OIKO CREDIT
investing in people

KAWOSA
SMALL CHANGES, BIG IMPACT[1]

1. Summary

This is a story about small changes that make a big impact on how a microfinance organization benefits the people it works with. It's also a story about how even the smallest, least sophisticated organization can take simple, practical steps to reach excluded people, provide more effective services, and minimize the risk of harm.

KAWOSA is a savings and credit cooperative (SACCO), serving 7,210 women in remote regions of north-western Tanzania (as of November 2014). Within the local area, KAWOSA enjoys broad support and goodwill from the district council, and is seen as a model cooperative. However, it also faced a number of key operational challenges – including low penetration rates, high portfolio at risk and low uptake of voluntary savings. Over a period of only 12 months, starting in February 2012, it made a number of simple and low-cost changes to its operations that helped it to nearly treble its membership (including a massive increase in the number of disadvantaged women) and slash its portfolio at risk. These changes focused on:

Increasing access to disadvantaged women: KAWOSA realized that its membership fees excluded poorer women in its community. By forming special groups of disadvantaged women who can access small loans without needing to save or buy shares in the SACCO, KAWOSA created a 'graduation' model. A portion of interest paid is set aside to help grow the poorer members' savings and prepares them for full membership in time. In the first 18 months, KAWOSA's membership grew from 1,563 to 4,066, including 2,026 poorer women – and it has continued to grow since that time.

Helping members when things go wrong: KAWOSA realized that it could do more to help its members cope with unexpected problems. It encouraged members to build up a 'savings safety net' for emergencies. It also revamped its collections approach so as to work with members to solve repayment problems, rather than taking them to court when they fell behind. As a result, its voluntary savings levels nearly trebled, and its portfolio-at-risk rate fell from 17 to 7% in just 18 months. In 2011 it took 31 of its members to court for repayment problems, whereas over those 18 months this number dropped to just one.

KAWOSA achieved these impressive results by prioritizing a few 'quick win' client-focused changes. As a tiny organization, prioritizing low-input, high-value actions meant that the process of change didn't tax the organization's resources or capacity. A 'quick win' approach also provided a useful entry point to improving its practice in line with the Universal Standards for Social Performance Management,[2] which are designed to help microfinance providers to achieve their social mission.

Along the way, KAWOSA had support from Oikocredit's Social Performance Management (SPM) Mentoring programme, which helps partners re-engineer their processes to deliver better products, improve internal capacity and achieve a better balance between their social and financial performance. The framework starts with a set of simple questions: "What do we currently do to reach, serve and protect our clients?" and "What can we do better in future?"

1 Written by Katherine E. Knotts. The author is grateful for the input of Anton Simanowitz, Elikanah Nganga, Charles Masolwa, Amelia Greenberg, Laura Gärtner, and Frances Sinha.

2 The Universal Standards for Social Performance Management are a set of management standards that apply to all financial service providers pursuing a double bottom line. Learn more at www.sptf.info/spmstandards/universal-standards

2. Reaching disadvantaged women, protecting them from harm

The savings and credit cooperative KAWOSA (Karagwe Women SACCO), which is formed, managed and run by women only, was officially registered in 2006 with 70 founding members. It operates in two districts in north-western Tanzania. Through membership fees and holding shares with the cooperative, the organization is owned by its members.

KAWOSA's mission is the 'Provision of quality and efficient financial products and services through effective mobilization of resources and prudent administration of credit for socio-economic advancement of members'. The SACCO aims to provide business loans to women to foster their socio-economic development. It is a small organization: the leadership of the SACCO consists of five board members and a secretary/manager. By the start of the SPM Mentoring project, KAWOSA had four staff members (accountant, loan officer, cashier and office support), although given its recent client growth, its staff roster has also grown.

Local women join the SACCO by paying a membership fee and making compulsory savings deposits. This generates loan capital that its members can access as loans.[3] The SPM Mentoring Programme for KAWOSA started with the SPM orientation workshop in Kampala in February 2012.

Reaching out to disadvantaged women

As a community-based organization, KAWOSA is open to all women residing within its two operational districts (Karagwe and Kyerwa). However, KAWOSA's SPM diagnostic revealed that many local women, unable to afford the upfront fees and compulsory savings requirements, were being excluded.

To address this, at its 2012 annual general meeting, KAWOSA changed its by-laws to allow groups of disadvantaged women (up to 10 per group) to join without the requirement of membership fees or up-front savings. KAWOSA developed four key poverty indicators to determine eligibility: 1) struggling for food, 2) poor housing conditions, 3) having no animals, and 4) cannot afford either education or health costs. Each woman in the group receives a three-month, 50,000 TZS loan (around US$ 30), which is repaid in a 'lump' at the end of the loan term. To help move these women towards becoming full members of the cooperative, in addition to interest members are required to set aside savings which they can use as their membership fees in future.

Box 1: The new approach to arrears

KAWOSA's new arrears approach creates space to understand the difference between members who can't repay and those who won't repay. The process starts with a phone call to the member seven days after due date as a reminder. The call is logged in the record. After 14 days, KAWOSA meets with the client to discuss the repayment problem, and informs the guarantor and local community leaders. If repayment problems are due to sickness or poor business, then a rescheduling plan is drawn up, which takes into account the member's expected monthly income. KAWOSA also investigates to determine whether the member's reasons for non-repayment seem genuine by visiting the client to verify their physical condition in the case of illness, or speaking with community members and neighbouring members about the situation of the client in question.

This product has proved to be very popular. By November 2014, over 500 new groups were formed, comprising 5,110 disadvantaged women. Of these, 32 individuals from vulnerable groups have since 'graduated' to become full members, and two groups of 10 members each have joined the SACCO. Moreover, these poorer women are proving to be very reliable members: their repayment rates were 98 per cent (as at November 2014) — which is actually higher than their less-poor counterparts (the overall repayment rate is 94%). KAWOSA also saw a 34 per cent increase in the numbers of standard group members, meaning that since the start of this process, the organization has more than quadrupled its outreach.

Helping members when things go wrong

Building up a 'safety net'

For poor people, uncertain and lumpy incomes and emergencies (health or otherwise) are a fact of life, and most people struggle to cope; their vulnerability can mean going without food, taking children out of school, selling assets – or worse. If KAWOSA wanted to improve its members' lives, it realized it needed to help members build up a savings 'safety net'. The building blocks of this were already in place: members deposit savings in order to access loans from KAWOSA (and the

3 Additional loan capital is raised through borrowing from Oikocredit and the Tanzanian cooperative bank, CRDB.

more they save, the more they can borrow). However, these core savings can only be withdrawn once a member's loan is repaid, so are not available for emergencies or unanticipated needs.

Table 1: Key results at a glance

Area/Year	March 2012	October 2013	November 2014
Shares (TZS)	44 million	108 million	142 million
Compulsory savings (TZS)	307 million	506 million	542 million
Voluntary savings (TZS)	3.6 million	16.5 million	20 million
Loans disbursed (TZS)	2,205 million	7,492 million	8,247 million
Members (ordinary)	1,563	2,040	2,100
Vulnerable group clients	0	2,026	5,110
Portfolio at risk (>1 day)	17%	7%	6.4%
Portfolio at risk (>30 days)	15.6%	6.3%	5.8%

That said, KAWOSA also lets members deposit 'voluntary savings', which members can withdraw at any time in the event of an emergency (illness etc.), or to cover anticipated large expenses (such as school fees). Not only do these voluntary savings act as an important 'safety net' for members, but they also expand the capital base of the SACCO, which can then be on-lent to other members.

The SPM diagnostic highlighted a key problem: low levels of voluntary savings (3.6 million TZS, compared with 281.6 million TZS in 'compulsory' savings in 2011). To tackle this, KAWOSA promoted the importance of savings by printing special leaflets, and holding talks with members. KAWOSA also incentivized savings by increasing the interest rate paid on savings. Although starting from a low base, the initial results were promising: over the first 18 months, voluntary savings nearly doubled, as did the number of members actively using their voluntary savings accounts. However, more work remains: the rate of savings is still very low (with only 4% of members using their voluntary savings accounts), compulsory savings still dwarf voluntary savings, and some clients remain unaware that this service is available. Building member trust and habits in savings is also a longer-term process, which cannot necessarily be achieved as a 'quick win' organizational change.

Creating flexibility in times of trouble

To address vulnerability, encouraging savings was only the first step. When members struggle to repay, responding appropriately is equally important. From a 'pure business' perspective, timely repayments ensure that KAWOSA has enough money to lend to other members. However, from a 'social goal' perspective, members in crisis also need the right support to get back on track. Prior to the mentoring programme, KAWOSA had a worryingly high 17% portfolio-at-risk (PAR>1 day) rate. When members ran into problems, KAWOSA staff sometimes used harsh collection practices (including stern language, insults and costly court cases), to recover outstanding loans. In 2011, for example, KAWOSA took 31 members to court.

> **We clearly saw that clients were amazed at our new approach to arrears. They wondered why management was treating them more respectfully, as opposed to before, and they actually felt more motivated to repay and maintain their good relationship with KAWOSA.**
>
> – KAWOSA Board member

The SPM mentoring programme helped the organization to look at repayment problems from the perspective of members' very real vulnerability. In response, KAWOSA has improved what they do to help members succeed by thinking about three key moments in a member's life: before a loan is approved, during the loan cycle (to increase members' capacity to invest their loans productively), and problem-solving if things go wrong.

Firstly, KAWOSA staff were trained in effective loan appraisal (to ensure that members don't take on too much debt), and client protection issues ensure that it treated its members fairly and respectfully. Secondly, KAWOSA also trained select members on loan management and entrepreneurship skills, so that those members could in turn train other members. Thirdly, it trained staff on how to work with members to find flexible, appropriate solutions to repayment problems (see Box 1). As a result of this new approach, PAR>1 day had dropped to 7% by November 2013, and to 6.4% by October 2014.

3. Big changes for a small organization

For a small, resource-poor organization to demonstrate such impressive results in a short space of time, and for minimal investment, is a remarkable achievement. So how did KAWOSA do it?

Identifying opportunities

Early on, Oikocredit recognized real potential within KAWOSA to better achieve its social goals. KAWOSA also came into the process with strong leadership and commitment to perform better as an organization. There was an openness to new ideas, to being challenged, and to improving practice, as well as a genuine commitment to improving the lives of disadvantaged women. In this way, KAWOSA was an ideal fit for the SPM mentoring programme. Supporting KAWOSA also provided Oikocredit with the means to achieve its own social impact goals: KAWOSA operates deep in rural areas, where no other financial service organization is present, and its work resonates with Oikocredit's prioritization of supporting women. So, it was a real opportunity for both organizations.

The 'light bulb' moment

The mentoring process begins with an SPM workshop, which brings together organizational leadership and local mentors to explore key concepts, facilitate self-assessment, and introduce the project process. This experience, in the words of KAWOSA, was "eye opening" in that it challenged staff with a different perspective on their business. Two key points really hit home: that KAWOSA was excluding many women who could not afford the membership fees, and that good members were being hurt by its tough collection practices, whereas a softer approach could be better for both members and for KAWOSA.

And it didn't take long for this message about how KAWOSA could improve to take root. Anton Simanowitz, who led the mentoring programme, reflects: "We asked each partner to bring a board member, the director, and their SPM champion. In the case of KAWOSA, this meant that half of their people were

Box 2: The SPM Mentoring Programme in brief

The Oikocredit SPM Mentoring Programme involves a four-step process:

- **An introductory SPM workshop:** bringing together MFI leadership and local mentors to explore key concepts, facilitate MFI self-assessment, and introduce the project process
- **An institutional diagnostic:** the mentor reviews key organizational documentation, and conducts individual interviews and focus group discussions with all levels of the MFI and its clients, and generates observations to stimulate a discussion with MFI leadership about the following steps (see Box 3)
- **Developing a 'quick win' action-plan** focused around three key areas: outreach, client protection, and increasing benefits to clients (related to their core financial needs, including risk reduction, investment and life-cycle needs)
- **Ongoing mentoring** to support action plan implementation: typically lasting 9-15 months

Box 3: Diagnosing SPM

The 4-day SPM Diagnostic is a facilitated dialogue involving the mentor and the organization's 'SPM champion' (i.e. the staff member responsible for implementation) talking to the board, senior management, field management, field staff and clients. Their observations are fed back to stimulate a discussion between the management team and board with respect to the organization's SPM strengths and opportunities. The diagnostic itself is structured around the Universal Standards for SPM, and the visit includes:

- examining systems, policies and procedures
- interviewing senior management and operational staff
- interviewing current and former clients in groups and individually, on issues such as businesses, livelihoods, the environment, and interaction with the institution.

actually sitting in the room." In this way, KAWOSA's small size was a key advantage, because the culture shift in terms of how it thought about the business of its mission was relatively faster compared to larger organizations (where it can take time for the message about SPM to 'trickle down' to every level). So when it came time for the SPM Diagnostic (see Box 3), the whole team was already 'on board'.

The 'quick win' approach

Taking a 'quick win' approach to an issue so cross-cutting as SPM made the integration process manageable for an organization with limited capacity (both financial and in terms of staff numbers). 'Quick wins' are changes that can be implemented using the existing financial and human resources of an organization and produce noticeable benefits for clients within twelve months.

Oikocredit works with SPM Mentoring Programme partners to develop a 'quick win' action-plan around three key areas: outreach, client protection, and increasing benefits to clients (around their core financial needs, including risk reduction, investment and life-cycle needs).

Regular mentoring and support on action plan implementation

The programme uses local external mentors to help organizations implement their action plan. In the case of KAWOSA, external consultant Charles Masolwa spent one day per month on site with the organization over 12 months. The role involves both technical support and 'coaching' for the CEO to help troubleshoot problems as they arise. Ideally the local mentor will have expertise in microfinance management and organizational development, and will build his/her skills in SPM at the initial workshop, side by side with the organization in question. Beyond this, Charles brought expertise in the Savings and Credit Cooperative model and was able to 'translate' the concept of SPM to the specific context and needs of KAWOSA.

Beyond matching the right mentors with partners, Oikocredit also has its own ongoing role to play in the process. This includes support for the mentor through its regional SPM Officers. Oikocredit also provides ad-hoc technical assistance directly to the organization to address key strategic and operational issues that come up during the project — for example in the case of KAWOSA, this came in the form of additional training on client protection issues, to build staff and board member understanding of the issues of over-indebtedness and the fair and respectful treatment of clients. This was an important part of building the buy-in and skills for delivery of the project within KAWOSA.

4. Conclusions

Future challenges

Over this 12-month project, KAWOSA made good progress in terms of integrating an 'SPM lens' into its day-to-day business in terms of how it reaches, serves and supports its members. As KAWOSA moves forward with some of these changes, a number of key challenges remain:

Developing new products to help members cope with vulnerability

When members are in crisis, savings and loan rescheduling can be helpful. Where more credit is needed to cope with vulnerability, emergency loans become an important tool. The SPM diagnostic highlighted a key weakness in KAWOSA's approach to emergency loans: namely, that women can apply only if they do not have another loan outstanding. This means that it might not be available to members at the point they need it — and the small uptake to date for this product would seem to confirm this. Given the relatively small loan size (200,000 TZS compared to the maximum of 500,000 TZS for standard group loans), KAWOSA is exploring whether it is possible to extend eligibility from inactive members to all members with a good repayment history without exposing the SACCO to overly-high risks.

Adapting the business model and adding capacity to manage its increasing size

For a tiny organization (in terms of staff size), the recent surge in outreach to disadvantaged women potentially represents a challenge for the organization's systems and capacity. Recognizing this, Oikocredit recently worked with KAWOSA to review its strategic plan. Emerging from this was a decision to put more resources on the 'front line', with members of the credit committee now taking on the role of additional credit officers, bringing the total number up to six. KAWOSA is also giving its members more responsibility: appointing 'key members' from villages to act as the focal point for the organization, and importantly carrying out the first 'vetting' process in terms of identifying new disadvantaged women who might be eligible to join.

Reaching out to ever larger numbers of disadvantaged groups also raises an important 'identity' issue for KAWOSA. Until now, it has operated as a membership organization: with members contributing core savings in return for access to credit (a 'funds in, funds out' model). With more and more disadvantaged women joining and setting aside interest to contribute towards the savings threshold for full membership, there is a liquidity issue (i.e. how to fund loans to poor women out of the existing capital base of the organization). Responding to this challenge, Oikocredit recently approved a long-term loan to KAWOSA, so that it might continue reaching out to, and supporting, disadvantaged women.

Lessons learnt

At present, there is a big debate within the microfinance industry about the 'best time' for a microfinance organization to start focusing on SPM. Many subscribe to the idea that once an organization grows to scale and reaches a certain level of financial maturity, it will have attained the systems and capacity to start tackling social performance issues more effectively.

However, the experience of KAWOSA presents a compelling counter-argument: that a business model that builds a financially viable organization, that delivers value to clients, needs to be the focus from the outset. If even the tiniest organization can take significant steps to better achieving its social mission, then size or maturity clearly isn't as important as organizational vision and commitment.

Even in the face of significant strategic and operational challenges that might seem to reside firmly in the realm of financial performance (such as high client exit, low portfolio growth, or stagnating savings levels), SPM can provide a solution that works for both the organization and its clients. If we follow this line of thought, the entry point for a dialogue on SPM becomes identifying the current pressing needs of the organization in question, whatever those might be, and then framing the potential benefits of SPM in a way that addresses those needs.

Once this entry point is identified, a 'quick win' approach can be extremely useful in terms of prioritizing actions, delivering tangible results in a short timeframe, and sharpening an organization's appetite for further improvement. This also helps to strengthen the case for making client-focus part of the core business – that is, part of the fabric of an organization's strategy and daily operations. Where this happens, it is useful for side-stepping another emerging tendency: that SPM integration gets put 'on hold' whenever operational or strategic crises appear.

5. More information

www.oikocredit.coop
www.sptf.info

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Oikocredit's Social Performance Mentoring Programme

Supporting partners in improving their social performance is a key aspect of Oikocredit's mission. Our Social Performance Management (SPM) Mentoring Programme helps microfinance institutions (MFIs) consistently deliver high-quality products and services, improve organizational capacity and achieve a balance between financial and social performance.

KAWOSA in Tanzania is one of 20 microfinance institutions (MFIs) that participated in Oikocredit's Social Performance Management (SPM) mentoring programme (2010-2015). The programme draws on the Universal Standards for Social Performance Management (USSPM) which provide a detailed framework to help MFIs balance social and financial performance to ensure client benefits and long-term sustainability of the financial institutions. Many MFIs find SPM difficult to understand and struggle to integrate USSPM standards into their work. SPM is often perceived by practitioners as overwhelming and the practical benefits for clients and the institution are not recognized.

The focus of the mentoring approach is to identify and support practical 'quick wins' to improve the outcomes for clients of Oikocredit's microfinance partners, rather than taking a comprehensive approach to SPM.

We hope that the story of Kawosa inspires many other MFIs to be less daunted by the seeming complexity of SPM and be inspired by the realization that even the tiniest organization can take significant steps to achieving its social mission which in turn leads to better financial performance as well.

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