

**Phone conversation between Fonkoze (Natalie Domond, Director of Social Impact Monitoring) and GiveWell (Natalie Stone, Research Analyst) on May 25, 2010**

**Fonkoze:** This year we are looking forward to improving our systems for monitoring client protection. Client protection is woven into the fabric of what we do. It's at the forefront of everyone's mind. Everyone is trained in our Staircase out of Poverty model—we very much think of ourselves as organization that is in the business of fighting poverty, not just a microfinance institution.

My department's job has been to capture baseline poverty scorecard and food security data on clients and to re-interview them after every two loan cycles. We want to make sure we are targeting Haiti's poorest people and we want to make sure our clients are steadily making socio-economic progress. We also do routine client exit surveys and twice a year we conduct client focus groups with about 350 clients from branches all across the country (not just in the 10 branches that have Social Impact Monitors). The questions we ask in these focus groups change depending on current circumstances and what management is interested in learning more about. They may include questions on client satisfaction, client protection, pre-credit training, new product development, etc. We recently had a focus group round on micro-insurance. We can also be called upon for special research projects—for example investigating why drop out has increased in a particular branch. We are not intimately involved in the day-to-day operations in all the branches nor in direct credit agent oversight.

**GiveWell:** How are clients chosen for the focus groups?

**Fonkoze:** Sometimes we are interested in a certain topic that only applies to a subset of clients—such as clients that have participated in one of our educational modules. We get a list of groups at a branch and then randomly select groups and clients to participate in the focus group discussion. We also target branches that may not have been represented recently through focus groups.

**GiveWell:** What happens to information received in focus groups?

**Fonkoze:** We write up a report and circulate it to relevant managers. For example, in the past we received feedback that clients weren't understanding the interest rates and we responded by developing a cartoon that depicts a discussion between two women about the difference between a 5% declining and a 3% flat interest rate. Another time, we introduced new penalty fees and we received feedback that clients didn't understand them. We decided to circulate information about the reasons behind the fees and how they worked. We also received feedback that we should develop a hotline to allow clients to report complaints. Through focus group discussions we asked clients about this hotline—How would you use this? What problems would you use it for? Etc.

We don't currently have geographically representative data because we don't have monitors in every branch or in all 10 of Haiti's departments where we work. The monitors we do have are somewhat concentrated in certain areas due to donor preferences. We are going to be adding social impact monitors in two new regions this year. This will increase our representation to 7 out of 10 departments.

**GiveWell:** Is there a process for monitoring whether procedures for preventing over-indebtedness are effective?

**Fonkoze:** Overindebtedness is a challenge in Haiti because there are no credit information systems—there is no credit bureau. At Fonkoze, loan officers visit client businesses and households to assess their ability to repay. Also, Fonkoze is the only MFI in many of the places it

is working and our policy is not to give clients more than double the size of their previous loan, so these are other factors that help prevent client overindebtedness. Over the next quarter we will institute a SMART Campaign tool to help us evaluate our current system for preventing overindebtedness and develop an action plan to address our greatest areas of weakness. At the moment, we have a large staff and expansive branch network, so it's difficult to know what's going on everywhere at all times.

For the earthquake recovery program we are pilot testing a catastrophic loss microinsurance product that Fonkoze was developing when the earthquake hit. The program treats clients as if they were already enrolled in an insurance plan and provides victims with a \$128 indemnity, repayment of their old loan, and eligibility for a new loan. With regard to the new loan, we took a lot of time and care to make sure clients knew that they should only take out a loan if they were ready. We developed a new form and procedures for evaluating whether clients were ready for a new loan in the post-disaster context, which included talking to people who know them well. No clients who are getting a loan through this program are getting a loan that is larger than what they had at the time of the earthquake. There is a 2% fee for this loan to communicate to clients that there are costs associated with this sort of insurance benefits package. The 2% fee will go towards a fund to help us complete the development of the new insurance product.

**GiveWell:** What complaints have been voiced by clients in the past? How has Fonkoze responded to such complaints?

**Fonkoze:** Every branch organizes a department level assembly and all the center chiefs participate. Every assembly produces a report that is shared with managers. In one example, clients were complaining because they did not understand why they take out the same size loan as they did previously but then have higher payments. What was actually happening was that the repayment period was a few days shorter, but this wasn't clear to clients. The branch manager in conjunction with the social impact monitro came up with a training module to deal with this.

Assemblies elect representatives to come to the general assembly. One of the major outcomes of the assembly last year was the decision to create a channel to allow clients to complain without having to go through the loan officer.

In addition, we have 5 clients on the board of directors for Fonkoze the foundation.

I haven't seen a complaints resolution tracking system, but one is being developed for the hotline we will put in place.

The social impact department aggregates monthly reports, which are circulated to managers and highlight client issues and resolutions. They used to be mostly in English, but are now all in Creole. This was done in an attempt to ensure a wider readership and accessibility of these reports.

**GiveWell:** Can you share past reports?

**Fonkoze:** I'll check. I can certainly share the quarterly activity report that was developed for an external audience late last year. Our annual social performance report is also an excellent overview of activities and results from the year. This can be found on our website. In October 2009 we published a case study in partnership with the Grameen Foundation that goes into more depth about our use of poverty assessment tools in managing our social performance. This case study is available on the Grameen website.

**GiveWell:** What other procedures does Fonkoze have for protecting clients from harassment by

loan officers or group members?

**Fonkoze:** Our solidarity lending methodology lends itself to building a structure that facilitates client protection: each borrower is part of a solidarity group of 5 women, each group has a designated group leader, 6-10 groups form a center and that center elects a chief. This structure forms a natural association or support system of women and elected leaders who look out for the best interests of the borrowers. Another important policy for protecting clients from loan officer harassment is that loan officers cannot go to a client's home without the center chief or another group member when following up on delinquent payments.

Also, our 2007 General Assembly minutes outline a policy for client protection that was voted on during that assembly. I will send you the document.

For more information on loan officer oversight, our Chief Operations Officer or another manager in our Operations department would be better placed to provide you with more details. You should send me the questions you have and I can talk to the relevant people.

**GiveWell:** We've seen that other microfinance institutions use the drop out rate as a tool for tracking social impact. James told us that Fonkoze does not regularly track the drop out rate and does not track it in a uniform way. Do you know why Fonkoze is not concerned with the drop out rate?

**Fonkoze:** It's not that we do not regularly track dropouts, it's just that we have two institutions (Fonkoze Foundation and SFF) working off of two different MIS's so this complicates things. I believe James can provide further clarification for you on this process. In fact, it is important to note that our entire loan officer incentive system is based on client retention, which requires us to regularly monitor client dropouts.

Also, tracking and getting to the bottom of client exit is a key component of our social performance monitoring system. We have a 47 question, in-depth client exit survey that we administer on exit clients at branches where we have social impact monitors. We collected 357 client exit surveys in 2009 and 320 in 2008. We also conduct special client exit analyses for other branches upon request. Currently we are looking into the fact that we lost a significant number of clients in 2009, so we are conducting client exit analyses at branches where we don't have social impact monitors to try and better understand this phenomenon. An analysis of client exit surveys is available in our annual social performance report.