

FONKOZE (Haiti)



Introduction

Since 1995, Fondasyon Kole Zepòl (Fonkoze), has been working to nurture and sustain economic growth amongst rural poor people in

Haiti, based on the belief that economic development is the key to the survival of democracy. Fonkoze's mission is to build a sustainable microfinance institution to:

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

As of December 2006, Fonkoze was serving over 100,000 depositors and 50,000 borrowers from 33 branches throughout Haiti. A solidarity group microcredit loan is the core product, around which a range of other financial and non-financial services can be built, including:

- Individual business development loans
- Home improvement loans
- Money transfer services
- Currency exchange services
- A multifaceted programme of savings
- Literacy and education in life skills for borrowers
- Flexible and accessible savings services
- Credit and life insurance
- Asset transfer, training and support for the extreme poor
- Village phone programme.

Historically the biggest challenge for Fonkoze has been to maintain operations in the context of social, political and economic insecurity, poor infrastructure, tremendous brain drain and a deteriorating economic climate. Haiti is the poorest country in the western hemisphere and one of the poorest in the world. Approximately three-quarters of the population live on less than two dollars per day and more than half (over 4 million people) live on less than one dollar per day. Haiti has also been plagued by political violence for most of its history, and has the dubious distinction of being one of 12 countries nominated for four years in a row for the World Bank 'fragile' country status. In this context, Fonkoze has been successful in terms of building a strong, dynamic and growing organisation.

Approach to social performance

Fonkoze measures its success in terms of achieving poverty reduction, not just in terms of outreach, growth and sustainability. In this way, it views microfinance as a tool to achieve its broad developmental and poverty reduction goals. Its strong leadership and clear mission are a driving force in the day-to-day work of staff at all levels of the organisation. Perhaps the most notable aspect of Fonkoze is its organisational culture, characterised by a poverty focus and a desire to serve the poor of Haiti and improve the economic, political and social development of the country. Early in its history, an impact assessment revealed that its clients were not as poor as non-clients. This triggered the development of new products and services designed specifically for poorer clients, as well as a social performance monitoring unit to track and understand whether Fonkoze was reaching its social goals.

Focus on key issues

Social performance management (SPM) is an institutionalised process of translating an MFI's mission into practice. It involves setting clear social goals and objectives, developing a strategy to achieve these, monitoring progress, and using this information to improve performance and aligning organisational systems to the social mission. This section looks in detail at the key elements of Fonkoze's SPM system.

Strategy: 'Accompanying people out of poverty'

To manage its social performance, an MFI must be clear about what it seeks to achieve (its goals), have operational objectives to manage against, and a clear strategy to achieve these. The case of Fonkoze is interesting because it has developed a very clear strategy to achieve its social goals.

Reaching target clients

Fonkoze seeks to work with all poor people in Haiti and meet them 'wherever they are in the struggle for a better life.' They have sought to understand the context of poverty within Haiti, differentiate the market and understand the needs of different client groups. Fonkoze defines three levels of poverty, and has designed products and services specific to each group (see Table one).

Meeting client needs

Fonkoze has from its inception had a holistic view of poverty, with the premise that providing financial services alone is not enough; poor people need to be 'accompanied out of poverty.' This broad understanding of clients' needs has led to the development of an impressive range of interventions which focus not just on providing credit, but meeting the developmental needs of poor people —

integrating credit with a wide range of non-financial services (see Introduction).

Another key feature of Fonkoze's strategy is not just *what* is provided, but *how* it is provided. At the heart of the methodology is the supportive culture of the solidarity groups and centres. Within this kind of environment, Fonkoze staff can facilitate problem-solving, learning, and provide educational and developmental inputs.

Role of meetings: Fonkoze recognises the role of solidarity groups and centre meetings in building the confidence and social capital of clients. Within Fonkoze's methodology, centres have two or more meetings per month, only one of which is used for loan disbursement and repayment. This creates an important space for educational input and discussion of client issues and problems.

Role of staff: Fonkoze's strategy to achieve its mission is based upon credit agents who serve three explicit functions: provision of financial services, provision of training, and support to clients to accompany them out of poverty. In Ti Kredi, credit agents play a more intensive supportive role, with a significantly smaller portfolio of clients (200–250) compared to solidarity credit agents (400–500). In the CLM programme, the emphasis is entirely on the supportive role, with each credit manager working with just 25 clients on an individual basis.

Table one: Designing products for different levels of poverty

Category	Level	Programme
Poor	\$1–\$2 per day	Solidarity lending targets women who are (1) willing to open an individual savings account with 15 per cent of their first loan value, (2) pay a small membership fee, and (3) who are engaged in commercial activity (or have experience of doing so).
Very poor	\$1 per day or less	Ti Kredi ('small credit') is for women without a business who want to start trading or raising animals, or who can't meet the conditions of the solidarity programme. The aim is to graduate clients into the mainstream solidarity programme by building their financial and educational skills.
Extreme poor	Lack of any productive asset	Chemem Lavi Miyo (CLM) uses using participatory wealth ranking and home visits to identify clients, and involves intensive skills training, asset transfer, and close supervision over 18 months, leading to graduation into either Ti Kredi or the solidarity or savings programme.

Role of centres: Using centres for other developmental purposes is also a key part of Fonkoze's strategy to reach its social goals. For example the literacy and education programmes use not only time within centre meetings, but bring women together outside normal centre meeting time. The literacy training not only builds the knowledge and skills of clients, but focuses on training clients as leaders and educators to deliver the training. Fonkoze also seeks opportunities to provide linkages to other services available, in particular with local health services.

Creating change in clients' lives

In addition to the broad goal of building the economic foundations for democracy in Haiti, the strategic plan defines specific measurable outcome and impact targets for 2011:

- *Poverty impact:* 40,000 clients have moved out of poverty
- *Literacy rates* rising from 40 to 90 per cent for clients in the programme for five years
- *Extreme poverty impact:* 5,000 clients originally in *extreme poverty* have successfully moved into Fonkoze's savings or loan programmes.

Fonkoze has also set broad objectives for

creating change; these have not yet been translated into operational objectives or targets. Specifically, Fonkoze's goal is that after 5 years in the programme clients will:

- Have food on their table every day
- Be accumulating assets
- Know how to read, write and successfully manage their businesses
- Enrol all their school-age children in school
- Have a cement floor, tin roof, and a latrine
- Have the confidence to face their future, whatever it holds.

Conclusions

Fonkoze now feels that it has a suite of programmes effective in reaching people at any level of poverty. The programmes are currently self-selecting (with the exception of the CLM, which uses participatory wealth ranking) but it is hoped that in the future participatory wealth ranking will be used to screen all new clients and allow them to be directed into the programme most appropriate to their capacity.

There is also an ongoing process of learning in order to improve the effectiveness of the organisation. This involves both examining the context and the specific needs of poor women in Haiti, and looking for new ways and new opportunities to serve their needs.

Social responsibility as an organisational ethos

Social performance relates to who an organisation can serve, how it serves them, and the benefits of these services. It also relates to the way in which an organisation works in terms of its relationship with clients, staff and community, and its impact on the environment. Fonkoze is in the process of moving from an information situation where social responsibility is embedded in the values of the organisation, but not formally applied, to a more formal system of policies and procedures. However, the institution is notable for the degree to which social responsibility is already part of its systems, processes and culture.

A number of features are designed to protect and support clients:

- Emphasis on educating clients about product features
- Level of credit based on evaluation of business capacity by credit agent
- Increases in credit based on the capacity of clients to repay avoids over-indebtedness
- Balanced social and financial focus by staff
- Using the group to collectively find a solution to repayment problems
- Non-financial meetings for training and discussion provides support for clients, and;
- Literacy and educational training allows women to meet often and expand the range of issues on which they interact.

A key challenge for Fonkoze, now that its social responsibility policy is in place, is to develop procedures for its translation into practice, and for monitoring compliance and effectiveness.

Table two: Social responsibility strengths within Fonkoze

Area	Strengths
Clients	<ul style="list-style-type: none"> • Systematic and regular guidance provided to all clients • Receipts are given for every transaction • Fair and reasonable interest rate charged to clients • Effective systems for obtaining and addressing client complaints
Staff	<ul style="list-style-type: none"> • Staff perception on incentives is that it's fair and transparent • Fonkoze has a separate department for security, which a major concern in Haiti • High involvement of staff in decision-making
Community	<ul style="list-style-type: none"> • Field staff know the local language and culture • Focus is on supporting values such as political freedom, anti-corruption and legal compliance
Environment	<ul style="list-style-type: none"> • Provides low-interest loans for selling products to make safe drinking water
Gender	<ul style="list-style-type: none"> • Fonkoze's products address the economic needs of women as well as their needs for training, information and self-confidence building • More than half of Fonkoze's board members are women

Monitoring and assessing progress towards social goals

An MFI needs reliable and timely information in order to track, understand and manage its progress towards social objectives. An information system needs to collect both routine monitoring and follow-up information, and communicate this effectively to the MFI's different stakeholders.

Historically, Fonkoze relied on informal information from clients and staff, as well as occasional external evaluations. Currently, Fonkoze is strengthening its social performance information system, in order to track progress against objectives and provide information for strategic and operational decision-making.

The main initiative has been the establishment of a Market Research and Social Performance Monitoring Unit, which includes the placement of full-time social impact monitors (SIMs) in seven branches. The mandate of the unit is to systematically establish client profiles upon entry and track changes over time, research client needs and experience (focusing on client satisfaction and retention), and recommend how Fonkoze may improve existing services and introduce new services.

These monitors provide branch-level feedback to staff and allow for ongoing adjustment in performance. They also ensure the regular collection and analysis of reliable data, which have been synthesised, analysed and

documented in an annual report. A two-page summary of the annual report is then sent to all branch directors.

A number of tools are used by the organisation:

- A tool called the *Kat Evalyasyon* captures 20 indicators relating to Fonkoze's social goals which allows the organisation to segment its clients by poverty level (and place them in the right programme) and also to monitor their progress over time
- Systematic focus group discussions in all centres explore issues relating to the design and delivery of products and services
- The annual general assembly provides a good opportunity for client feedback, and;
- Exit interviews, using an adapted AIMS survey tool, are used by social impact monitors to interview all exiting clients.

The innovation of basing social impact monitors in branches is important for a number of reasons:

- It increases accessibility of clients
- It allows monitors to develop relationships with clients, which leads to higher quality information both in terms of clients being more open, and monitors having a deeper understanding of clients' lives
- It focuses attention on social issues in the branch and builds relationships and trust with credit agents, and;
- Given their physical proximity, monitors can work together across branches, providing a

support structure and fostering collaborative teamwork.

One of the early challenges for the social impact monitors was the initial distrust felt by credit agents. Because the monitors verify the accuracy of credit agents' work, agents were

initially sceptical of the monitors (considering them spies) and reluctant to share information with them. However, it seems that initial problems have now largely been addressed through training and exposure, and in all branches, the branch director and credit agents hold positive views of the monitors.

Using information to improve performance

The core of SPM is using information to improve performance. Decision-making at all levels of the organisation needs to be based on a balance between both social and financial performance information. MFIs use information to track social performance against targets, create early warning systems, segment their portfolio, monitor product and service use, and generate baseline information for in-depth research. The case of Fonkoze highlights how information can be used at branch level to improve performance and strengthen organisational culture.

Historically, informal feedback from clients and branch directors has played an important role in decision-making, notably in the recent development of new products and services (such as Ti Kredi and the CLM programmes) designed to meet the needs of very poor and extremely poor clients.

The purpose of basing monitors within a branch is to facilitate information feedback to branch staff, especially managers. Feedback of information from exit and satisfaction studies takes place through discussions with branch managers and staff, as well as through occasional workshops. Whilst this remains to

be fully systematised, there is evidence that branch directors are making use of monitors, and asking for feedback so that they can better manage their credit agents. For example, one branch manager noted that *'It's one of the initiatives that I think has been good for us here. I ask the SIM to share some of the information she collects, which helps me. For example, there was an instance when a SIM did an exit interview, and I asked her to share it with me, and the client had said she left because she didn't like the way the credit agent had interacted with her. That allows me to talk to the agents and change the way they communicate with clients.'*

The design of the information system has been instrumental in strengthening the social performance focus of branch staff. When the monitor is able to critically think about the social performance s/he is observing and feed it into branch discussions, there is evidence of a changing branch culture. One of the branch directors observed, for example: *'Since [the monitor has] been here, people seem more aware of the impact Fonkoze has on people's lives. The presence of the impact monitor and the guidance of the director mean that the mission is more a part of the work of the credit agents than ever.'*

Systems alignment: Maintaining organisational culture during transformation

Institutionalising SPM requires that an MFI's systems and processes are aligned to achieve its social objectives, not just the decision-making processes. Early on, Fonkoze realised that it needed to raise investment capital in order to continue expansion. Although it had mobilised a significant amount of savings, Haitian law would not allow it to use

those savings to give loans. Thus, Fonkoze made the decision to spin off its profitable branches to form a commercial microfinance institution: *Sèvis Finansye Fonkoze* (SFF). Today, Fonkoze operates on the ground as two different institutions with separate legal and governance structures. The focus and priorities of each are quite different,

Table one: Operational performance at a glance

	Dec 2006	Dec 2005	Dec 2004	Dec 2003
Gross loan portfolio (\$K)	9.5	5.9	5.0	2.7
Savings (\$K)	9.3	7.5	5.2	3.9
PAR > 30 days (%)	6.90%	5.15%	2.80%	2.00%
Staff	552	486	313	247
Borrowers	43,689	31,090	28,183	24,990
Depositors	119,118	94,342	69,057	53,013
Number of branches	33	26	20	18

although they share a common mission and methodology.

The challenge for Fonkoze in creating these two organisations is to maintain a focus on its social mission. Fonkoze does have an effective strategy, at least in the short term, for ensuring consistency in mission, methodology and culture within the two institutions. All new branches are opened by the Foundation. As the Director explains: *'The Foundation is responsible for opening and nurturing new branches. If SFF [were to do it], obviously*

they would want to open branches where they think they could make the most profit the quickest. We maintain the emphasis on reaching those most in need.'

Once a branch reaches profitability it is available to be transferred to SFF. This means that practices and culture are established for some time before a branch is handed over. Credit agents and the management at branch and head office feel this approach is effective in maintaining a culture with a strong social focus in SFF. In the long term, it will be important to monitor how effective this approach is in maintaining the organisational culture and social performance focus, consistency in approach and tensions between social and financial performance.



SPM in Practice aims to capture good practice and lessons learnt emerging from the *Imp-Act* Consortium Global Learning Programme on social performance management (SPM), a two-year project which seeks to gather evidence of effective SPM and understand its organisational value.

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

Seven microfinance institutions (MFIs) are involved in the global learning programme:

AMK (Cambodia)
 CRECER (Bolivia)
 FONKOZE (Haiti)
 NTWF (Philippines)
 PRIZMA (Bosnia)
 Pro Mujer (Bolivia)
 SEF (South Africa)

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www.Imp-Act.org

Challenges ahead

As its approach to managing social performance becomes more formalised and systematic in the coming years, Fonkoze faces a number of challenges, including:

- Setting clear objectives and targets in relation to client outreach. Currently, client characteristics are narrowly understood in terms of selection criteria for each lending programme.
- Maintaining a strong focus on a supporting organisational culture as SPM becomes more formalised.
- Strengthening the information system to ensure the availability of timely and reliable information at branch and organisation level. This includes exploring the most cost-effective way of scaling up the presence of branch-level social impact monitors.
- Strengthening the internal feedback loop to ensure that formal and informal information are captured and used for operational and strategic decision-making.
- Incorporating social performance into staff incentives.