2015 Bi-Annual
Social Performance Report

VITAS
FINANCING A BETTER WORLD

Global Communities
Partners for Good

Tracking Client Progress and Satisfaction

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Executive Summary

Social Performance Management (SPM) is the process of managing an organization to achieve its social mission. Its implementation puts clients at the center of all strategic and operational decisions. The importance of balancing financial and social performance allows institutions to pursue financial goals while benefiting clients. As a member of the Social Performance Task Force, Vitas Group has endorsed the Universal Standards for Social Performance and has taken the initials steps to implement these standards.

The Social Performance report is produced on a bi-annual basis and attempts to gauge how well network institutions are addressing Standards one, three and four, which focus on customers, namely articulating clear social goals and target clients, designing products and services that meet clients' needs and preferences, and treating clients responsibly.

Global Communities launched its first survey of network institutions in 2013 and released its first Social Performance report in 2014. This second report is based on the findings for the period of FY15, covering the same seven institutions in Bosnia, Colombia, Iraq, Jordan, Lebanon, Palestine and Romania, with a combined portfolio of $185,675,350 and 99,816 active clients as of September 30, 2015. Business surveys were administered to current and former borrowers to determine how loans have been used to increase business profits, create jobs, expand business and increase household consumption. For housing loans, surveys sought to find out the extent to which loans were used for their intended purpose. Finally, this exercise was used to better estimate the impact on our clients, with special focus on women, youth and rural borrowers. Some of the main findings of this year's report include:

- By and large, clients have increased business profits after taking loans, in all institutions.
- Nearly 90% of clients described customer service as excellent or good. The institutions with the highest rating of "excellent" (over 70%) were Lebanon and Bosnia.
- All institutions had a positive impact on employment generation. In FY15, an estimated 27,869 full-time jobs and 8,996 part-time jobs were created.
- Over 41% of clients are female, who on average had comparable business profit increases to men.
- Nearly a third of clients are 30 years old and under, and loans to the youth group showed higher increases in business profits than loans to other age groups.
- Over 40% of the loan clients live in rural areas.
- For institutions offering housing loans, 80% of the loans were used for their intended purpose.

Compared to the 2013 survey, the network on average showed similar results in terms of the percentage increase of net business profits. Both average full-time and part-time employment increased this year, with estimates of actual employment nearly tripling since 2013. Client satisfaction has also increased from 2013. However, home surveys this year reveal that less loans, as a percentage, are being used for their intended purpose.

Introduction

Social Performance is an increasingly required practice in the microfinance sector, defined as "the effective translation of an institution's mission into practice in line with accepted social values," or more simply, making a microfinance institution or network's social mission a reality. Vitas Group and Global Communities have begun to implement the Social Performance Management (SPM) system, underscoring that the company and its institutions aim not only to demonstrate strong financial performance, but also to ensure a positive impact on clients' lives.

SPM is good for both clients and for business, and can significantly improve the effectiveness of organizations by allowing them to incorporate social outcome data into their management systems, understanding what products and services best meet the needs of clients, and assessing over time if they are performing these tasks effectively. Special attention is given to marginalized groups, including female, rural and youth clients, as well as the number of jobs supported, which are monitored and reported on a monthly basis.

Identifying Social Impact Indicators

Network institutions have identified a minimum set of measurable social impact indicators that relate to client outreach, livelihood, achieving satisfaction and productivity, while minimizing possible negative impacts. In devising our system, we sought easy-to-measure indicators that would provide the most relevant information for our business operations. The following indicators are being tracked, categorized by loan product type.

Micro and Small Business Clients:

- Change in enterprise profits from before and after the loan
- Change in the number of full-time and part-time/seasonal employees
- Number of full-time and part-time employees sustained through the loan
- Business use of the loan (new business start-up, increased fixed assets, increased working capital, expansion of products/services)
- Household consumption from increased business profit resulting from loan (food, health, education, home etc.)

Home Loan Clients via onsite visits to client homes:

- Home Improvement (minor repairs, improved materials, utilities)
- Home Renovation (room additions, reconstruction, new housing)
- Land or Home Purchase

Other Social Indicators tracked on MIS systems:

- Female clients
- Youth clients (ages 16-30)
- Rural clients

Client Protection

In March 2015, Vitas Group was granted $28,000 from the SANAD Fund for MSME Technical Assistance Facility. The grant to Vitas Group was SANAD's second technical assistance project on a regional group level, which was used to hire Smart Campaign certified consultant Bonnie Brusky to assist with the assessment of and training on Client Protection Principles (CPPs) for Vitas Lebanon, Vitas Palestine and Vitas Iraq. She, along with Vitas' internal consultant and Vitas Jordan's Quality Assurance and Social Performance Manager, Rula Muheissen, led the trainings in the institutions.

These trainings helped Vitas Group develop a consistent system for ensuring that staff and policies adhere to industry best practices for client protection, thereby also strengthening Vitas Group's social performance management policy. The project builds on work conducted as part of an earlier SANAD Fund grant to Vitas Jordan, in which a modular training program on the Smart Campaign's CPPs was designed for different levels of staff and implemented through a training of trainers program. This technical assistance grant strengthens SANAD's partnership with the Vitas network in the Middle East following prior investments in Vitas Jordan, Vitas Lebanon and Vitas Palestine.

Wolfgang Reuss, Chairman of SANAD's Board of Directors, stated that he was pleased to see the partnership between SANAD and the Vitas Group fostering responsible finance in the region: "SANAD is proud to partner with Vitas Group again, this time for its efforts to further client protection principles in the Middle East. The fact that Vitas shows such commitment to responsible, inclusive finance in the region highlights the parallels in our goals as a social impact investor."

Pictured: Rula Muheissen on the first day of CPP trainings in Vitas Lebanon.

In preparation for the training, initial components of the project entailed an in-depth review of each institution's policies and procedures, and conducting a gap analysis using the Smart Campaign's Getting Started Questionnaire (GSQ). The GSQ allowed the institutions to investigate their client protection practices within the organization. The questionnaire is structured around the CPPs (listed below), each of which is subdivided into standards, which in turn are subdivided into indicators.

Principle 1: Appropriate Product Design and Delivery
Principle 2: Prevention of Over-Indebtedness
Principle 3: Transparency
Principle 4: Responsible Pricing
Principle 5: Fair and Respectful Treatment of Clients
Principle 6: Privacy of Client Data
Principle 7: Mechanisms for Complain Resolutions

Based on the findings of the Smart Campaign consultancy, all three institutions are on the right track in preparing for the Smart certification process and importantly, there is top management commitment to improving client protection practices. For example, Vitas Lebanon has already devoted one staff member to head the coordination of activities to prepare for the institution's Smart certification. Vitas Iraq has also vowed to integrate client protection elements into its 2016 organizational strategic work plan. Vitas Palestine has developed an immediate action plan to become a model of client-centric and double-bottom line practices in the country.

All three institutions have embraced the belief that they need to go further, to not just "do no harm" but to "do good."

Client Satisfaction

Network institutions have historically carried out client satisfaction questionnaires as part of a desire to become client centric. This entails deepening our understanding of the needs and preferences of both renewing and exiting clients. Exiting clients are exclusively surveyed to assess the primary reasons behind non-renewals, which become even more pressing in competitive environments. Understanding the financial services preferences of renewing clients informs management of the policies that need to be implemented or changed in order to keep them satisfied.

Achieving maximum client satisfaction, and focusing on client retention and attraction rates, also contributes to greater financial sustainability. Client satisfaction surveys touch upon various concepts ranging from staff treatment and ease of application procedures, to ways of addressing grievances and client satisfaction with the loan terms and product offerings.

Client satisfaction surveys also examine whether clients have received loans from other institutions throughout their loan cycles. Receiving an additional loan could indicate that a client's needs are not being fulfilled, or that they may be at risk of over-indebtedness.

Methodology

Micro and Small Business Client Surveys

Since our goal was to measure change in client profits before and after a loan, the institutions were asked to conduct business surveys on clients whose loans closed during Fiscal Year 2015 (Oct 1, 2014 – Sept. 30 2015), where "after loan" data was collected. This information was self-reported by clients to the surveyors. All "before loan" data was verified through loan applications on file in the institutions or respective MIS systems.

In order to substantiate the validity of data for net business profit, surveyors were asked to seek and verify information relating to each client's monthly revenue, expenses and finally to calculate their profit (to ensure that calculations were consistent with stated information). Additionally, in order to minimize survey bias, surveyors this year were primarily comprised of noncredit staff in Marketing and Customer Satisfaction departments.

The sample size was reduced to 258 clients per institution. The sample size was calculated based on a 99% Confidence Level and an 8% Confidence Interval (commonly referred to as "margin of error"). One institution with fewer than 1,550 active business clients was permitted to use a smaller sample size.[1] Moreover, we applied the most conservative assumption in determining the sample size, setting a high maximum variance distribution, of 50%, for all institutions.

Surveys were also stratified by branch in most cases. Where this took place, institutions employed a proportionate allocation method,[2] on the condition that a minimum of 10 clients were surveyed per branch.[3]

This year's surveys standardized age groups into four groups: Youth (ages 16-30); Lower Middle (31-42); Upper Middle (43-54), and Eldest (55 and older).

Lastly, figures and calculations are listed as of September 30, 2015 and are presented in nominal value for purposes of simplification. Since average business loan terms range between 12 to 33 months, inflation is not a significant concern and thus no adjustments were made to show real values.

Home Client Surveys

The institutions were requested to conduct a minimum of one on-site visit per surveyed home client to verify the use of the home loan. Unlike business loan surveys that were directed at *closed* loans to measure change, surveyors visited clients whose loans were *disbursed* and therefore still open during the fiscal year. A minimum sample size of 184 clients per institution was computed based on a 95% confidence level, 7% confidence interval and 50% variance. This was based on the DFI with the highest number of home clients, projected to hit 4,000 by the end of the fiscal year.[4]

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[1] Vitas Romania surveyed 225 clients. By the end of FY15, Vitas Romania had 1,534 active business clients. Vitas Palestine, with 2,283 active business clients, interviewed 183 clients based on a reduced Confidence Level of 95% and an 8% interval.

[2] Proportionate allocation uses a sampling fraction in each stratum that is proportional to that of the total population i.e. the percentage of clients per branch is multiplied by minimum sample size to determine the sample size per branch.

[3] While there is disagreement among statisticians on the minimum number of sample units per stratum, we employed Leslie Kish's recommendation of a minimum 10 sample units.

[4] The exception was Vitas Jordan, which had 7,266 home clients by the close of FY2015 and thus had a higher minimum sample size of 191 for home surveys.

Home loans were divided into three categories including: home improvement, renovation, and/or land purchase. Home improvement loans are defined as minor repairs or upgrades made to the home such as painting, improving housing materials or repairing utilities. Home renovations are intended to finance larger-scale projects like home expansion and reconstruction. As the institutions in the network are diverse in their loan features, value ranges were not ascribed to differentiate the first two categories, loan use was rather defined in terms of minor or major. Moreover, the housing surveys also sought to ensure that loans were used for their intended purpose, since oftentimes home loan products are priced lower than those of business or consumer loans.

Nevertheless, the survey has a number of limitations that must be considered when reading the data. The wide range in increases in net business profits over institutions may be due to survey biases in each institution. When clients report their business profits have increased after taking a loan, the "after" amounts reported often cannot be verified. Many clients operate in the informal sector and lack complete and accurate financial records. In order to mitigate such risks, qualitative factors were built into the survey to ensure that the data provided is consistent with their responses. Moreover, seasonal bias may play a role; a client taking out a loan in the early part of a year may have slow sales, but if the follow up survey is administered in the summer, higher sales could lead to higher profits that are not caused by taking a loan. The reverse may also be true if surveys are taken during a period of low sales. For this reason, surveyors were instructed to conduct surveys throughout the year and were also warned against performing surveys during peak holiday periods.

Primary Findings

A total of 1,797 business surveys were carried out throughout seven institutions of the Vitas and Global Communities network. This included Lider Mikrokredit Foundation in Bosnia, Express Microfinanzas in Colombia, Vitas Iraq, Vitas Jordan, Vitas Lebanon, Vitas Palestine and Vitas Romania.

As of September 30, 2015, these institutions had 95,801 clients. Of these, 75% (74,484) were small business clients and 18% (17,988) were home clients. The table to the right illustrates the target markets by segment as a percentage of total active clients.

Social indicators	
Active clients	95,801
Female clients	41%
Rural clients	40%
Youth clients	31%

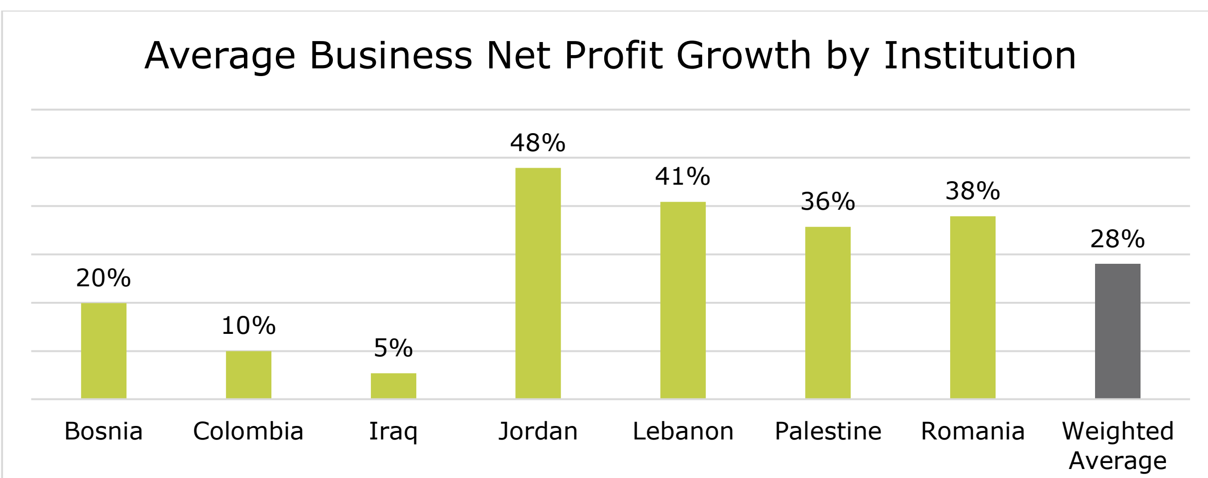
Growth of Net Business Profits

The surveys revealed that the average (mean) net business monthly profit rose from $912 to $1,195, indicating a weighted average increase of 28%. This figure is the same percentage growth in business profits measured in the last survey; however in 2013, profit averages in absolute amounts were considerably higher, increasing from $1,175 to $1,476 across the network. Five of the seven institutions reported considerably lower profit averages in the current survey, with Vitas Palestine and Lider in Bosnia being the two exceptions. Nevertheless, results still significantly differ from institution to institution.[5]

Smaller businesses tend to show higher percentage increases in profits than larger ones. A micro enterprise that receives a loan can quickly use the funds to expand or change activities, increasing its profits. A larger business can use new capital to make incremental investments and earn lower rates of return. Furthermore, lower average profits are more sensitive to growth in percentage terms.

In contrast to the 2013 survey, four of seven institutions measuring profit change reported that male-owned businesses had higher rates of profit growth than their female-owned counterparts. This is in part due to relatively increased average female profits—such as in Jordan and Romania—since businesses with higher profits tend to experience growth at slower rates. And as we have seen, businesses belonging to female clients have generally experienced higher rates of growth than their male-owned counterparts due to their lower loan sizes. While still generally true, the surveys revealed some exceptions to this trend.

Key findings	
Average increase of net business profit	**28%**
No. of full-time jobs created	**27,869**
No. of part time jobs created	**8,996**
No. of full-time jobs sustained[6]	**73,893**
No. of part time jobs sustained	**9,150**



[5] Because of differences in survey methodology and timing, results from 2013 and 2015 will not be compared on an institutional level.
[6] This figure is calculated based on the average number of employees (both full-time and part-time) per client at the time of the loan application, then multiplied by the total number of business clients for all institutions.

Change of Business from Use of Loan

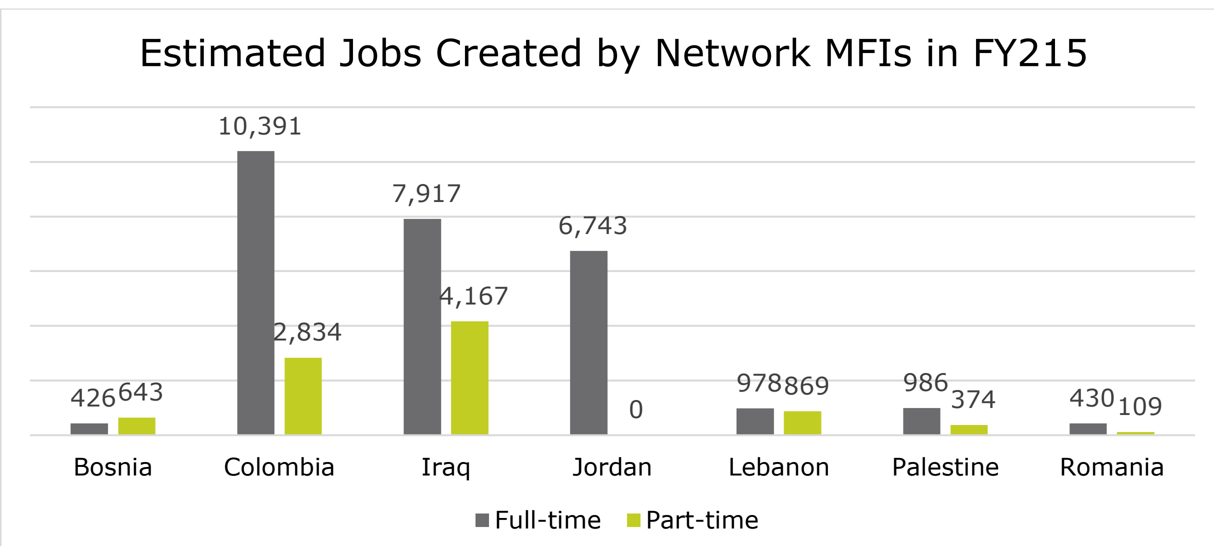
When asking clients how their businesses have changed since taking out the small business loan, most borrowers reported that they used the loan to increase merchandise inventory, or purchase/increase of working capital. This was followed by increasing fixed assets and then the expansion of products and services offered. The results also indicate that the loans have significantly assisted businesses in maintaining the number of existing employees while also increasing both the number of full-time and part-time employees.

When asked how personal and household consumption was enhanced as a result of these increased profits, client responses yielded varied results. The most frequent response across institutions indicates that profits were primarily reinvested back into the business. This was followed by clients who covered costs relating to education, food provision and clothing.

Full-time and Part-time Employment

In view of the above, **the network saw an average increase of 37% growth in the number of full-time employees hired by clients**.[7] Extrapolating the results to the entirety of the actual population of 95,801 business clients, **27,869 full-time jobs were created and 73,983 were sustained by clients of Vitas and Global Communities institutions in FY2015.**

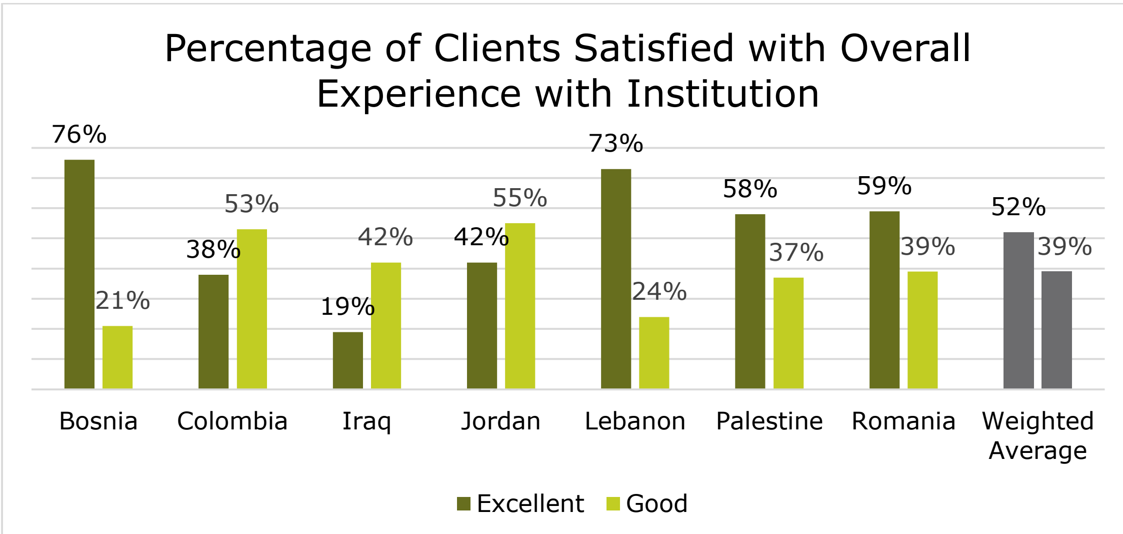
Part-time employment also showed positive but less significant results. **A weighted average increase of 12% was calculated as the number of part-time and/or seasonal employees hired since taking out the loan.** Extrapolated to the client population, this would suggest **an approximate creation of 8,996 part-time jobs and sustaining of 9,150 jobs throughout the network in FY15**.



[7] To estimate the total number of jobs created, the number of new employees was divided by the sample size per institution and then subsequently multiplied by the number of actual business clients.

Client Satisfaction and Personal Use of Additional Profits

When the 1,757 business clients surveyed were asked to **rank their overall experience in doing business with their respective institution, 91% responded positively to their overall customer experience.**[8] The table below breaks down this figure, presenting all "excellent" and "good" responses by institution.



Home Loan Surveys:

Home improvement loans throughout the network make up 18% of the total outstanding loans, with 17,988 clients as of September 30, 2015.

Five of the seven reporting institutions carried out home loan surveys, with a total of 1,105 home surveys conducted. Of the five participating[9], it was found that an average of 76% of loans were used for minor home improvements which include repairs, utility hook-ups, painting or finishing among other smaller projects. The more major renovations comprise 23% of total home loans, which include larger scale projects such as home expansions or reconstruction. The remainder, making up less than 1%, were used for land or home purchase.

[8] Based on the weighted average of number of surveys per institution.

[9] Vitas Romania and Express Microfinanzas Colombia did not conduct home loan surveys. Vitas Romania's home loans make up less than 0.50% of total loan portfolio, while EMF Colombia does not offer a home loan product.

Conclusion

The overall results from this second Social Performance survey are by and large positive, showing positive trends. On average, business clients have witnessed improved profits, and increased the number of people they employ, with particularly noticeable improvements on below-average profit businesses. In comparison with the 2013 survey results, the network had the same profit increase of 28%, although the nominal values of profit averages reported both below and after the loan were lower in 2015.

In Bosnia, Lebanon and Palestine, profits for female-owned businesses increased at a higher rate than their male counterparts, with the opposite trend in Colombia, Iraq, Jordan and Romania. However, the surveys revealed that in the cases of the two latter institutions, average female profits are catching up, partially explaining the reduced rate of growth for these businesses. Regarding employment, in FY13, it was estimated that a total 8,100 full-time jobs and 3,517 part-time jobs were created. However, this year's survey estimates that 21,869 full-time and 8,996 part-time employees were hired by network clients. This rise in employment could be explained by two things; first, the increase of the reported average number of new hires in this year's survey; second, growth in the number of actual micro and small business clients throughout the network.

Clients used extra profits in large part to reinvest in their businesses, but also for important personal spending objectives around medical, education and household expenses. Although less exhaustive, the home surveys revealed that slightly more than a quarter of loans were used for major renovations or home reconstruction, while the bulk were used for minor home improvements.

Clients within the network have reported overall satisfaction with their services. The few instances that alluded to mistreatment by Vitas staff will be investigated further to determine the exact specifics behind the complaint and to take personnel action if needed.

Overall, the process of survey design and testing have revealed important elements which require continuous development. In an effort to improve quality assurance guidelines and standardization among institutions, the following items have been identified for future reporting and management:

- Ensure that surveyors are properly trained to elicit accurate responses from clients, particularly those with limited financial literacy.
- Develop ways to better validate changes in business revenues, expenses and profits.
- Increase focus on the impact on women, youth and rural clients, and how institutions can better target them, along with other marginalized groups.
- Reduce the percentage of "poor or very poor" experiences with the institutions. This includes following up with dissatisfied clients, and particularly those who have reported staff mistreatment.