



Social Performance of KCCDMFI

Philippines, June 2019

Introduction

Kasanyangan Center for Community Development and Microfinance Foundation, Inc. (KCCDMFI) is non-governmental organization (NGO) in the Philippines. It just came out of recovery period (2014-18) from financial losses brought about by rapid expansion pursued in 2010 which the institution was not fully prepared for after all. An institutional reorganization, scaling down of branches, and streamlining of operations were undertaken under this recovery period led by the Board of Trustees. Five years hence by 2019, KCCDMFI is back on track generating enough income to cover operating costs and pursue modest expansion. The Board and management welcomed a social audit to be performed for KCCDMFI as part of its campaign to strengthen its systems and manpower capacity.

The social audit of KCCDMFI was conducted using SPI4's latest version (version 2.2), a comprehensive social audit tool that allows MFIs to evaluate their level of implementation of the Universal Standards for Social Performance Management (Universal Standards). The SPI4 assesses a MFI's strengths and weaknesses on both social performance management (SPM) and client protection, with the goal of using this information to help the MFI improve its management systems and practices over time. The SPI4 includes a "core" module that consists of:

- The Universal Standards for Social Performance Management- a comprehensive manual of best practices created by and for people in microfinance as a resource to help financial institutions achieve their social goals.
- Smart Campaign Client Protection Certification Standards - the minimum standards that clients should expect to receive when doing business with a financial institution. All of the Smart certification standards and their associated indicators are incorporated into the Universal Standards.

This report summarizes the findings of the SPI4 audit, conducted by *Jesila M. Ledesma* and *Alsivatata Sappayani* from 13-17 May 2019 for field audit with report writing carried out in June 2019.

About KCCDMFI

Kasanyangan Foundation, Inc. (KFI) was established in December 1998 out of the National Federation of Labor – Agrarian Reform Desk (NFL – ARD) as a service project for Agrarian Reform Beneficiaries who were formerly union members of NFL. The idea of uplifting the lives of the poor in Region IX by providing financial services in a sustainable manner prompted KFI to develop a microfinance program in 2001 with an initial capitalization of PhP500,000.00. The program was patterned after the Grameen model and was pilot-tested in the West Coast of Zamboanga City.

In October 2005, the KFI's Board of Trustees, in its special meeting decided to separate the thriving operations of the microfinance program from the Foundation. This decision paved the way to the establishment of the new foundation, the KFI Center for Community Development Foundation, Inc. (KCCDFI) in December 2005 with total resources of PhP53.37M.

In the next ten (10) years, KCCDFI expanded its coverage from Zamboanga City to Zamboanga Sibugay, Zamboanga del Sur, Zamboanga del Norte, and the cities of Iligan, Cagayan de Oro and Cebu, reaching 30,000 borrowers spread over thirty-two (32) branches.



Rapid expansion which lacked close monitoring and management support led to serious repayment problems. The situation was aggravated by peace and order problems in the main areas of operations. 6,000 houses triggered by the Moro National Liberation Front (MNLF) siege of Zamboanga City resulted to the displacement of 3,000 clients; operational security problems in Basilan and Jolo also had to be dealt with.

A reconstituted board and management implemented a recovery program. It entailed reorganization, streamlining of operations and cost-cutting measures including closure of 14 non-performing branches in 2014. As of December 30, 2018, KCCDMFI's total assets has increased, particularly its loan portfolio. It has also reestablished a stable financial position with operational self-sufficiency levels above 100% since 2016 to the present. By 2018, the board and management has shifted its focus from recovery to expansion with a base of 15,145 clients, loan portfolio of PHP143.20 million being served by 20 branches.

Pursuant to the enactment of Republic Act No. 10693 or the NGO Microfinance Act in 2016, KCCDFI amended its name to Kasanyangan Center for Community Development and Microfinance Foundation, Inc. (KCCDMFI).



Key Social data <March 2019>

KCCDMFI	Philippines	Since 2001
NGO	Non profit	As of date: 31-Mar-19
Type of assessment: Accompanied Self-Assessment (ASA)		Organization of auditor: CERISE

MISSION STATEMENT

In partnership with its allied institutions, KCCDMFI will continuously provide responsive and competitive microfinance products and services for the empowerment of its partner-organized communities.

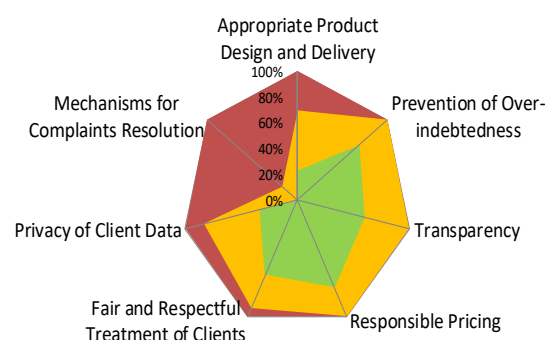
UNIVERSAL STANDARDS

70%



Comments on your adherence to Universal Standards

CLIENT PROTECTION STANDARDS (LIGHT ASSESSMENT)



This graph represents scores which does not include the compliance criteria required for a complete Client Protection Certification.

Comments on your adherence to Smart Campaign Principles

CONTEXT & FINANCIAL INFORMATION

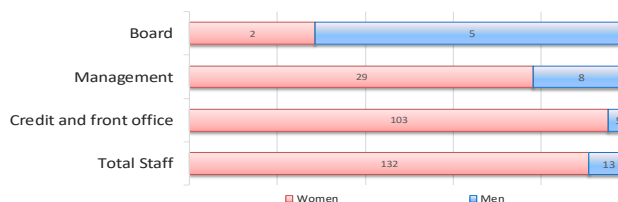
Financial data on the date of: 31-Mar-19

Total number of clients	15,145	Total Assets, volume, PHP	248,051,348
Number of branches	20	Return on Assets	1%
Number of branches in rural areas	9	Return on Equity	6%
Number of active borrowers	15,145	Financial Expense Ratio (as a % of average GLP)	3%
Number of outstanding loans	15,145	Operating Expense Ratio (as a % of average GLP)	9%
Amount of Gross Loan Portfolio in PHP	143,206,742	Operational Self-Sufficiency	108%
Number of voluntary savers	15,145	Nominal Portfolio Yield	18%
Number of women voluntary savers	12,996	PAR >30 + rescheduled	1%
Amount of voluntary deposit in PHP	1,046,504	Write-offs (during the period)	0%
Amount of total deposits in PHP	82,564,408	Loan Loss Expense Ratio	241%

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BOARD AND STAFF COMPOSITION

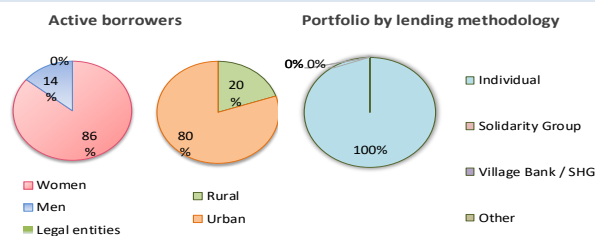
Number of staff	145
Staff turnover rate	6.2%
Staff productivity (outstanding loans / field staff)	140
Social performance criteria in employee appraisals	Yes



KEY CHARACTERISTICS OF LOANS

Lending Methodology	Individual
Outstanding loan balance per borrower	269.2% of GNI/capita
Interest rate method	Declining balance interest method
Average APR	132% per year
Borrowers retention rate	61% per year

SEGMENTATION OF LOAN PORTFOLIO



RESPONSIBLE FINANCE INITIATIVES

Endorser?	No
Certified?	----
Reporting of social data?	----

MOST RECENT SOCIAL RATING

Agency	Date	Result
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CLIENT SATISFACTION

Number of complaints received in the last 3 months? **N/A**

Client satisfaction rate in recent satisfaction survey

FINANCIAL SERVICES

Loans	Yes
Microenterprise loans	Yes
SME loans	No
Loans for agriculture	Yes
Express loans	No

Loans for education	Yes
Housing loans	Yes
Emergency loans	No
Other microcredit for consumption	----

Deposits	Yes
Checking accounts	No
Voluntary savings accounts	Yes
Compulsory savings	Yes

Demand deposit accounts	No
Fixed term deposits	No
Special purpose savings account	Yes

Compulsory Insurance	Yes
Voluntary Insurance	No
Credit Life insurance	----
Life/accident insurance	----
Agriculture insurance	----
Health insurance	----

Other financial services	Yes
Debit / credit card	----
Scholarships/educational grants	----
Mobile banking services	----
Savings facilitation services	----
Remittance/money transfer services	----

NON FINANCIAL SERVICES

Enterprise services	112 clients	Health services	337 clients
Education services	770 clients	Women's empowerment services	775 clients

Universal Standards Results, By Dimension

Define and monitor social goals (80%)

Microfinance was developed to serve populations excluded from the conventional financial sector - populations that often include the poor and vulnerable, as well as persons rejected by banks or living in unbanked regions. Microfinance institutions with a double bottom line seek not only to offer financial services to these excluded populations, but also to create benefits in their clients' lives. The standards, practices, and indicators in Dimension 1 help an institution answer the two critical questions: 1) "Is my institution reaching its target population?" and 2) "Are our clients' lives improving?" Specifically, Dimension 1 states that an institution must have a clear strategy that describes the institution's social goals, how the institution's work contributes to achieving those goals, and how the institution will measure its actual progress toward those goals.

KCCDMFI's vision and mission statements define the target clients as "poor communities", and social outcome as "empowerment of its partner – organized communities" and how this outcome will be achieved "by continuously providing responsive and competitive microfinance products and services". The mission is supported with social goals as stated in business plan. It pertains to growth of outreach "to enterprising poor and small farmers", "financial sustainability", and "strengthen the community and business development capacity" of clients. The strategic goals in the business plan are clearly defined, to reach out to 31,498 enterprising poor in Zamboanga City, provinces of Zamboanga del Sur, Zamboanga Sibugay, Zamboanga del Norte, Basilan, Tawi-Tawi, and Marikina City. The target market will not only cater to the low income, self-employed entrepreneurs composed of small-scale traders, street vendors, drivers, and others, but expanding the outreach of financial and non – financial services to small farmers and fisher folks to address their financial needs for fast, convenient, and affordable credit towards increased income and food security.

The strategy to achieve these social goals are (1) provision of community and business development services for Kasanyangan Community Clubs (KCC) including leadership, financial education, and entrepreneurship trainings to the clients. Kasanyangan Community Clubs (KCC) will be organized at the barangay, municipal, provincial and regional levels, as venue for active citizenship, and as a platform to access government services and to care for the environment. KCCs' long term objective is to build a caring, sharing, nurturing, responsible, and action – oriented community in respective areas of coverage where members live in peaceful and harmonious co – existence; (2) reduce clients vulnerability with affordable social protection through KMBA (Kasanyangan Mutual Benefit Association) and other financial assistance products like the Kapuso, Kasalo, Kasali (KKK) Damayan.; and (3) microfinance services for the poor particularly micro-credit and savings.

The management information system (MIS) can disaggregate client level data by characteristics that are relevant to social mission. Outreach to women/men, rural areas, by poverty level, economic activities, client characteristics (such as gender, age), business data (business type, assets, sales) and others through cloud-based technology called Instafin. The data that MIS will provide gives KCCDMFI the capacity to track, measure, and analyze the progress towards the realization of the social targets. Only, this capacity is not being used at present for Social Performance Management (SPM).

Among the areas for improvement of KCCDMFI under this dimension are:

1. The social outcome has no social indicator/s and targets to measure achievement.
2. There is no analysis of the social performance data collected on PPI (Poverty Probability Index), and client drop-out surveys. KCCDMFI misses the opportunities to track poverty movement of clients and receive signals for attention and actions.
3. No social performance data is reported to MIX Market (Microfinance Information Exchange) to support external transparency and benchmarking of industry indicators among peers.

1 - Define and monitor social goals



Recommendations:

- Come up with social indicators and targets for each social outcome.
- Develop data protocol to analyze and report on PPI (poverty level, and poverty movement) and client dropout data. Assign department and staff to handle SP data analysis and reporting.
- Consider reporting to MIX and be more visible online to support network benchmarking initiatives and attract social investors.

Commitment to social goals (70%)

Buy-in at all levels of an organization is critical to successful implementation of the institution's strategy. Dimension 2 covers the practices that an institution can put in place to ensure that its board members, management, and all employees are committed to the institution's social goals. This Dimension focuses on how the institution can support and prepare its internal stakeholders for success in terms of implementing the institution's social goals as well as how each level of the organization can do its part to hold the institution accountable to its mission and help it achieve its goals

The KCCDMFI board, management and staff are highly committed to social goals of KCCDMFI. The board holds monthly meetings to monitor the status of the operation. Among the areas being looked at are: growth of outreach, loan portfolio, PAR rate, dropout number, and new loan products updates especially on micro-agriculture and Kasanyangan Community Clubs developments. An outreach policy has been made to increase the percentage of male outreach from 10% to 25% with the introduction of micro agriculture loan product and the formation of KCCs. There is a facility to contribute to a center fund that may be used for community-based projects to help improve conditions in poor communities. Board members, especially the champions of the KCCs and micro agriculture, actively interact with clients and conduct field visits to assess clients' status and get feedback on the products and services. Moreover, a 10% profit allocation has been made into a policy to finance community development projects of KCCs and business development programs of clients. The status and uses of this Fund are regularly discussed in Board Meetings, e.g, KCC projects status update, and leadership training, and enterprise skill development training conducted.

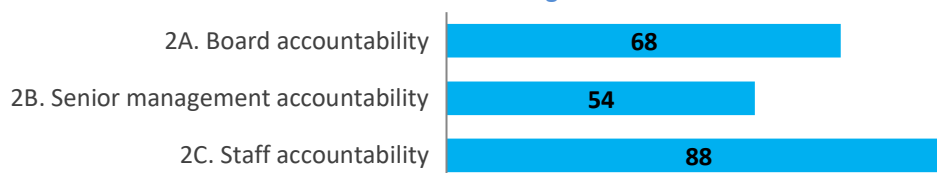
Board members are actively involved in crafting, reviewing and approving strategic directions and initiatives towards achieving social goals. Revision of vision, mission and goals was done by the board and management in the first quarter of 2018. This move is also a response and compliance to the MNRC's Microfinance NGO Regulatory Commission) regulations. A series of meetings and strategic planning were conducted to align the vision, mission, and goals to the service of poor communities. KCCDMFI puts focus on the following in its 2019-2023 business plan: 1) enhancement of existing products in terms of flexibility of loan repayment terms and diminishing balance interest rate; 2) development/innovation of new products tailor-fitted to sectors (agriculture, social enterprise, etc.), and 3) formation and strengthening of KCCs through financial education, entrepreneurship, leadership and skills training.

There is a well-documented system and practice in pursuit of quality loans. Employees are provided incentives to promote progress toward social goals (outreach and portfolio quality). Incentive scheme is designed to promote productivity without harming the clients. The incentives criteria give priority to a manageable outreach based on FCO/client ratio (minimum of 300 and a maximum of 400 client), portfolio quality or PAR rate at below 3% and a monthly revenue of Php150,000 per Field Credit Officer or FCO. These criteria must be pursued under strict implementation of cash flow analysis to determine the client's capacity to pay debts and obligations and to avoid over indebtedness.

Among the areas for improvement of KCCDMFI under this dimension are:

1. There is no formal process to assess performance of top/senior management on achievement of SP targets.
2. There is no formal reporting and tracking of SP data on staff & client such as their satisfaction levels, turnover rates, feedback and complaints.
3. There is no formal process to enjoin board, management, and staff to uphold the core values/code of conducts.

2 - Commitment to social goals



Recommendations:

- Develop and conduct performance evaluations of CEO and senior management annually.
- Develop Social Performance or SP dashboard and include a regularly reporting at board and management meetings.
- Upon joining, have the board, management, and staff sign the Code of Conduct. This signature indicates their agreement to uphold it.

Design products that meet clients' needs (60%)

Microfinance has the potential to give the poor and excluded access to financial services. But outreach to a target population is not enough; products and services must be adapted to clients' needs if they are going to create benefits for clients. Microfinance services, however, have too often been standardized: small loans, monthly repayments, solidarity group guarantees. Providing high-quality services that are well-adapted to clients - i.e. suitable to the local context, diversified, efficient and transparent - requires innovative rollout techniques and a proactive strategy that may combine access to financial and non-financial services. Dimension 3 discusses the various ways that institutions can gather information on clients' needs and preferences, and adapt their products and services accordingly. Dimension 3 incorporates verbatim all Smart Campaign client protection certification standards related to client protection principle one, "Appropriate Product Design and Delivery."

The KCCDMFI products and services are designed to reduce barriers to financial inclusion of target clients. Initial loan amount is small at PhP2,000 to PhP10,000 depending on the nature of business and client's capacity to pay. Loan increment for succeeding loans is only from PhP1,000 to PhP4,000 or depending on the size of client's business, capacity to pay and previous repayment performance, inventory and attitude (RIA). Capital build-up is deposited weekly at a minimum amount of PhP60.00 with no upper limit but such increase should be divisible by PhP10.00. Capital build-up requirement is 35% of loan size below PhP100,000 and 20% for more than PhP100,000 loans. Loan approval is based on the results of the cash flow analysis and assumes a 35% debt capacity ratio based on the client's net income.

The KCC model facilitates access to poorer families, initially offering micro savings product to individuals without existing businesses. It gives focus on provision of community and business development services including but not limited to leadership and livelihood trainings, encourage low-income individuals to save more and non-savers to start saving. It also is designed to be the avenue to plan and implement community-based projects.

KCCDMFI offers a diverse and flexible and range of products and services. In the last 3 years, it added 5 new products to increase responsiveness to client needs. Among the new loan products includes education, housing repair, assistance for clean water access, agriculture (yellow corn, hog fattening, hog feeds, vegetable, rice, seaweeds, and rubber latex), and

financial loan assistance for micro entrepreneurs (FLAME). The additional loans cater to the entrepreneurial poor, small farmers and fisher folks, low salaried employee and barangay officials, Overseas Filipino Workers or OFWs and their households.

During marketing and group credit training, clear information on product pricing, terms and conditions are discussed to clients. New members are required to attend and complete the two training sessions in two weeks (Group Credit Training 1 and 2). A pre-loan release session is also conducted to refresh on product terms and conditions, insurance coverage and benefits. Before loan disbursement, the Branch Managers explain the content of the Disclosure Statement (DS).

Among the areas for improvement of KCCDMFI under this dimension are:

1. Client satisfaction survey is not done annually.
2. Analysis of product usage by client characteristics is also not being done.
3. There is no written policy with list of acceptable collateral to guide staff when pulling out collateral for loan payments.
4. There is no policy and documented process to prevent aggressive sales techniques and forced signing of contracts. While there are avenues to orient clients on product terms and conditions, it has been noted that clients interviewed during the assessment have no knowledge of the privacy provision in the DS. Branch management, when interviewed, admitted that they skip this provision due to time constraint and impatience of clients to receive the loan proceeds.
5. There is no emergency loan product to address client vulnerabilities (e.g. sickness).

3 - Design products that meet clients' needs



Recommendations:

- Conduct annual satisfaction survey covering a representative sample of clients. Use client satisfaction data for product development.
- Better understand clients and their financial behavior by conducting a product usage study. The study can also investigate reasons for dormancy or drop out.
- Develop policy and procedures to guide use of collateral for loan payment. Include current good practices from branches. Provide list of acceptable collateral to ensure that no collateral is pulled out that would create hardship or severe loss of income earning ability for client.
- Define 'aggressive sales' and develop process to monitor compliance. For example, provide do's and don't's responses if the clients are not ready to renew a loan.
- Consider developing products to meet emergency needs—not necessarily a loan; could be savings. Look at ways to better position savings product for emergency response.

Treat clients responsibly (64%)

At a minimum, all financial institutions, even those who do not have social goals, have a moral responsibility not to harm clients. Dimension 4 covers the practices an institution can put in place to ensure it does not harm clients. Specifically, the standards in Dimension 4 address prevention of client over-indebtedness, transparency, fair and respectful treatment of clients, ensuring the privacy of client data, and mechanisms to resolve client complaints. All language in Dimension 4 was incorporated verbatim into the SPI4 from the Smart Campaign client protection certification standards for principles two,

three, five, six, and seven (respectively, Prevention of Over-indebtedness, Transparency, Fair and Respectful Treatment of Clients, Privacy of Client Data, and Mechanisms for Complaint Resolution).

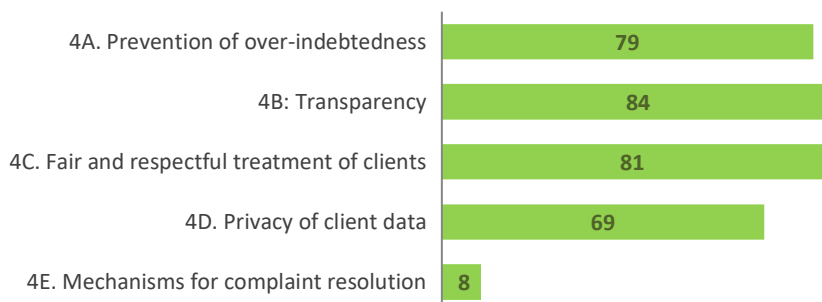
KCCDMFI has highest adherence levels to principles on transparency, fair and respectful treatment of clients and prevention of over -indebtedness. There is a policy and well-documented process to orient interested borrowers about the product terms and conditions. It provides new clients with adequate time of two weeks to think through the decision to avail micro credit. Upon loan release, a copy of the Disclosure Statement is provided each borrower to take home and to refer to for information on total loan amount, nominal interest, EIR, fees and upfront deductions, loan term, disbursement date, repayment schedule and instalments.

Having gone through a repayment crisis in early 2010's, KCCDMFI has been closely monitoring its loan portfolio quality. In 2017-18, it invested in a cloud-based management information system to enable Operations managers (including Area Managers, Operations Head and COO) to monitor PAR and repayment rates at one day past due. Close monitoring is moreover backed up by process compliance review through conduct by the internal audit of twice a year branch audit. There are sound policies and processes to review and approve loan applications that account for client's capacity to pay and percentage of disposable net income reserved for debt service. New Field Credit Officers or FCOs are well trained on the policies and procedures with field exposure complemented by classroom training sessions.

There is still room for improvement in adherence to all client protection principles --a few enhancements for some, with more attention needed on the Mechanism for Complaints Resolution principle. Among the areas for improvement under this dimension are:

- 1) A one-page Mechanism for Complaints Resolution policy and process has been drafted in January 2019 but has yet to be approved. The draft document however is limited in coverage. In particular, the draft does not include a reporting system to enable the management to receive and use relevant data in decision making. Complaints received are not guided by timeline and priorities based on severity of complaint.
- 2) It is noteworthy that KCCDMFI has data privacy policy and processes in place. For example, the Promissory Note (PN) has been revised to include a data privacy clause which seeks permission from clients to share relevant data to external partners like the Credit Bureau. SP assessors however have noted during the branch visit and interview with branch staff and clients that the privacy clause is not being discussed during product training or signing of PN. Clients sign the PN without reading or understanding the section on privacy. The PN is in English.
- 3) Management does not receive regular information related to fair and respectful treatment of clients. Such information may be obtained from a well running market research program involving client satisfaction survey, exit survey and mechanism for complaints resolution. The report for the client satisfaction survey conducted in November 2018 has not been completed and reported to management as of May 2019.
- 4) While the loan is promoted as collateral -free, in practice, staff can receive physical assets turned over by clients with difficulties to pay in cash. This is stated in the PN and branch staff can enumerate the steps they follow when collateral is involved. However, there is no written policy and process to ensure that turn-over of collateral is respectful of clients' rights.
- 5) There is no cooling off period between two loans where one loan involves a prepaid loan.
- 6) KCCDMFI through the MIS Unit has initiated the process to reactivate membership in the credit bureau called MIDAS. The MOU of partnership has been signed in April 2019. The first data sharing to MIDAS has yet to be done with KCCDMFI awaiting MIDAS guidelines and format. KCCDMFI has yet to determine uses of data from MIDAS.
- 7) The MBA provides clients with much needed micro insurance information contained in the Certificate of Coverage, product brochure and training visual aids. The only action lacking in the information drive is a reminder to clients to inform their beneficiaries about being selected as one and to be aware of the benefits and claim process.
- 8) Based on the sample Disclosure Statement, the EIR data stated as 0.83% does not match the MIS (Instafin) computed EIR of 132% p.a. Inaccurate pricing data may be passed on to clients.
- 9) The current operations manual provides for eligibility criteria that covers age, health status, and presence of business. Other possible vulnerable client categories are not mentioned to promote wider financial inclusion.

4 - Treat clients responsibly



Recommendations:

- Enhance the draft design of the Mechanism for Complaints Resolution. It can still be enhanced by considering and addressing the essential practices listed in Standard 4E of the SPI4 questionnaire. Once the enhanced process is completed, promptly present to Mancom and Board for review and approval. Ensure proper training of staff involved and provide supporting communication materials to effectively cascade the process and information to clients/centers. A module on the Mechanism can also be included in the FCO training.
- Orient staff and clients about the importance of data privacy and the measures taken by KCCDMFI to protect client data. A data privacy module can be added in the FCO training. Make it a responsibility of Branch Managers to check new clients' understanding of data privacy. Consider to translate the PN from English to Filipino to facilitate understanding. Internal audit can also validate client awareness and understanding of their right to data privacy and KCCDMFI's client data protection efforts.
- Conduct annual client satisfaction and exit surveys. Provide relevant results to management for consideration in decisions related to fair and respectful treatment of clients.
- Provide a documented process to execute and monitor use of collateral to repay a loan. Start by looking at the current collection process at the branches and adopt practices found to be appropriate and practical. Supplement the written process with a shortlist of Collection Do's and Don't's.
- A cooling off period is recommended, even just for a week, to deter clients from taking a loan to prepay an existing loan.
- Come up with a policy and process to use credit bureau data to know external credit record including state of indebtedness of a potential borrower. To keep cost down, some MFIs pay only for credit bureau data of individuals asking for higher loans of PhP20,000 and above, for example.
- Remind clients to inform their beneficiaries about being selected as one, the benefits covered and claim process. Prepare client testimonials on value of micro insurance to assuage fears raised by some clients that they might be killed by their beneficiaries to have access to the insurance money.
- Review the EIR data on the Disclosure Statement and make corrections as needed. Orient branch staff about the importance of the EIR and require them to talk about it during the loan release or GCT.
- Come up with a non-discrimination policy. See Indicator 4C21 in the SPI4 questionnaire for the list of protected categories to be considered in the policy.

Treat employees responsibly (60%)

Responsible treatment of employees is critical to a successful institution for two main reasons. First, because offering employment is an important benefit that an institution brings to its community, and second, because how employees are treated by the financial institution has a huge impact on how those employees treat the institution's clients. Dimension 5 focuses on how an institution can create a fair, safe, and supportive working environment, and how it can provide employees with the information they need to succeed in their jobs.

KCCDMFI has written HR policies (mostly in the form of inter-office memoranda), processes and administrative guidelines pertaining to wages, benefits, work conditions, code of conduct and disciplinary procedures. Employment contracts and various inter-office memoranda provide documentation on salary, benefits, employment conditions, job description and

performance evaluation process. Each employee is provided with an employment contract. New employees receive orientation and job-specific training, especially for the Operations staff. External training and conferences are also tapped to train top and middle management and expose them to network situation and practices.

KCCDMFI underwent a reorganization guided by a new salary scale and benefits that it can afford at the time. Staff showed their support to the mission by accepting lower compensation. Over time, as the financial position of the institution improves, the Board and management compensates staff with reinstatement of most liked benefits such as rice allowance. Budget has been allocated for staff health benefit since 2017. A productivity bonus was also given in December 2018. Occupational incidents are promptly acted upon and supported by management. There have been two cases in the recent past where field staff who could no longer work on field after an accident or illness are provided positions at the head office.

Areas for improvement of KCCDMFI under this dimension are:

- 1) There is no formal staff satisfaction survey being done to get comprehensive feedback on staff concerns and insights.
- 2) Employee turn-over rate is not being monitored, only the number of resigned staff is recorded and reported. There is no formal exit interview and survey as well. Staff are asked why they are leaving but the data is not consolidated and reported to management for attention and possible action.
- 3) There are no policies on non-discrimination, grievance resolution whistle blowing and anti-harassment.
- 4) The performance evaluation criteria and form were revised in 2018. No evaluation was done on that year. It was implemented in first quarter 2019 by the Operations Unit. Support group is yet to conduct performance evaluation scheduled in June 2019.

5 - Treat employees responsibly



Recommendations:

- Develop a staff satisfaction survey tool and run it at least once a year. Present results to management who can consider and take the needed corrective action in relation to staff turn-over and dissatisfaction. Disaggregate data, e.g. by gender, to better understand staff and roots of dissatisfaction.
- Learn from the staff exit interviews-- formalize the process, record, analyze, report and use data in decision making. Measure and monitor staff exit rates. Determine the baseline and set targets to reduce the rates annually. Implement a deliberate program to meet targets. Disaggregate data, e.g. by gender, to better understand staff and reasons for exits.
- The HR Manager has a plan to update the HR Manual in 2019. Consider the Universal Standards and indicators as provided in the SPI4 filled-up questionnaire in order to come up with a comprehensive HR manual of policies and processes.
- Provide staff orientation, especially at head office, on the latest performance evaluation criteria and process. Set measurable targets for all positions. Conduct performance evaluation for all staff including the CEO and unit directors, at least annually.

Balance financial and social performance (86%)

All financial institutions with a double bottom line must seek balanced financial and social performance. Institutions must ensure their sustainability (financial performance) in order to be able to continue serving their target clients with products and services that create benefits in the clients' lives (social performance). For this reason, Dimension 6 focuses on the institution's decision making around key financial topics e.g., growth targets, profit targets and allocation, selection of financing sources, remuneration of employees) that are also crucial to maintaining a client focus. Dimension 6 incorporates verbatim all Smart Campaign client protection certification standards related to client protection principle four, "Responsible Pricing".

Having gone through financial difficulties in early to mid 2010's where income could barely cover debt obligations and operating costs, the KCCDMFI Board and management were quick to implement a recovery program. By 2016, the operating self-sufficiency ratio or OSS is back to above 100% with a 108% level as of March 2019. In less than 5 years, the thrust has shifted from recovery to expansion mode.

The KCCDMFI 5-year business plan (2019-2023) adopted target growth rates and strategies that are consistent to its social goals and institutional sustainability. Internal and external factors were considered in setting the growth targets. There is confidence to set up new branches or develop new products with the availability of a new cloud-based management information system that allows managers to monitor branch transactions daily even with the use of a mobile phone. The caseload of 300 members per FCO was also adjusted based on field experience and industry benchmarks.

A decision was made to allocate profit to deepen outreach among the poorest families and poor communities. 10% of annual revenues may be used to run the Community Development Program which involves the organization of Kasanyangan Community Clubs (KCC). The KCCs are open to both clients and non-clients particularly the poorer members of the community who do not have capacity to pay a loan. Poor members can initially save in small amounts and participate in community development activities. As they develop the financial discipline, the KCCs can endorse them to the KCCDMFI centers to be able to access micro credit for livelihood purposes. The program also provides counterpart fund to community projects proposed by KCCs such as construction of communal water facility or foot bridge.

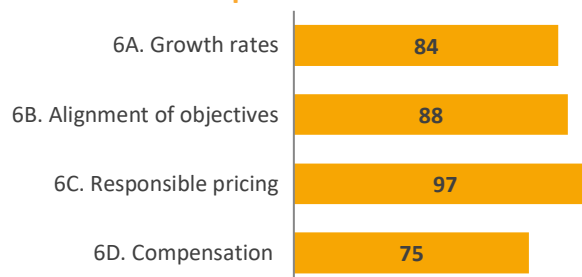
The board has also made decisions that are considered responsible pricing practices in compliance to regulatory requirements. These pricing decisions involve adoption of diminishing balance in computation of interest rate effective June 01, 2019, and provision of Effective Interest Rate (EIR) information in the Disclosure Statement (cum loan contract) for clients.

The spread in compensation of only PhP40,000 between top level executives and low-level field operations employees is consistent with the provider's mission. This demonstrates social responsibility as it prioritizes use and allocation of limited resources for product and service delivery.

Areas for improvement of KCCDMFI under this dimension are:

- 1) There are two micro insurance products- Damayan and BAP that are being self-insured by KCCDMFI since May 2019 when the external service provider did not renew the contract due to reported financial losses from higher claim experience than premiums collected. KCCDMFI ow bears the risks and losses.
- 2) Compensation of senior management – at the CEO and Director levels, does not take into account their performance evaluation results. There is no performance evaluation done at CEO and Directors' level.
- 3) Service quality and client satisfaction are not fully factored in planning. The client satisfaction survey report has not been completed since data were gathered in 2018. There are no formal reports done on client exit and complaints.

6 - Balance social and financial performance



Recommendations:

- Promptly select an external service provider that can offer the lowest premium payment and still cover the costs and claims in Damayan and BAP. An insurance product review may be considered too. The review can look at the wide range of insurance products in relation to client needs and capacity to absorb potential premium adjustments.
- Formalize performance evaluation of CEO and Directors and take social performance results into consideration when reviewing and determining compensation levels.
- Complete the client satisfaction survey report and use results as inputs in planning. As soon as available, provide regular market research data from exit surveys and mechanisms for complaint resolution to the board and management.

Conclusion

KCCDMFI is strongest in Dimensions 1 (Define and monitor social goals) and 6 (Balance financial and social performance). It has recently revised its mission statement and crafted development strategies that integrate financial inclusion with community development. It adopted a complementary microfinance profit allocation policy that secures funding for work in community organization, capacity building particularly development of local leaders, and implementation of community projects to be led and implemented by the Kasanyangan Community Clubs.

This report presents areas for improvement under each SP dimension that KCCDMFI can consider in order to strengthen its SPM. Annex B provides the action plan template to guide management in crafting a systematic response to address and prioritize identified gaps.

Annex A. List of Interviews and Documents Reviewed

Persons Interviewed:

1. *Mr. Jose T. Deles*, Board Member
2. *Atty. Ibarra A. Malonzo*, President & CEO
3. *Ms. Mercedes G. Faustino*, Chief Operating Officer
4. *Ms. Ms. Catherine Elumbra*, Operations Head
5. *Ms. Janette G. Pejana*, Finance Officer
6. *Ms. Marissa V. Fortuna*, Administrative, Human Resource and Training Department Head
7. *Ms. Keith A. Perez*, Accounting Department Head
8. *Ms. Leizel D. Gadiane*, Accounting Supervisor
9. *Ms. Marsha D. Villarubia*, Supervising Senior Auditor
10. *Ms. Grecia B. Rosales*, Community Development Unit Head
11. *Mr. Rhett Ray P. Quinday*, Business Development Unit Head
12. *Mr. Noel D. Simbajon*, MIS Unit Head
13. *Ms. Beverly P. Francisco*, Area Manager of Zamboanga City Area A
14. *Ms. Marilyn J. Manjalon*, Area Manager of Zamboanga City Area C
15. *Ms. Teresa Gonzales*, MBA General Manager
16. Branch Manager, staff and clients of Sta. Maria Branch
 - 16.1. *Ms. Genebyl Q. Ochavillo*, Branch Manager
 - 16.2. *Ms. Aurora M. Bregondot*, Senior Field Credit Officer
 - 16.3. *Ms. Lore Jane N. Castillo*, Field Credit Officer
 - 16.4. *Ms. Leonora R. Camins*, Field Credit Officer
 - 16.5. *Ms. Benevic B. Lambino*, Field Credit Officer
 - 16.6. *Ms. Ridzma T. Jumdah*, Field Credit Officer
17. Branch Manager, staff and clients of Mercedes Branch
 - 17.1. *Ms. Jaymie R. Segovia*, Branch Manager
 - 17.2. *Ms. Alelie F. Francisco*, Senior Field Credit Officer
 - 17.3. *Ms. Felicidad R. Delos Santos*, Field Credit Officer
 - 17.4. *Ms. Nilda B. Panchito*, Field Credit Officer
 - 17.5. *Ms. Ma. Ann E. Barbacena*, Field Credit Officer
 - 17.6. *Ms. Arbie A. Bataliran*, Field Credit Officer

Documents Reviewed:

1. Articles of Incorporation and By-Laws
2. Annual Reports
3. Organizational and Manpower Structure
4. Strategic Business Plan
5. 5-year Operations Plan
6. Audited Financial Statements
7. Minutes of Board Meetings
8. Management Reports
9. Operations Manual and FCO Training Kit
10. Human Resources Manual/ Administrative Guidelines
11. List of Staff Training
12. Performance Appraisal, and Salary and Incentive Structure
13. Product Flyers and Brochures
14. Client Passbook, Disclosure Statement, Promissory Note
15. Loan Application Form
16. KMBA Forms
17. Draft Inter Office Memo on Mechanism for Complaints Resolution
18. Pre-Membership Assessment Form, Loan Application Form

19. Internally filled-up SPI4 Questionnaire

Annex B Action Plan Template

Area for Improvement	Expected Output	Responsible Department	Main Activity and Timeline

KCCDMFI may choose to address the areas for improvement by phase. It can prioritize closure of from 3-5 gaps in 2019/2020.