it cheaper and more accessible so others can do it. They need to continue testing the model with different countries and adapting [it to] different levels of capacity. Its very technical and challenging.*

Threats and Opportunities

*To most improve the partnership FFH, should agree to develop a real strategy for transferring competence from FFH to the national NGO. We need to transfer to our people what the FFH Regional Trainer or other experts have mastered. We need to limit the amount of FFH technical service.*

*I'm monitoring the costs. If we find it is very efficient, we will implement it throughout the organization. If it's not efficient, we will find ways to make it more so ourselves.*

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# Annexes

***Annex 1.***
A Comparison of Key Elements of MFI Self-assessment Tools

***Annex 2.***
Summary of Approaches to Assessing Technical Service Effectiveness

***Annex 3.***
Terms of Reference for NWTF and WWB

***Annex 4.***
Sample Contracts between MFIs and TSPs and between Donors and TSPs

## Annex 1

# A Comparison of Self-assessment Tools for MFIs

This annex contains tables that summarize the key elements of a wide range of MFI self-assessment tools. MFIs investigating self-assessment tools or looking for appropriate indicators to measure the results of a technical service are invited to consider the following comments:

1. **Most of the tools incorporate good design principles.** The tools
   - are consistent in method and approach so that they can accurately track changes in the performance/institutional capacity of an organization, rather than changes in measurement techniques.
   - attempt to balance perceptions with empirical observations.
   - clearly define the capacity or performance area being measured against the criteria that it is being judged.
2. **Great similarities exist among the core elements of most MFI assessment tools, but the tools differ greatly in their accessibility. The majority of MFIs cannot use the tools without external expertise in either the methodology or the scoring.**
   - MFIs need to be able undertake their own self-assessments**, otherwise they will be dependent on external expertise to determine how they are performing and what technical services they need.**

- Many young MFI's lack the skills or specific training to use these tools effectively. Institutions that develop tools might consider how to overcome such barriers so that the majority of MFIs are able to use standardized tools to regularly assess themselves and thus better determine their technical services needs.

3. **Many tools used to assess institutional capacity of any business have useful elements that may be adapted for microfinance assessments.**

   For example, the Katalysis partnership, a nonprofit organization with affiliates in Central America adapted the criteria for performance excellence from the Baldridge National Quality Program (of the National Institute of Standards and Technology) to assess MFI performance.

4. **Most tools are publicly available on the Internet.** See the source information in the tables that follow.

The following pages feature charts that summarize both microfinance-specific assessment tools, as well as general business/institutional assessment tools.

Missing: The Balanced Scorecard

www.balancedscorecard.org

***Purpose:***

Get from website

*Methodology:*

**Self-assessment after initial training**

**in the Balanced Scorecard**

## General Business/Institutional Assessment Tools

| Balanced Scorecard | | |
|---|---|---|
| ***Organization, Purpose, Methodology*** | ***Major Areas of Assessment*** | ***Sub-elements of Each Major Area of Assessment*** |
| ***Authors:***<br>Developed by Robert Kaplan (Harvard Business School) and David Norton (Balanced Scorecard Collaborative)<br><br>***Contact/Availability:***<br>Balanced Scorecard Collaborative, Inc., a professional services firm that offers training and consulting in the Balanced Scorecard.<br>www.bscol.com<br><br>**The Balanced Scorecard Institute** provides training and guidance to assist government agencies and companies in applying balanced scorecard concepts to strategic management.<br>www.balancedscorecard.org<br><br>***Purpose:***<br>To clarify the vision and strategy of organizations and translate them into action. Provides feedback on internal business processes and external outcomes to continuously improve strategic performance and results.<br><br>***Methodology:***<br>Self-assessment after training in how to implement the Balanced Scorecard, including the development of organization-specific metrics. | 1. Learning and Growth Perspective<br><br>2. Business Processes Perspective<br><br>3. Customer Perspective<br><br>4. Financial Perspective | • Employee training, corporate culture, mentoring/tutoring programs, communication among workers, technological tools (e.g., intranets)<br><br>• Development of metrics for internal business processes. Metrics answer the questions: How well is the business run? Do products and/or services to different customer groups.<br><br>• Customer satisfaction: development of metrics for the processes that provide products and/or services to different customer groups<br><br>• Traditional financial metrics, plus risk assessment and cost-benefit data |

## Microfinance-Specific Tools

| The ACCION CAMEL | | |
|---|---|---|
| ***Organization, Purpose, Methodology*** | ***Major Areas of Assessment*** | ***Sub-elements of Each Major Area of Assessment*** |
| ***Organization:***<br>ACCION International<br><br>***Contact/Availability:***<br>www.mip.org<br>Publicly available<br><br>***Purpose:***<br>To create an internal assessment tool that enables MFIs to reach the highest standards of performance<br><br>***Methodology:***<br>Self-assessment after initial expert assessment and/or a supervisory tool | 1. **C**apital adequacy<br>2. **A**sset quality<br>3. **M**anagement<br>4. **E**arnings<br>5. **L**iquidity management | • Leverage, adequacy of reserves, ability to raise equity<br>• Portfolio at risk, write-off policy, portfolio classification, L/T, asset productivity, infrastructure<br>• Governance/management, human resources, controls and audit, management information systems, strategic planning<br>• ROE, efficiency, ROA, interest rate<br>• S/T asset productivity, liability structure, funds availability, cash flow projection |
| **CGAP Appraisal Format** | | |
| ***Organization:***<br>Consultative Group To Assist the Poorest (CGAP)<br><br>***Contact/Availability:***<br>www.cgap.org<br>Publicly available<br><br>***Purpose:***<br>To appraise relatively mature MFIs for CGAP; also for internal/external appraisers | 1. Institutional factors<br>2. Services, clientele, and market<br>3. Strategic objectives<br>4. Financial performance | • Legal, history, board, alliances, leadership, human resources management, organizational structure, management information systems, internal control/audit, finance manager<br>• Services, outreach, clientele<br>• Mission, objectives<br>• Income statement, balance sheet, adjustments, profitability, efficiency, loan portfolio analysis, liquidity management, interest rates, liabilities analysis, capital management |

| OI Partner Accreditation Scheme<br>Self-Assessment and Peer Appraisal | | |
|---|---|---|
| ***Organization, Purpose, Methodology*** | ***Major Areas of Assessment*** | ***Sub-elements of Each Major Area of Assessment*** |
| ***Organization:***<br>Opportunity International<br><br>***Contact/Availability:***<br>www.opportunity.org<br><br>***Purpose:***<br>Self and Peer Assessment of progress towards institutional excellence and identification of technical service needs.<br><br>***Methodology:***<br>Each sub-element has a description and rating guide, from seriously unacceptable to excellent, that is very easy to follow. | 1. Vision and Values | • Clearly worded statement of values, values communicated, values put into practice, Christian identity maintained, Christian identity communicated |
| | 2. Governance—The Board | • United around common vision, Board duties defined, Board administration, Board membership diversity, Board management style |
| | 3. People and Internal Relationships | • Recruitment policies & practices, Salary policies & practices, Rewarding performance, Staff training and development, Human resource planning, Organizational clarity & development, Board/ED/Staff relationships, Leadership |
| | 4. Funding and External Relationships | • Relationships with donors, Relationships with Support Partners, Self-supporting in funding, Relationships with microfinance/NGO sectors, Relationships with Opportunity International Network, Relationships with government/public bodies |
| | 5. Administration and Control | • Legal constitution, Financial accounting system, MIS, Audit processes, Planning & budgeting system, Product design & definition, Product & program control, Client feedback |
| | 6. Operational Performance | • Outreach, Poverty focus, Arrears, Portfolio at risk, Operational sustainability, Financial sustainability, Non-financial services |
| | 7. Transformation | • Transformational vision, Economic transformation, Social transformation, Spiritual transformation, Institutional transformation |
| | | Total = 230 |

| NIST Criteria for Performance Excellence | | |
|---|---|---|
| ***Organization, Purpose, Methodology*** | ***Major Areas of Assessment*** | ***Sub-elements of Each Major Area of Assessment*** |
| ***Organization:***<br>National Institute of Standards and Technology (NIST)—Baldrige National Quality Program<br><br>***Contact/Availability:***<br>www.quality.nist.gov<br>Publicly available<br><br>***Purpose:***<br>To foster continuous quality improvement and achieve performance excellence<br><br>***Methodology:***<br>Self-assessed ranking from 0 to 100% with indicators for each percentile; followed by an independent review and site visits | 1. Leadership<br>2. Strategic planning<br>3. Customer and market focus<br>4. Information and analysis<br>5. Human resource focus<br>6. Process management<br>7. Business results | • Organizational leadership, public responsibility and citizenship<br>• Strategy development, strategy deployment<br>• Customer and market knowledge, customer relationships and satisfaction<br>• Measurement and analysis of organizational performance, information management<br>• Work systems, employee training and development, employee well-being and satisfaction<br>• Product and service processes, business processes, support processes<br>• Customer-focused results, financial and market results, human resource results, organizational effectiveness results |
| **USAID Discussion-oriented Organizational Self-assessment (DOSA)** | | |
| ***Organization:***<br>U.S. Agency for International Development (USAID)<br><br>***Contact/Availability:***<br>www.dec.org/usaid_eval/<br>Publicly available<br><br>***Purpose:***<br>To provide assessment of PVOs for USAID's Office of Private and Voluntary Cooperation<br><br>***Methodology:***<br>Use of the participatory, results-oriented self-evaluation (PROSE) method to assess an organization's practices in six key capacity areas | 1. External relations<br>2. Financial resource management<br>3. Human resource management<br>4. Organizational learning<br>5. Strategic management<br>6. Service delivery | • Constituency development, fundraising, and communication<br>• Budgeting, forecasting, cash management<br>• Staff training, supervision, and personnel practices<br>• Teamwork and information sharing<br>• Planning, governance, mission, and partnering<br>• Field-based program practices, sustainability issues |

| IDRC Guide for Institutional Assessment | | |
|---|---|---|
| ***Organization, Purpose, Methodology*** | ***Major Areas of Assessment*** | ***Sub-elements of Each Major Area of Assessment*** |
| ***Organization:***<br>International Development Research Center (IDRC)<br><br>***Contact/Availability:***<br>www.irca.ca<br>Publicly available<br><br>***Purpose:***<br>To create an institutional profile<br><br>***Methodology:***<br>A learning partnership between the local organization and the evaluator | 1. Organizational environment<br><br>2. Organizational motivation<br><br>3. Organizational capacity<br><br>4. Organizational performance | • Administrative/legal, technology, political, economic, social/cultural, stakeholder<br><br>• History, mission, culture, incentives<br><br>• Strategic leadership, human resources, other core resources, program management, process management, inter-institutional linkages<br><br>• Effectiveness, efficiency, relevance |
| **Institutional Development Framework (IDF) of MSI** | | |
| ***Organization:***<br>Management Systems International (MSI)<br><br>***Contact/Availability:***<br>Phone: 202-484-7170<br>Publicly available<br><br>***Purpose:***<br>To assess MSI's partners.<br><br>***Methodology:***<br>Grading of 1 to 4 on each of five major areas. | 1. Oversight/vision<br><br>2. Management resources<br><br>3. Human resources<br><br>4. Financial resources<br><br>5. External resources | • Board, mission, autonomy<br><br>• Leadership style, participatory management, management systems, planning, community participation, monitoring, evaluation<br><br>• Staff skills, staff development, organizational diversity<br><br>• Financial management, vulnerability, and solvency<br><br>• Public relations, work with local communities, ability to work with government bodies, ability to work with other NGOs |

| Microfinance Alliance for Global Impact (MAGI)<br>Planning Assessment Users Guide | | |
|---|---|---|
| ***Organization, Purpose, Methodology*** | ***Major Areas of Assessment*** | ***Sub-elements of Each Major Area of Assessment*** |
| ***Organization:***<br>Catholic Relief Services (CRS)<br><br>***Contact/Availability:***<br>akruize@catholicrelief.org<br>Publicly available<br><br>***Purpose:***<br>To provide accreditation and technical service needs for CRS partners<br><br>***Methodology:***<br>Assessment of MFI partners for accreditation by CRS and peers (not self-assessment) | 1. Planning<br><br>2. Services<br><br>3. Management information systems<br>4. Financial administration<br><br>5. Organizational structure<br>6. Financial analysis<br><br>7. Microfinance principles<br><br>8. Performance indicators | • Vision and mission, strategic planning, operational planning<br>• Definition of loan products, service quality, community group management, non-financial services<br>• System design, records management, reporting<br>• Internal control procedures, accounting policies and procedures, loan loss reserve policies, financial performance analysis, financial planning<br>• Governance, legal status, human resource management<br>• Adjustments to financial statements; e.g., for subsidies<br>• Adherence to principles; e.g., lending to the poorest clients<br>• Reporting on 51 different indicators |
| **Potential for Reach and Sustainability of WWB** | | |
| ***Organization:***<br>Women's World Banking (WWB)<br><br>***Contact/Availability:***<br>www.swwb.org<br><br>***Purpose:***<br>To identify an MFI's potential for achieving outreach and sustainability. Used in tandem with WWB affiliation, partnership agreement, performance monitoring and client satisfaction tools as part of a mutually-reinforcing system of assessment<br><br>***Methodology:***<br>Self/Network administered questionnaire with very simple grading of 1 to 4 for the 50 questions | Organizational Identity<br>• Vision and Mission (1)<br>• Governance and leadership (9)<br><br>Organizational Culture<br>• Client Connection (5)<br>• Knowledge and innovation (4)<br><br>Organizational Linkages<br>• Relationship with network (4)<br>• Linkages (3)<br><br>Organizational Performance<br>• Operations (3)<br>• Portfolio (3)<br>• Revenue and Income (3)<br><br>Organizational Capacity<br>• Human resources (6)<br>• MIS (3)<br>• Internal controls (2)<br>• Funding (3)<br><br>Others<br>• External environment (1)<br>• Signs of potential (1) | 1. It highlights some of the **key success factors** or indicators in achieving outreach and sustainability<br>2. It makes explicit **standards** for these indicators<br>3. It supports WWB's thinking and **segmentation** of its affiliates<br>4. It tries to rationalize the process of rating WWB affiliates into high, medium and low potential affiliates through a process of disaggregation and aggregation of the **components of success**<br>5. It tries to temper value judgments as the exercise is done collectively<br>6. It highlights **information gaps** at WWB and highlights how well or how little WWB knows its affiliates<br>7. It may also highlight **perception gaps** between WWB and the affiliate if the affiliates and WWB compare ratings<br>8. It also highlights **changes** that have taken place over a period of time within the affiliate as the exercise is done yearly<br>9. It highlights areas of **weaknesses and strengths** as well as **opportunities for engagements** and it also highlights contradictions within an organization<br>10. It feeds into WWB's **resource allocation strategy** |

| Network Capacity Assessment Tool (NCAT) of SEEP | | |
|---|---|---|
| ***Organization, Purpose, Methodology*** | ***Major Areas of Assessment*** | ***Sub-elements of Each Major Area of Assessment*** |
| ***Organization:***<br>The SEEP Network<br><br>***Contact/Availability:***<br>www.seepnetwork.org<br>Publicly available<br><br>***Purpose:***<br>To assess the capacity of a microfinance network institution.<br><br>***Methodology:***<br>External assessment performed that uses many open-ended questions to assess the level of development and members' needs. | 1. Governance | • Board, mission/goals, stakeholders, leadership |
| | 2. Management practices | • Organizational structure, planning, personnel, program development, administrative procedures, risk management, management information systems |
| | 3. Human resources | • Human resource development, human resource management, work organization |
| | 4. Financial resources | • Accounting, budgeting, audit, financial reporting, diversification of income |
| | 5. Service delivery | • Sectoral expertise, member-driven services, assessment, marketing |
| | 6. External relations | • Inter-network collaboration, government collaboration, donor collaboration, public relations, local resources, media |
| | 7. Sustainability | • Organizational sustainability, financial sustainability |
| **Organizational Capacity Assessment Tool (OCAT) of PACT** | | |
| ***Organization:***<br>PACT<br><br>***Contact/Availability:***<br>www.pactpub.com<br>Publicly available<br><br>***Purpose:***<br>To provide self-assessment or external assessment of the capacity of a institution<br><br>***Methodology:***<br>Examination of seven capacity areas and assignment of a score of 1 to 6 to each capacity area with indicators for each score | 1. Governance | • Board, mission, constituency, leadership, legal status |
| | 2. Management practices | • Organizational structure, information management, administrative procedures, personnel, planning, program development, program reporting |
| | 3. Human resources | • Human resources development, staff roles, work organization, diversity issues, supervisory practices, salary and benefits |
| | 4. Financial resources | • Accounting, budgeting, financial/inventory controls, financial reporting |
| | 5. Service delivery | • Sectoral expertise, constituency, impact assessment |
| | 6. External relations | • Constituency relations, inter-NGO collaboration, public relations, local resources, media |
| | 7. Sustainability | • Program/benefit sustainability, organizational sustainability, resource-base sustainability |

| Partnership Tools of CARE/SEAD | | |
|---|---|---|
| ***Organization, Purpose, Methodology*** | ***Major Areas of Assessment*** | ***Sub-elements of Each Major Area of Assessment*** |
| ***Organization:***<br>CARE/SEAD<br><br>***Contact/Availability:***<br>www.pactpub.com<br>Publicly available<br><br>***Purpose:***<br>To identify and assess potential MFI partners for CARE. | 1. Vision<br>2. Human resources<br>3. Programs<br>4. Financial viability | Each of the four major areas of assessment is evaluated using the same four processes/elements that follow. They are outlined in a table format.<br>• Planning<br>• Organizational structure<br>• Systems<br>• Linkages |
| **The PEARLS Monitoring System of WOCCU** | | |
| ***Organization:***<br>World Council of Credit Unions (WOCCU)<br><br>***Contact/Availability:***<br>www.woccu.org<br>Publicly available<br><br>***Purpose:***<br>To help managers of credit unions find meaningful solutions to serious institutional deficiencies.<br><br>***Methodology:***<br>Self-assessment after training and/or external assessment. | **1. P**rotection of assets<br>**2. E**ffective financial structure<br>**3. A**sset quality<br>**4. R**ates of return and costs<br>**5. L**iquidity<br>**6. S**igns of growth | • Loan loss provisioning<br>• Ideal financial structure for a credit union: comparison with optimal asset, liability, and capital percentages<br>• Delinquency ratio, percentage of non-earning assets, financing of non-earning assets<br>• Yield on: Loan portfolio, liquid investments, investments in finance companies, and other non-financial investments. Operational costs: Financial intermediation costs, administrative costs, and unrecoverable loan costs<br>• Total liquidity reserves: Liquidity reserves in a regulatory body, idle liquid funds<br>• Growth in: Total assets, loans, savings deposits, shares, and institutional capital |

| MFI Network Performance Monitoring Tools of SEEP Members | | |
|---|---|---|
| ***Organization, Purpose, Methodology*** | ***Major Areas of Assessment*** | ***Sub-elements of Each Major Area of Assessment*** |
| ***Organization:***<br>The SEEP Network<br><br>***Contact/Availability:***<br>www.seepnetwork.org<br>Publicly available<br><br>***Purpose:***<br>The self-assessment tool enables the MFI to use information found on its financial statements to learn trends and potential risks by monitoring a set of financial ratios<br><br>***Methodology:***<br>MFIs monitor a predetermined set of ratios over time to determine the state of the institution | 1. Sustainability/ profitability<br><br>2. Efficiency<br><br>3. Portfolio quality<br><br>4. Growth/outreach<br><br>5. Solvency/leverage<br><br>Other | See the *Report of the SEEP Financial Services Working Group Performance Monitoring System's Project* (2000) for more details. |

## Annex 2

# Evaluating Technical Services: An Overview

In preparing for its empirical research, the SEEP Technical Assistance Working Group (TAWG) researched microfinance, international development and business management literature to find out how other organizations assess the effectiveness of technical services.

The group uncovered a wide range of literature on evaluating the effectiveness of different types of technical services. To begin to make sense of this range of opinions, the TAWG identified four major approaches, or "schools," to assessing the effectiveness of technical services. These are the training school, the capacity development school, the quality school, and the market school.

The training school assesses the effectiveness of technical services by evaluating training in all its forms. The capacity development school uses institutional capacity development to assess technical services. The quality school analyzes the quality of the business processes used by the institution in the technical services delivery process. And the market school allows market demand to determine the effectiveness of the technical services. Each of these schools has major publications which provided the basis of the summaries that follow.

### The Training School

The tools used to evaluate training can also be used to evaluate technical services. The focus of these tools is to understand how well knowledge, skills, and attitudes at the organization, job position, and individual levels have been transferred by a training program—or in our case, by the delivery of technical services. This approach requires the technical service provider to take the following steps:

1. Identify the task or performance that needs to be improved and develop a profile of the ideal knowledge, skills, or attitudes that lead to sound practices for a particular job or task.
2. Document the baseline (current) level of knowledge, skills, and attitudes for the particular job or task.
3. Determine what technical services are needed (both what they are and how they should be delivered) to close the gap between the ideal and the actual knowledge, skill, or attitude. The type and extent of technical service will depend on the time and budget available.
4. Design monitoring tools to assess changes in these skills, knowledge, and attitudes over time after the technical services have concluded.

The training school is based on the following literature:


Austin, James E. 1990. *Managing in Developing Countries: Strategic Analysis and Operating Techniques.* New York: Free Press.

Bramley, Peter. 1996. *Evaluating Training Effectiveness: Benchmarking Your Training Activity Against Best Practice,* 2nd ed. New York: McGraw Hill.

Delahaye, Brian L., and Barry J. Smith. 1998. *How To Be an Effective Trainer: Skills for Managers and New Trainers,* 3rd ed. New York: John Wiley.

Eitington, Julius E. 1996. *The Winning Trainer: Winning Ways to Involve People in Learning,* 3rd ed. Houston, TX: Gulf Publishing.


### The Capacity Development School

Capacity development measures changes in organizational behavior, skills, values, and relationships that improve an organization's ability to carry out its functions and achieve desired outcomes over time. This school focuses on both process (how it happens) and outcomes (what happens). The capacity development approach seeks to understand (1) how technical services impact the organizational capabilities of a development institution and (2) the applicability of different indicators for measuring various functions of a range of organizations at distinct evolutionary stages.

To design indicators to measure the results of capacity development or, in our case, the results of technical services, a technical service provider will ask all participants/stakeholders involved in the process the following questions:

1. What goal is the technical service intended to achieve? What are the critical functions that will allow the MFI to succeed?
2. What is the current "state" or capacity of the institution (that is, the baseline from which the organization is starting)?
3. What are the desired technical service outcomes for the organization, including the commitments of the participants/stakeholders to achieve and maintain the results?
4. What indicators will measure whether the projected capacities have been developed? (This question is directed towards field participants in particular. Indicators should focus on both desired process and behavioral changes.)

The capacity development approach is based on the following literature:

Kaplan, Robert S., and David P. Norton. 1994. "Performance Measurement in Government." *Public Management* 76, no. 9 (September).

Morgan, Peter. 1997. "The Design and Use of Capacity Development Indicators." Paper prepared for the Policy Branch of the Canadian International Development Agency (CIDA).

### The Quality School

Because high-quality processes will reliably produce high-quality results, this school of evaluating technical services focuses on the quality of the delivery process rather than its results. This means identifying which processes to measure, how to measure them, and how to use this information to improve the processes over time. Defining indicators that can measure continuous process improvement requires the ongoing participation of all contributors to the system being evaluated, as well as their commitment to implementing quality processes.

When it is difficult to measure results, as is the case with technical services delivery to microfinance institutions, this school holds that it is even more important to assess process over results. For example, a lag time often exists between the delivery of technical services and the long-term results of those services, making the quality of the delivery process critical. In the case of effective technical services delivery, then, the quality school would concentrate on developing and implementing the business processes (i.e., the 7Cs) that support their delivery.

The act of performance measurement itself does not have the power to force fundamental change on most businesses, but it focuses the attention of staff on the issues that need to be changed. The quality school asserts that only the people involved in key processes can bring about change, that and this change will generally be a process change.

The quality school approached the measurement of quality in business using such standards as:

*International Standards Organization (ISO)*. The ISO awards "ISO 9000" status to companies that meet its quality standards. Information on the standards and how they are set and assessed can be found at www.iso.ch.

*Baldrige Awards*. The U.S. Department of Commerce provides these quality awards to American businesses through an annual competition. The department has developed a useful system for quality self-assessment of companies. Descriptions of the award and the competition guidelines and procedures can be found at www.quality.nist.gov.

*North Central Association Commission on Institutes of Higher Education*. Universities measure and maintain quality through a regular system of accreditation. The system and standards used by the North Central Association can be found at www.ncacihe.org.

## The Market School

The market school is based on a business approach to assessing the effectiveness of technical service. This school holds that market demand—i.e., an MFI's willingness to pay for a service—is the ultimate test of effectiveness. The market is assumed to define good performance based on the impact of products and services on the client. In this sense, the approach is client demand driven because the MFI is the decision maker. It is the demand of MFIs for a particular type of technical service, argues the market school, that should determine its effectiveness.

Accountability in this school means that the client MFI is prepared to pay for ongoing services from a technical service provider. This approach assumes that MFIs

- know where they are going and what they need to get there,
- have good information about different types of technical services,
- are able to choose between technical service options to help them get reach their goals, and
- have sufficient funds to make choices about their technical services.

## Annex 3

# Terms of Reference for NWTF and WWB

**WOMEN'S WORLD BANKING**

**TERMS OF REFERENCE FOR TECHNICAL ASSISTANCE**

**NEGROS WOMEN FOR TOMORROW FOUNDATION**

**FEBRUARY 7-11, 2000**

### Background

Negros Women for Tomorrow Foundation (NWTF) is a new affiliate of WWB. One of the leading microfinance institutions in the Philippines, it has about 15,000 borrowers in its 13 branches all over Negros province. NWTF rates very [sic] satisfactorily along many dimensions of WWB's performance standards. It is positioned as a high potential MFI and thus WWB is committed to extending services that provide real value-added [sic] to the affiliate. One such area is in MIS.

NWTF employs a group lending methodology adapted from the Grameen Bank. It has sent staff for training on the Grameen software in Bangladesh and the FAO MicroBanker in Thailand. However, it has opted to employ a customized loan tracking software.

In 1999, NWTF advised WWB that they had decided to adopt a "local" software. The "local" software was being developed by a group of independent consultants (developers) under the Technical Assistance component of a FUNDER loan being administered by the FUNDER PARTNER. The design was based on inputs from a multi-sectoral group that included NGOs, rural banks, and cooperatives. The FUNDER PARTNER had contracted the development of this software with the intention of promoting it among its clientele, to facilitate their operational and financial reporting to FUNDER PARTNER. NWTF requested that an assessment be done on the software before it is installed in the institution. Although this was an after-the-fact assessment, having already made the decision to use it, they nevertheless saw an

opportunity to influence the design of the system to achieve as close a match as possible with their needs.

The 'local' software is expected to be ready for a beta-testing in February with the NWTF as test site. NWTF has requested assistance in evaluating the software. WWB has responded by scheduling an MIS Technical Assistance visit in February 2000.

### Proposed Team

The WWB Team will be composed of the following:

Financial and Credit Management Coordinator, Women's World Banking

[Consultant from] A Talent Bank

### Objectives

The visit will have the following specific objectives:

- Assist the affiliate in understanding and defining their MIS needs
- Evaluate the "local" software
- Determine the degree of congruence between the proposed software and NWTF needs; and as necessary submit recommendations to improve adaptability

More strategically, the TA is expected to contribute to the following longer-term objectives:

- Development of an MIS strategy for NWTF
- Building in-house MIS capability

### Key Activities

The WWB Team shall undertake the following activities towards the attainment of the above objectives:

- Meetings with management and staff to understand present challenges, future plans and direction of the institution
- Facilitate workshops for management and staff to articulate MIS needs
- Review of loan and financial/accounting processes and procedures of NWTF both at the Head office and the branch level
- Conduct workshop on MIS
- Introduction to WWB MIS Assessment Framework to introduce them to evaluation process
- Meetings with FUNDER and FUNDER PARTNER, developer and "owner" of software respectively
- Evaluation of "local" Software

### Key Issues that Need to be Addressed

Following are some of the questions that need to be answered in the course of this visit:

- How does the "local" software fit in with the medium and long-term plans of the institution, notably their decision to transform into a bank in the near future?
- Does NWTF have other alternatives aside from the "local" software and has an evaluation been done on these alternatives?
- What capabilities need to be developed within NWTF to ensure the successful shift to a computerized MIS system?
- What are the plans of FUNDER, FUNDER PARTNER and developers for the software beyond the FUNDER Technical Assistance?
- What additional external inputs (either from WWB or elsewhere) will be required by NWTF beyond the software evaluation?

### Outputs

- Assessment of "local" vs. WWB Framework - An evaluation of the "local" software against the different dimensions of the WWB MIS Assessment Tool
- Findings and recommendations on the suitability of the "local" software to NWTF. –The WWB team will discuss key findings and recommendations with the Management of NWTF and submit a written documentation of such findings and recommendations.

***Duration:*** Six days, February 7-11, 2000 broken down as follows:

- 1-2 days in Manila to evaluate the software and meet with other stakeholders
- 2-3 days in Bacolod City to do initial capability building, organizational MIS needs assessment and reporting of findings and recommendations
- 1 day for report writing

## Annex 4

# Sample Contracts between MFIs and TSPs and between Donors and TSPs

Annex 4 includes three sample contracts. The first sample contract represents an agreement between a microfinance institution and a technical service provider as used by *SOCODEVI*. The second two sample contracts are between funders and TSPs as used by MicroStart and CGAP

**Sample Roles and Responsibilities of MFIs and TSPs from an Actual Contract**

**Roles and Responsibilities of the MFI**

1. To consider the TSP as the lead partner in organizational development for the period of the project.
2. To coordinate with the TSP any offers of support resulting from other bodies or institutions that could have a direct or indirect impact on the project, which is the object of the present Agreement.
3. To use the goods and services received through the project for the stipulated purposes mention in the present Agreement.
4. To transmit to the TSP complete and timely reports as required by the [name] project. The organization will provide the TSP with access to its registers, documents, financial reports, or other information sought in relation to the project.
5. To participate in the annual programming of activities and to ensure the availability of the members of the board and its staff for the realization of the project.
6. To participate actively in implementing the activities of the project according to the linear matrix of responsibilities (Attachment 1).
7. To supply to the technical advisers and other persons put at the disposal of the project the logistical support needed to accomplish their tasks while working in the office of the MFI.
8. To promote increased participation of women so that by the end of the project, there is a more significant percentage of women clients.
9. To keep the TSP informed about the decisions that it makes that could have an impact on the project.
10. To participate in the annual evaluations of the project and in the revision of Attachment 1.

**Roles and Responsibilities of the TSP**

As project manager, the TSP is responsible for implementing the project. The mandate includes the following responsibilities:

1. To supply the goods and services foreseen by the project, providing that the TSP receives the necessary funds from __(donor)__.
2. To supply the international and local technical assistance that is necessary and relevant in implementing the project.
3. To manage the project, to monitor the project, to advise the advisory board and other stakeholders according to the requirements of the project.
4. To be responsible with the MFI for the orientation and evaluations of the project.
5. To draft agreements necessary for the proper functioning of the project.
6. To plan and coordinate with __(donor)__ the meetings of the advisory board.
7. Following annual evaluations, to adapt the project according to the goal and purpose of the project.
8. To foster the participation of the MFI in monitoring the results of the project according with the philosophy of Results-Based Management.

**First Sample Contract**

**Agreement between an MFI and a TSP as used by *SOCODEVI***

AGREEMENT

Between

The MFI

BELOW CALLED "THE ORGANIZATION"

And

INTERNATIONAL TECHNICAL SERVICES PROVIDER (ITSP)

BELOW CALLED "THE ITSP"

The agreement contains:

A: The description of the project;
B: General framework of the agreement;
C: Roles and responsibilities of the Organization;
D: Roles and responsibilities of the ITSP;
E: Particular conditions;
F: Modifications of the agreement.

A DESCRIPTION OF THE PROJECT

1. **Project Objectives**

1.1 Project Goal

To enhance the livelihoods of the economically active poor in OECS member states by increasing access to microfinance services.

1.2 Impact

Decrease in poverty levels among economically active poor.

Stronger base for establishment of a flourishing microcredit sector.

1.3 Project Purpose

To strengthen the capacity of national level microfinance institutions (MFI) in selected OECS countries to provide microfinance services on a sustainable basis to the economically active poor

1.4 Outcomes

1.4.1 Outcome # 1: MFIs are better equipped to provide sustainable financial services to the target clientele

| | |
|---|---|
| Performance Indicators: | Level of sustainability<br>Ratio of operational cost on total portfolio<br>Portfolio at risk |

1.4.2 Outcome #2: Target clientele have greater access to microloans from MFI

| | |
|---|---|
| Performance Indicators: | Value of portfolio to the target clientele<br>Number of micro-loans<br>Average size of loans |

1.5 Outputs:

| Outputs | Performance Indicators |
|---|---|
| 1. The MFI has a viable strategy for building its portfolio and ensuring the financial stability<br>2. The MFI has a coherent planning and budgeting system<br>3. Annual staff development plan in place and implemented in the MFI<br>4. A sound control system is in place and operational in the MFI<br>5. A new loan product tailored for the target clientele is in place in the MFI<br>6. Adaptation of the MFI structure to manage the new loan product effectively | 1. Number of strategies approved by the board of the MFI<br>2. Number of new planning and budgeting systems in place in MFI. Quality of planning.<br>3. Number of staff and board members trained in selected areas<br>4. Quality of the internal controls done in relation to the microfinance portfolio<br>5. Number of request for loans<br>6. Efficiency of the management structure to deliver microfinance loans<br>7. Accurate and timely projected budget and targets in use to manage the growth |

B Terms and Conditions of the Agreement

The present agreement constitutes the general framework of collaboration between the two signatories.

However, Attachment I, which is an integral part of this agreement, clarifies activities, work plan and responsibilities of each for a period of twelve consecutive months. The contents of this attachment will be updated each year based on the performance appraisal. This Agreement will become groundless if one of the signatories do not manage to reach the target set in Attachment 2 (Performance Measurement Framework).

C: Roles and Responsibilities of the Organization

1. To consider the ITSP as the lead partner in organizational development for the period of the project.
2. To coordinate with the ITSP any offers of support resulting from other bodies or institutions which could have a direct or indirect impact on the project which is the object of the present Agreement.
3. To use the goods and the services received through the project for the stipulated purposes mention in the present Agreement.

4. To transmit to the ITSP complete and timely reports as required by the project. The organization shall provide the ITSP with access to its registers, documents, financial reports, or other information sought in relation to the project.
5. To participate in the annual programming of activities and to insure the availability of the members of the board and its staff for the realization of the project.
6. To participate actively in the implementation of the activities of the project according to the linear matrix of responsibilities (Attachment 1).
7. To supply to the technical advisers and to the other persons put at the disposal of the project the logistical support needed to accomplish their tasks while working in the office of the MFI.
8. To promote increased participation of women such that by the end of the project, there is a more significant percentage of women clients.
9. To keep the ITSP informed about the decisions that it takes which could have an impact on the project.
10. To participate in the annual evaluations of the project and in the revision of Attachment I.

D: Roles and responsibilities of the ITSP

As project manager, the ITSP is responsible for the implementation of the project. The mandate includes the following responsibilities:

1. To supply the goods and the services foreseen by the project, provided that the ITSP receives the necessary funds from the UNDP.
2. To supply the international and local technical assistance which is necessary and relevant in the implementation of the project.
3. To manage the project, to monitor the project, to advise the advisory board and other stakeholders according to the requirements of the project.
4. To be responsible with the Organization for the orientation and the evaluations of the project.
5. To draft agreements necessary for the proper functioning of the project.
6. To plan and coordinate with UNDP the meetings of the advisory board.
7. Following annual evaluations, to adapt the project according to the goal and purpose of the project.
8. To foster the participation of the Organization in the monitoring of the results of the project according with the philosophy of Results Based Management.

E: Particular Conditions

Dissolution

In spite of all other dispositions of the present Agreement, the signatories can, if they inform the other party of their intention through a written communication thirty ( 30 ) days in advance, cancel for any reason the present Agreement completely or partially. In such a case, the Organization can not ask the ITSP for any payment because of such dissolution, or require any form of compensation.

Application of Project Funds

The ITSP can, of its own accord, interrupt or cancel its contribution to the realization of some activities or a part thereof, if, among other things, the Organization does not use the financial contribution exclusively for the purposes of the project according to the targets set in the present agreement, or if the Organization does not respect the established clauses or if the Organizations implements activities contrary to the agreement and/or to ITSP's principles.

Should the UNDP request/require that the ITSP revise the budget and reduce costs during a given financial year, the present Agreement would consequently be revised.

Compensation

The Organization will save the ITSP harmless and keep the ITSP indemnified from and against all claims, demands, losses, damages, costs and expenses which may be sustained or incurred in consequence or arising out of the project. The ITSP shall not be asked to cover any expenses resulting from such complaints.

Property and Use of Goods Provided by the Project

The Organization will be considered the trustee of the funds and equipment acquired with UNDP contributions for the realization of the project. At the end of the project, and with the agreement of the UNDP, the ITSP will propose the disbursement of the funds and equipment.

Intellectual Property

The intellectual property of systems, documents, texts, textbooks and the computer programs elaborated within the framework of the project belong to the ITSP.

Opinion

Any opinion given by the ITSP to the Organization by virtue of the present agreement is considered as having been effectively given if opinion is sent from one or other one of the addresses which follow or at any other addresses which will have been previously communicated in writing.

THE ITSP THE ORGANIZATION

Duration of the Agreement

Unless cancelled in accordance with the conditions mentioned above, the present agreement will be valid for the duration of 33 months from the date signed by both signatories.

Disagreement

In case of disagreement or of conflict resulting from the execution of the present agreement, the parties will subject their dispute to an arbitrator jointly appointed.

F: Modifications of the Agreement

Any modifications to the present Agreement will be consider valid once there is a signed Agreement of the amendment. The effective date of this Agreement will be the most recent of two dates for which this agreement was signed in the name of the ITSP and that of the Organization.

SIGNED: BY THE [ITSP]

BY TWO ( 2 ) AUTHORIZED PERSONS FROM THE ITSP

Name: _____ Name: _____

Title: _____ Title: _____

_____ _____

Signature Signature

SIGNED: BY THE ORGANIZATION

BY TWO ( 2 ) AUTHORIZED PERSONS FROM THE ORGANIZATION

Name: _____ Name: _____

Title: _____ Title: _____

_____ _____

Signature Signature

**Second Sample Contract**

**Agreement between Funders and TSPs as Used by MicroStart**

# SECTION 1

# TECHNICAL SERVICE PROVIDER

# CONTRACTING

## TSP Contracting

Upon submission, review and approval of the TSP proposal, the Country Office will initiate the contracting process. A standard contract has been developed for [the project] outlining the responsibilities of the TSP with payments based on the achievement of milestones. Upon signature of the contract and submission of its first invoice, the TSP will receive ten percent (10 %) of the contract.

### *Documents Described/Included:*

- Model Contract
- Invoice Format

A. CONTRACT

Date _____

Dear Sir/Madam,

Ref.:_____/ _____/ _____[INSERT PROJECT NUMBER AND TITLE]

The United Nations Development Programme (hereinafter referred to as "UNDP") wishes to engage your **[company/organization/institution]**, duly incorporated under the Laws of **[INSERT NAME OF THE COUNTRY]** (hereinafter referred to as the "Technical Service Provider or TSP") in order to perform consulting services [hereafter referred to as "Services"] under the [Project] Pilot Programme. A Technical Service Provider when contracted is required to supply a wide-range of services, including:

- identifying potential grantees;
- preparing of grant proposals for the local [Project] Advisory Board;
- staff training and workshops, and back-up support to new and existing microfinance institutions;
- access to best practices in all areas of microfinance activities;
- advising on how to establish a board of directors as well as resource mobilization strategies; and
- facilitating impact assessment studies.

1. Contract Documents

1.1 This Contract is subject to the UNDP General Conditions for Professional Services, not attached, but available to both parties. The provisions of such general conditions shall control the interpretation of this Contract and in no way shall be deemed to have been derogated by the contents of this letter and any other Annexes, unless otherwise expressly stated under section 4 of this letter, entitled "Special Conditions".

1.2 The TSP and UNDP also agree to be bound by the provisions contained in the following documents, which shall take precedence over one another in case of conflict in the following order:

a) this contract;

b) the Detailed Workplan [when approved by the UNDP Resident Representative, to be attached here as Annex 1 with a copy forwarded to UNDP's Special Unit for Microfinance, hereafter SUM, in New York];

c) The fourth inclusion UNCITRAL rules of arbitration and conciliation are not attached hereto, but referenced, and are available to both parties.

1.3 All the above shall form the Contract between the TSP and UNDP, superseding the contents of any other negotiations and/or agreements, whether oral or in writing, pertaining to the subject of this Contract.

2. Obligations of the TSP

2.1 The TSP shall perform and complete the Services described in Annex I with due diligence and efficiency and in accordance with the Contract.

*2.2 The TSP shall provide the services of the personnel which were presented to THE UNDP Country Office and UNCDF/SUM in the TSP's response to the "Request for Proposals". The names and CVs of the personnel are not attached hereto but known to and in the possession of both parties.*

2.3 Any changes in the above key international personnel shall require prior written approval of the Resident Representative, UNDP. The Resident Representative may ask SUM to confirm that the personnel are of equal quality.

2.4 The TSP shall also provide all technical and administrative support needed in order to ensure the timely and satisfactory performance of the Services.

2.5 The TSP shall submit to UNDP (SUM and Country Office) and the Advisory Board Members the deliverables specified below according to the following schedule:

| ***DELIVERABLES*** | ***DELIVERY DATES*** |
|---|---|
| Detailed Workplan | To be approved by the [Project] Local Advisory Board within four months of first payment after contract signature. |
| MFI Performance Reports* | Every quarter. Report will cover from January 1 to March 31; April 1 to June 30; July 1 to September 30; and October 1 to December 31. Due date: two months after the end of the period. |
| TSP Annual Milestone Reports | Upon completion of milestones: end of first calendar year; second calendar year; third calendar year and end of project |
| TSP Financial Expenditure Reports | Five months from date of arrival in country, and covering every six months thereafter. It is due 30 days after the end of the period. |
| Final Report | Within thirty-six [36] months of date of arrival in country. |

* The first Performance Report is due only after the first Micro-Capital Grant is approved. Performance Reports consist of the Outreach and Portfolio Performance Report (quarterly); Financial Performance Report (annual); Income Statement (annual); Balance Sheet (annual); and Institutional Development Report (annual). (See TSP Operational Handbook, Chapter 6, for formats.)

**Sample Delivery Table**

| Deliverable | Delivery Date |
|---|---|
| Inception Report | 1 July 1998 |
| Detailed Workplan | 1 February 1999 |
| MFI Performance Reports* | Two months following each quarterly reporting period: |
| | 31 August 1999 (covering period 1 April 1999—30 June 1999) |
| | 30 November 1999 (covering period 1 July 1999—30 September 1999) |
| | 28 February 2000 (covering period 1 October 1999—31 December 1999) |
| | 31 May 2000 (covering period 1 January 2000—30 March 2000) |
| | 31 August 2000 (covering period 1 April 2000—30 June 2000) |
| | 30 November 2000 (covering period 1 July 2000—30 September 2000) |
| | 28 February 2001 (covering period 1 October 2000—31 December 2000) |
| | 31 May 2001 (covering period 1 January 2001—30 March 2001) |
| | 31 August 2001(covering period 1 April 2001—30 June 2001) |
| | 30 November 2001 (covering period 1 July 2001—30 September 2001) |
| | 28 February 2002 (covering period 1 October 2001—31 December 2001) |
| | 31 May 2002 (covering period 1 January 2002—30 March 2002) |
| | 31 August 2002 (covering period 1 April 2002—30 June 2002) |
| TSP Annual Milestone Reports | Two months following each annual reporting period: |
| | 28 February 2000 (covering year 1999) |
| | 28 February 2001 (covering year 2000) |
| | 28 February 2002 (covering year 2001) |
| | 31 December 2002 (covering period 1 January 2002—31 October 2002) |
| Draft Final Report | 31 October 2002 |
| Final Report | 31 December 2002 (two months following operational completion of activities to enable final report preparation) |

2.6 All reports shall be written in the English, French or Spanish language, and follow the standard formats provided by SUM. The Progress Report formats will follow accepted microfinance industry standards for variables which measure the institutional growth and capacity of local organizations assisted. TSPs are responsible for entering the data for Progress Reports via SUM's web-enabled database located at http://www.uncdf.org/sum. The TSP may utilize its own reporting format for the Financial Expenditure Report, following the categories presented by the TSP in its Detailed Workplan. Financial Expenditure reports shall be sent by the TSP via email to the address specified in 9.1 below.

2.7 The TSP represents and warrants the accuracy of any information or data provided to UNDP for the purpose of entering into this Contract, as well as the quality of the deliverables and reports foreseen under this Contract in accordance with the highest industry and professional standards.

2.8 The TSP will either contract a local microfinance organization[s], consulting firm[s], or hire local staff who will be an integral partner in the provision of technical services, and thus have their capacity strengthened during the three year period.

**COST REIMBURSEMENT**

3. Price and Payment

3.1 In full consideration for the complete and satisfactory performance of the Services under this Contract, UNDP shall pay the TSP a price of up to U.S. Five Hundred Thousand Dollars [US$500,000]. UNDP shall have the option of granting an extension of the contract for an amount of US$97,222 for seven [7] months additional service based on: i) UNDP's determination that the TSP has successfully performed the requirements of the Statement of Work; ii) availability of funding; and iii) based on UNDP's judgment that the additional services are justified. In cases where UNDP anticipates extending the contract, UNDP should notify the TSP three (3) months prior to project end date to avoid interrupting service.

3.2 The amount contained in 3.1 above is the maximum total amount of reimbursable costs under this Contract.

3.3 Planned expenditures per cost category shall be provided by the TSP with the submission of the Detailed Workplan provided to UNDP as per the schedule noted below. Actual expenditures within a cost category (personnel, travel, training, equipment, miscellaneous) greater than 25 percent or US$15,000, whichever is higher, above planned levels should be reported to the Advisory Board, with justification noted.

3.4 The TSP shall not do any work, provide any equipment, materials and supplies, or perform any other services which may result in any costs to UNDP in excess of the amount under 3.1 without the prior written agreement of UNDP.

3.5 Payments effected by UNDP to the TSP shall be deemed neither to relieve the TSP of its obligations under this Contract nor as acceptance by UNDP of the TSP's performance of the Services.

*3.6 UNDP shall effect payments to the TSP after acceptance by UNDP of the invoices submitted by the TSP to the UNDP Resident Representative in the respective country of operation [copied to the address specified in 9.1 below], upon successful completion (meaning the TSP is on track to complete the outputs approved in its Detailed Workplan, or if not, can satisfactorily explain its strategy for meeting objectives in the next period) of the corresponding milestones and for the following amounts subject to 5.1 below:*

| *Milestone* | **Estimated Amount [%]*** | *Target Date* |
|---|---|---|
| Signature of contract | $50,000 [10%] | |
| Upon approval of Detailed Workplan | $125,000 [25%] | 4 months after contract signature |
| Successful completion of calendar year 1 | TBD up to 25% | 28 February following year |
| Successful completion of calendar year 2 | TBD up to 25% | 28 February following year |
| Successful completion of calendar year 3 | TBD up to 90% of total contract | 28 February following year |
| Successful completion project | Remaining Balance | Upon receipt of final deliverables |

* Actual amounts may vary if the local advisory board approves a different schedule in conjunction with the detailed work plan.

4. Special Conditions

4.1 SUM shall review the performance of all TSPs providing services under the Global [Project] Pilot Programme, according to the following three categories: 1] Outreach: number of active clients, of whom 50% or greater are women; 2] Sustainability: Operational Self-Sufficiency; and 3] Portfolio Quality Ratio: Portfolio at Risk Ratio. Those TSPs ranked in the bottom 10% in both absolute and percentage change, who are not achieving the benchmarks outlined in their Detailed Workplan will have a performance review with SUM, to determine how to improve performance. Where performance does not improve, and TSPs continue to fall short on their targets, UNDP will have the option to cancel contracts. It is understood that it is entirely possible for a TSP to successfully reach its anticipated benchmarks while still performing in the bottom 10%. SUM will also review the performance of top performers to better understand the factors contributing to their success, and to share lessons where relevant.

5. Time and Manner of Payment

5.1 Invoices (Sample attached in part B of this section) shall be paid within thirty (30) days of the date of their receipt and acceptance by UNDP. UNDP shall accept or inform the TSP that payment criteria has not been met within five (5) working days from receipt. If the semi-annual Financial Expenditure Reports [noted in 2.5 above] of the TSP demonstrate that the cash balances of the TSP exceed twenty percent [20%] of the payments to be made at the successful completion of years 1, and 2, then UNDP shall have the right to withhold payment until such time as the TSP can demonstrate that

expenditures have or will soon reduce cash balances below 20% of those payments.

5.2 All payments shall be made by UNDP to the following bank account of the TSP:

**[NAME OF THE BANK]**

**[BANK ROUTING NUMBER]**

**[BENEFICIARY ACCOUNT NAME]**

**[BENEFICIARY ACCOUNT NUMBER]**

**[ADDRESS OF THE BANK]**

6. Financial Audit/Record Keeping/Programme Audit

6.1 TSPs agree to keep records of all expenditures, including records of person days provided by personnel. Records of all equipment purchased [vehicles, computers, copy machines, office equipment] must be registered with the local UNDP Country Office, and remain the property of UNDP until the end of the project, at which time UNDP will determine the appropriate institution to handover/transfer equipment to. TSPs agree to fully cooperate with audits requested by UNDP, which could include financial as well as programme information.

6.2 TSP should keep expenditure receipt for all payment in excess of US$2,500. Timesheets are sufficient to justify personnel invoices. UNDP does not require receipts for hotel stay or meals; however, per diem should not exceed the per diem established by UNDP. The UNDP Office in country can provide established per diem rates.

7. Entry into Force/Time Limits/Termination

7.1 The Contract shall enter into force upon its signature by both parties.

7.2 The TSP shall target to arrive in country no later than two [2] months after receipt of initial first payment and shall submit a Detailed Workplan within four [4] months of initial, first payment. Should the Detailed Workplan not be approved, then the contract will be considered terminated and not move into its operational stage, and no further payments beyond the initial $50,000 will be made.

7.3 The TSP shall complete the Services within thirty six [36] months of arrival in country.

7.4 Both parties will be required to give thirty [30] days notification to the addresses noted below in the case of termination of the contract.

7.5 All time limits contained in this Contract shall be deemed to be of the essence in respect of the performance of the Services.

8. Modifications

8.1 Any modification to this Contract shall require an amendment in writing between both parties duly signed by the authorized representative of the TSP and the Manager, SUM, UNDP.

9. Notifications

9.1 For the purpose of notifications under the Contract, the addresses of UNDP and the TSP are as follows:

For the UNDP:

Resident Representative

UNDP

[Insert Name, Address, Fax and email coordinates]

Ref._____/_____/_____

**[INSERT CONTRACT REFERENCE & NUMBER]**

For SUM:

John Tucker

One United Nations Plaza, UH—811

New York, New York 10017

email: john.tucker@undp.org

Fax: 212-906-3655

For the TSP:

[Insert Name, Address, Fax and email coordinates]

**B. Sample of Invoice format**

***to be completed by Tsp upon completion of payment milestone***

**I N V O I C E**

**FROM:**_____

**TO:**_____

**DATE:**_____

**SUBJECT: [PROJECT]**

**As per the above contract:**

| Milestone | Description | Amount in US$ |
|---|---|---|
| | | |
| | | |
| | | |
| | | |
| **TOTAL** | | |

**Above sum to be transferred to:**

**[NAME OF THE BANK]**
**[BANK ROUTING NUMBER]**
**[BENEFICIARY ACCOUNT NAME]**
**[BENEFICIARY ACCOUNT NUMBER]**
**[ADDRESS OF THE BANK]**

**Copies to:**

**Special Unit for Microfinance**
**UNDP**
**One United Nations Plaza**
**Room UH-811**
**New York, N.Y. 10017**

If the above terms and conditions meet with your agreement as they are typed in this letter and in the Contract Documents, please initial every page of this letter and its attachments and return to UNDP two [2] originals of this Contract, duly signed and dated.

**For** [Insert name of the company/organization] **For UNDP**

Agreed and Accepted: Agreed and Accepted:

Signature _____ Signature _____

Name _____ Name _____

Title _____ Title _____

Date _____ Date _____

## Third Sample Contract

## Agreement between Funders and TSPs as Used by CGAP

**Terms of Reference**
**CGAP Capacity Building Initiative**

**A Workshop on Marketing "Skills for Microfinance Managers" Courses for CGAP Partners**

**XX**

### BACKGROUND

*Goal of CGAP's Capacity Building Initiatives*

***The limited capacity of retail MFIs to deliver services to the poor constitutes the primary bottleneck to expansion of microfinance services worldwide. To address this issue, CGAP currently implements capacity building initiatives with several local private sector partners in Africa, Asia and Central and Eastern Europe. The purpose of the initiatives is to develop a market for capacity-building services in each of the regions.***

***While significant demand for these services exist, very few local service providers can supply the market. Therefore, the initiatives aim to build the "supply side" of this market by enhancing the ability of local service providers to deliver high quality, low cost training in each region. It is expected that these local service providers will form a cadre of regional micro-finance specialists that practitioners and donors can tap for technical assistance.***

*The CGAP Capacity Building Product under these initiatives employs a "learning-by-doing" methodology. It results in the delivery of training (and eventually technical assistance) services directly to microfinance practitioners on a commercial basis. The courses expose practitioners to best practice materials and knowledge in financial management that will enable them to strengthen their skills, and ultimately improve the management of their institutions, quality of services, and outreach to poor clients.*

## Marketing of the CGAP Capacity Building Product

The product delivered through the local service providers has seven elements all of which are essential for successful achievement of the goals of the initiative. One of these is limited assistance in marketing of the training courses. This was limited because the local partners were expected to take primary responsibility for marketing the courses they are delivering. Partners were chosen because they had an institutional structure that had strong incentives for them to sell their courses, cover their costs and develop the market for high quality training. Therefore, CGAP's focus had been on coordinating the limited marketing support and monitoring the local partners' marketing efforts.

This marketing support to date has included advertising course schedules on the CGAP website, managing the choice of a brand name for the courses—***Skills for Microfinance Managers***—and jointly preparing a brochure for these courses.

However, CGAP has found that many of its partners need better marketing skills for their training courses. Donors have often paid for training courses directly in the past, and so marketing courses to participants was not essential. However, these and other types of distortions in the market as well as increased competition, have now made marketing skills critical. CGAP has decided that even though there are big regional differences in the marketing challenges faced by partners, it needs to take a more pro-active role.

CGAP anticipates there is a niche where it can be of value between basic business marketing skills learned in graduate programs and the details of each partners' microfinance sector. Consistent with the rest of the capacity building program—we have decided the best way to learn marketing skills for the microfinance sector is through a workshop that uses experiential learning methodology.

Therefore, CGAP is proposing that a one-day workshop be designed for its partners according to the Task described below. Because it is new for CGAP to become involved in marketing in this way and because there is a degree of skepticism about the possibility of pitching this workshop at a relevant level, it will be undertaken in close consultation with the Product Manager, Hubs and partners, as described in the Output below.

## TASK

Design a one-day workshop (from 9am—5pm) on "Marketing Skills for Microfinance Managers Training Courses" for the CGAP partners. The purpose of the workshop would be to provide partners with the skills to develop their own marketing strategies for the courses. CGAP is considering asking participants to pay a nominal fee to learn these valuable skills and leave the course with a marketing/promotion plan for a specific course. Specifically the course would include:

- **Introductory session—overview of service marketing**
- **Segmenting criteria for marketing the courses**

Exercise: brainstorm useful ways to segment the market that can assist in selling the product. (e.g. segmenting by stage of growth)

- **Identify the value each CGAP course brings to the different segments**

Guidelines/ elements of good "unique selling point" messages

Exercise: Write and evaluate these messages for each course and for each market segment.

**REMUNERATION:**

The consultant will receive a daily rate of _____ for a maximum of seven days for the first draft by 13 April, the final output by 30 April and preparing the facilitator. In addition, CGAP will cover all communication expenses required for the assignment. In the case of a late or incomplete report or otherwise non-fulfillment of these Terms of Reference, CGAP reserves the right to make only a partial payment.

This would be designed an opportunity for participants to think again in a new context about their marketing messages.
(Probably lunch would come here in the workshop.)

- **Pricing the training courses**

After focusing on the value of the courses we then start on putting a promotional package together. Price is one element of that package but a tough one for partners so we will spend a little time on it.

Exercise based on the three myths of pricing (great fun.)

- **Promotion—putting it all together and taking it to the customers**

Once we have the right messages and understand pricing, then participants need to design low cost strategies to get the message to the audience using a mix of different channels and promotion techniques: advertising, sales promotion (e.g. scholarships) PR, direct marketing and personal selling.

Exercise: develop a promotional plan for one course that includes product positioning. (The product can be positioned in a variety of different contexts including in other channels.) The promotional plan would start from three months before the course right through to all the follow up. Handouts would include checklists and the information on promotional approaches.

Workshop participants should leave with a good promotional plan for a specific course and a way to evaluate the benefits and costs of the plan once they have tried it out.

It is proposed that an indicator of the success of the course will be an increase in the number and mix of full fee paying participants to CGAP courses over the next six months.

The consultant will draw from discussions with Patricia Mwangi, the Asia Evaluation, the MFC Evaluation, discussions with the CGAP website manager, AFCAP's Training

Manager, the Product Manager, and other members of the CGAP Capacity Building Initiative as needed:

Ruth Goodwin will coordinate this assignment, with Patricia Mwangi as backup.

**OUTPUT and TIMEFRAME:**

The ultimate output will be a one—day workshop on "Marketing Skills for Microfinance Managers Training Courses". Participants will leave this workshop with the ability to take immediate practical steps to improve their marketing and successfully sell their courses to get the right number and mix of paying participants. There is one intermediate output.

1. First output: a draft outline of the workshop that includes—the session's goals; key activities to achieve those goals; outline of the proposed overheads and handouts; and describes the material participants will take back to their organizations. There will be enough material for a minimum of 6.5 hours of training. There will be continuous collaboration with the CGAP Product Manager and interested hubs and partners and the draft will be reviewed by CGAP. This will take place during the week of 9 April 2001 for probably two, maximum three days and be completed by 13 April 2001.

2. Final output: a fully implementable one—day workshop on "Marketing Training Courses" that incorporates the comments from CGAP on the outline. It will use the experiential learning methodology, be written in the same format as other CGAP training courses, and cover the topics listed above. There will be a minimum of 6.5 hours of training material. This will take place between 18 and 27 April 2001 for probably two, maximum three days and be completed by 30 April 2001.

3. There will also be a need for an additional day to prepare the facilitator(s) for this workshop in June.

**REMUNERATION:**

The consultant will receive a daily rate of _____ for a maximum of seven days for the first draft by 13 April, the final output by 30 April and preparing the facilitator. In addition, CGAP will cover all communication expenses required for the assignment. In the case of a late or incomplete report or otherwise non-fulfillment of these Terms of Reference, CGAP reserves the right to make only a partial payment.