

HORIZON Microfinance Limited - Guyana

List of Acronyms

APR	Annual Percentage Rate
BoD	Board of Directors
BP	Business Plan
BM	Branch Manager
CEO	Chief Executive Officer
CP	Client Protection
CPC	Client Protection Certification
CPP	Client Protection Principles
DFI	Development Finance Institution
FSP	Financial Service Provider
HO	Head Office
HR	Human Resources
IA	Internal Audit
LO	Loan Officer
MIS	Management Information System
MT	Management Team
PAR	Portfolio at Risk
SG	Social Goal
SME	Small and Medium Enterprise
SPI4	Social Performance Indicators 4 (social audit tool)
SPM	Social Performance Management
TA	Technical Assistance
USD	United States Dollars
USSPM	Universal Standards of Social Performance Management

Introduction

The social audit of HORIZON Microfinance was conducted using SPI4. SPI4 is a comprehensive social audit tool that allows FSPs to evaluate their level of implementation of the Universal Standards of Social Performance (Universal Standards). The SPI4 assesses a FSP's strengths and weaknesses on both Social Performance Management (SPM) and on client protection, with the goal of using this information to help the FSP 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 USSPM.

An additional optional "Green" module was used in the HORIZON assessment. This module aims to measure HORIZON's practices against emerging environmental standards for financial service providers.

Process

The preliminary process entailed the introduction of the SPI4 tool to the management team through a web conference. The second step in the preliminary process was a document review (refer to annex 2 for the list of documents consulted), in preparation for the mission which was conducted **Sept 7th – 13th 2016**. The social audit involved interviews with top management, head of departments, board members and relevant line staff (refer to annex 1 for more details). Two branch visits were organized to meet with branch managers, branch staff, and credit officers. Preliminary findings from the onsite visit were presented during the exit meeting with top management. The SPI4 tool was finalized based on exchanges during the exit meeting.

HORIZON Microfinance

- HORIZON Microfinance was established in 1998 as an NGO and transformed into a non bank financial institution in September 2011.
- Its shareholders are mainly XX, XX and XX, while XX and XX figure among the main lenders.
- HORIZON Microfinance provides pro-poor financial services and products which include both savings and loans (individual and solidarity group).
- Target market is low-income men and women.
- The institution currently operates through 12 branches among which 8 are located in rural areas.

Social Dashboard – HORIZON FINANCE LTD

SPI4 SOCIAL DASHBOARD



HORIZON	Guyana	Since	1998
NBFI	For profit	As of date:	31-Dec-15
Type of assessment:	Accompanied Self-Assessment	Organization of auditor:	MF Social Rating

MISSION STATEMENT

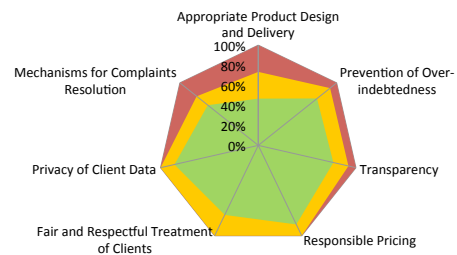
The social mission is to provide sustainable efficient financial services to all financial excluded population, specially micro entrepreneurs, and small farmers to contribute to poverty alleviation and to achieve decent life for themselves and their families.

UNIVERSAL STANDARDS



Comments on your adherence to Universal Standards

CLIENT PROTECTION STANDARDS (LIGHT ASSESSMENT)



This graph represents scores for a CP light assessment using the SPI4, which does not include most of the compliance criteria required for a complete Client Protection Certification.

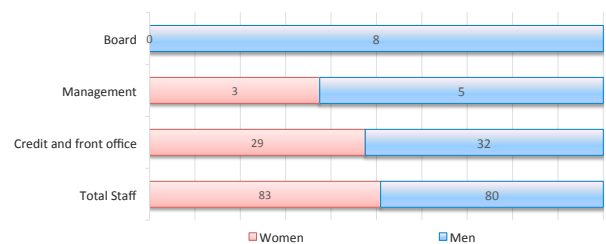
Comments on your adherence to Smart Campaign Principles

CONTEXT & FINANCIAL INFORMATION

CONTEXT & FINANCIAL INFORMATION		Financial data on the date of:	
		31-Dec-15	
Total number of clients	47 626	Total Assets, volume, GYD	317 894 587
Number of branches	12	Return on Assets	2%
Number of branches in rural areas	7	Return on Equity	9%
Number of active borrowers	11 610	Financial Expense Ratio (as a % of average GLP)	11%
Number of outstanding loans	11 515	Operating Expense Ratio (as a % of average GLP)	33%
Amount of Gross Loan Portfolio in GYD	22 503 161	Operational Self-Sufficiency	107%
Number of voluntary savers	47 626	Nominal Portfolio Yield	47%
Number of women voluntary savers	15 167	PAR >30 + rescheduled	3%
Amount of voluntary deposit in GYD	94 852 939	Write-offs (during the period)	2%
Amount of total deposits in GYD	94 852 939	Loan Loss Expense Ratio	2%

BOARD AND STAFF COMPOSITION

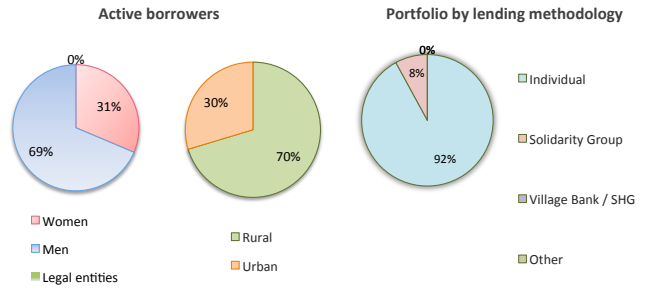
Number of staff	163
Staff turnover rate	1,5%
Staff productivity (outstanding loans / field staff)	189
Social performance criteria in employee appraisals	Yes



KEY CHARACTERISTICS OF LOANS

Lending Methodology	Mixed	
Outstanding loan balance per borrower	0,22%	of GNI/capita
Interest rate method	Flat interest method	
Average APR	39%	per year
Borrowers retention rate	98%	per year

SEGMENTATION OF LOAN PORTFOLIO



RESPONSIBLE FINANCE INITIATIVES

	Endorser?	Yes
	Certified?	No
	Reporting of social data?	Irregular reporting

MOST RECENT SOCIAL RATING

Agency	Date	Result
Planet Rating	30-juin-14	3+

CLIENT SATISFACTION

Number of complaints received in the last 3 months?	0	Client satisfaction rate in recent satisfaction survey	0%
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FINANCIAL SERVICES

Loans	Yes
Microenterprise loans	Yes
SME loans	Yes
Loans for agriculture	Yes
Express loans	Yes

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

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

Demand deposit accounts	No
Fixed term deposits	Yes
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	No
Scholarships/educational grants	----
Mobile banking services	No
Savings facilitation services	No
Remittance/money transfer services	Yes

NON FINANCIAL SERVICES

Enterprise services	Yes	Health services	No
Education services	No	Women's empowerment services	No

UNIVERSAL STANDARDS RESULTS BY DIMENSIONS

1. Define and monitor social goals (64%)

HORIZON's mission is has a clear social focus (the active poor) and geographical positioning (rural). Yet the capacity to monitor the achievement toward the social mission is hampered by the lack of clear and measurable social goals and indicators as well as social data collection.

Social strategy (79%)

HORIZON's mission statement has recently been reviewed and approved by the BoD. The mission is clear and complete, specifying the target, how to meet target client's needs and the expected social outcomes. HORIZON could better define its Social Goals, and needs to define specific and measurable targets and indicators for each established social goals. In relation with the second social goal i.e. how to meet client's needs, the institution's strategy is well articulated around how its products, services, delivery models and channels will achieve its social goals.

Reporting of client-level data (48%)

In terms of reporting, the actual MIS seems to have good potential to track and disaggregate social information. There are formalized procedures and protocols for collection, quality control and reporting of data. Yet, production and disclosure of social performance information is still not sufficient to properly measure and assess the achievement toward the social mission, in particular social goal 1 (target population) and 2 (social outcomes). Indeed, information related to client profile (including poverty assessment) and to some extent client satisfaction are still limited. HORIZON only collects some basic data on male/female customers and urban/rural locations. This information is not enough to truly inform decision-making at the Board or Management level.

Areas for improvement

- Better define the key terms of the social mission, in particular SG1 and SG2.
- Define specific targets for each Social Goal.
- Produce the social information need to measure each SG and report on this data to management and BoD in order to monitor the progress toward the social mission.

2. Commitment to social goals (50%)

Both management and BoD are committed to HORIZON's social mission. The business plan clearly addresses HORIZON's social and financial ambitions, and while there are clear financial targets set in the plan, the social goals are not sufficiently translated into specific and measurable targets. Measuring and monitoring of social performance is currently not sufficient.

Board accountability to social mission (43%)

BoD's understanding of social performance management could be further enhanced. The information reported to the BoD is mainly related to staff and institutional financial performance, including staff satisfaction and turn-over, growth projection, profit allocation, and product related information. Social indicators or specific target are yet to be fully reflected in the social strategy, and the little social information (e.g. male/female and Urban/Rural) received via reports from the SP Champion to the Board is not enough to inform strategic decision-making.

No formal orientation is provided to the BoD, but members are clear on the social mission of HORIZON. One Board member has attended several SPTF Annual Meetings and is aware of SP issues. Specific SP responsibilities for Board members are not defined, but the SPM champion reports to the Board.

Sr mgt accountability to social mission (31%)

Capacity of top management to analyse SP data and assess progress towards social targets is in part hampered by the lack of clear definition of specific and measurable targets. The social information allows management to

assess some social risks (employee dissatisfaction, gender inequalities), but many risks go unchecked (mission drift, client protection risks, client dissatisfaction).

Staff accountability to social mission (75%)

Employees are recruited, evaluated, and recognized based on both social and financial performance criteria. Induction training for new staff includes values, social mission as well as an overview of the code of ethics. Refresh trainings on products and customer service are provided yearly. Employee appraisal include some social performance factors such as customer service and portfolio quality. The incentive scheme is balanced between quality of the portfolio and productivity and aligned with the industry benchmark.

Areas for improvement

- Reinforce the BoD's understanding of social performance-related risks. Reinforce communication on the Board's role in helping HORIZON achieve its social mission.
- Integrate specific social targets into HORIZON's business and operational plans.
- Board and management should conduct regular reviews of these targets, as a way to assess social performance related risk.
- Integrate social performance criteria into routine IA activities and internal control.

3. **Design products that meet clients' needs (49%)**

Despite the absence of market research, HORIZON offers a range of product that meet a variety of client needs. Mechanisms to assess client satisfaction could be further enhanced.

Client Needs and Preferences (25%)

HORIZON collects client feedback through the complaint channel (call center and complaint boxes), which is reported on a weekly and monthly basis to the management, and quarterly to the BoD. Bi-annual reports are also sent to the central bank. This feedback has been used to make adjustments to products. However, it is reactive, and not proactive. Market research, client satisfaction surveys and client drop out analysis are not yet used. HORIZON plans to hire a Research and Product Development officer in 2016 who will be in charge of conducting market research on a yearly basis.

Benefits to Clients (73%)

The range of product offered and its characteristics seem appropriate for the target population (in terms of size, collateral, repayment schedule, and delivery service) and do not create a barrier for the access of the most vulnerable clients.

HORIZON does not show evidence of aggressive sales techniques or forced signing, and productivity targets do not appear to promote aggressive sales. To reduce the risk of aggressive selling, HORIZON could establish productivity thresholds—e.g., if the number of clients per credit officer surpasses a certain number, then this raises a red flag and calls for closer monitoring of that credit officer and her portfolio.

Areas for improvement

- Carry out market research when considering product enhancement or new products (ex., before introducing the new mobile banking product).
- Conduct regular client satisfaction surveys to ensure products are meeting needs
- Systematically track and analyze client drop out and communicate on findings to employees, as a way to better understand client needs.

4. **Treat clients responsibly (86%)**

Prevention of over-indebtedness (90%)

The loan approval process does not solely rely on the provided guarantee and the institution performs financial analysis (including household expenses and revenues) for all loans no matter the product type and regardless of the loan cycle. The repayment capacity analysis is always based on a client visit, at least for new client, while for repeated client it is not mandatory. Quarterly refresh trainings for field officers and different levels of approval (loan file are always reviewed by at least the BM prior to disbursement) guarantee a certain

uniformity in the loan process. A credit bureau check is done for every loan. The Board and management are aware of the risk of over-indebtedness, even though market level information is not used to determine saturation.

The institution's internal audit department monitors that policies to prevent over-indebtedness are applied. Yet the information could be better crosschecked on the field with client visits (only 3 or 4 clients visited per branch audit).

Transparency (85%)

HORIZON clearly discloses all cost and information related to the loan in the contract (including the total amount in absolute terms considering interest rate, commission, fees, insurance), in the branches and in marketing material. It does not provide a Key Facts Document, however. Savings and insurance documentation is also complete; documentation for Western Union transfers includes required information.

Price components, terms, and conditions of the loan are communicated to clients during induction training for Group loans and during the loan appraisal process for Individual loans, although this procedure is not fully formalized. Group members are not given a copy of the contract (one agreement for the entire group). Adequate time to review the terms and condition of the product is given to the client (cooling off period of 10 days).

Fair and respectful treatment of clients (83%)

HORIZON has an updated code of ethics and HR procedures are aligned to this code. Staff are trained on the code of ethics but not sufficiently on the acceptable and unacceptable behavior during collection practices. A new policy defining collection practices is in draft form and is expected to be finalized within the year.

There are documented processes in place to prevent fraud in savings and transfer procedures, verified by internal audit in regular checks. Internal audit could further reinforce checks on staff behavior and customer service by including these points in the audit check list.

Privacy of client data (94%)

Physical and electronic data are well secured, and related procedure sufficiently formalized. A confidentiality clause is disclosed in the contract but does not mentioned under which circumstances the information will be shared (e.g. credit bureau, insurance company, etc.). Clients' consent for checking in credit bureau is asked in a specific credit reference bureau customer consent form. However, HORIZON does not get consent to use client stories or pictures in marketing materials. Staff training related to client data protection is included in the orientation training.

Mechanisms for complaint resolution (80%)

The institution's complaints resolution system is actively used by the clients and well formalized with different complaint channels (suggestion box and call center) and a dedicated customer service champion separated from the operations. The complaint mechanism is not always effective in case of verbal complaints at branch level since those are not always reported to the HO, and training on complaints resolution procedures could be reinforced. Complaints are not taken into account in performance evaluations.

Areas for improvement

- Internal audit procedures should be more aligned to SPM, in particular in terms of 1) visiting a representative sample of client, 2) verification of timely resolution of the complaints and reporting of verbal complaints at branch level 3) asking related staff behavior questions during client visits.
- Provide a copy of the signed contract at least to each Individual client and Group leaders.
- Remove potentially confusing price components such as flat interest.
- Include in the code of ethics guidelines for the fair treatment of clients and set clear standards on acceptable and unacceptable collection practices during collection.
- Make sure that the related behavior during collection practices are covered in the initial training and during refresh training. Such training should be offered also to third party involved in collection process.
- Integrate customer service questions into internal audit check list, to be used in when auditors interview clients during branch audits.
- Ensure client consent is taken for including client pictures/stories in marketing material.

- Reinforce staff training on complaints procedures to ensure better understanding of the process for complaints resolution.
- Consider integrating complaints data (number of complaints, resolution) into performance evaluations and risk rating of branches.

5. Treat employees responsibly (89%)

HORIZON is performing well in terms of responsible treatment of employee with most of the requirement covered.

HR Policy (75%)

HR policies and procedures are formalized in the HR manual available to all employees. The manual was updated two years ago. Salary surveys are done yearly and remuneration is within sector norms. Employees are encouraged to provide feedback in annual satisfaction surveys, but the grievance handling procedure is yet informal. Employees are encouraged to share grievances with HR and staff meetings, but there is no formal mechanism. A health and safety risk assessment was done 4 years ago, but has not been repeated.

Communication of Terms of Employment (98%)

Staffs are provided with a written employment contract and a job description. A copy of the sanction manual is located in each branch and on the web site. Employees are provided with different training including orientation training, job training and on-going refresh training (quarterly). The performance evaluation process as well as remuneration policy is well documented and clear to staff.

Employee Satisfaction (94%)

Employee surveys are conducted anonymously on a yearly basis. Exit interviews are held when employees leave, and both employment turnover rate and reason for employee exit are reported on a quarterly basis to the HR Committee. However, the analysis is not done per employee segment (gender, position, etc.). Internal audit has audited HR policies and procedures 2 in the last 4 years.

6. Balance financial and social performance (81%)

Equity investors, lenders, board and management seem to be aligned on the institution's double bottom line. The financial structure is appropriate in its mix of sources, terms, and desired returns. The commitment toward the social goals could be better formalized (e.g. social charter, job description, etc.). The institution sets growth rates targets by taking into account external and internal factors, but analysis of client satisfaction/client service quality could be improved.

Growth rates (94%)

Horizon sets growth rates based during its strategic planning exercise, and draws on sector data, the national statistic bureau, and, in the most recent plan, mobile operators capacity (in view of introducing mobile banking). Internal audit findings are considered, to determine if the branch network has the capacity to grow the client portfolio. The most recent staff satisfaction survey was taken into account as well in the last strategic plan. Target growth rates are approved by the BoD and compared to actual performance on an on-going basis.

The lack of tools (e.g. Client drop analysis, client satisfaction survey, IA customer service control) does not allow HORIZON to fully consider the client service quality in setting growth rates.

Alignment of objectives (88%)

BoD and management's commitment toward the social mission is adequate but could be formalized. HORIZON engages in thorough discussions with potential new lenders and shareholders to ensure motivations are aligned with the mission, but no formal charter or agreement is signed. HORIZON defines profitability targets, but does not formalize how profits should be used: the business plan states only that profits should go towards expansion. HORIZON's audited financial statements are publically available and transparent.

Profits (92%)

HORIZON has been breaking even since 2013, and currently has a ratio of operational self-sufficiency of 106.5%. Horizon's pricing policy is in line with client interests:

- rates were reduced in the last 2 years, based on client feedback and efficiency gains
- prices are in line with peers, for loans, payments.
- APR is among the lowest in the market based on a pricing analysis conducted in 2015 by the national network.
- Portfolio yield is within the range of peers (46% for Horizon vs an avg of 48% for the other FSPs in the country).
- No excessive fees.

Expense ratios have been declining since 2014, and ROA is within the range of peers.

Compensation (50%)

The CEO's compensation is set and reviewed by the Board, but social performance aspects are not integrated into the evaluation process (which is due also to the lack of specific social targets). HORIZON does not compare the difference between top level executives and field staff.

Areas for improvement

- Include audit findings on client service quality (findings from branch field audits) and any satisfaction/complaints data in the definition of growth targets.
- Formalize a document that specifies the institution and key stakeholders' expectations for financial returns, profit redistribution and commitment to social mission and double/triple bottom line.
- Integrate social performance-based criteria into the CEO evaluation process.

Persons interviewed

Branch Manager
Human Resource Manager
BoD members (2)
Loan officers (2)
Internal Audit Manager
CEO
CFO
Executive Deputy
IT Manager
Customer Loan officers
Business Growth Manager
Credit Manager and Operation Manager
SP Champion (XX)
Human Resources Manager

Documents consulted

Annual staff performance appraisal template
Audited Financial Statements: 2014, 2013 & 2012
Branch Manager's Training Manual
Branch Operations Manual
Business Plan 2013 – 2017
Client Exit Interview template
Code of Conduct
Consolidated portfolio reports: Dec12, Dec13 and Dec14
Client Protection Self-Assessment Report
Social Rating Report 2012
Financial Projections
Financial Ratios and Performance Indicators
Human Resource Manual
Impact Assessment Studies: 2011, 2012 & 2013 issue (hard copies)
Loan appraisal forms (sample filled in forms and soft copies)
Loan Classification Table
Loan Covenants
Manual for Credit Committee
Manual for Risk Control
Minutes for the Board (hard copies)
Risk Monitoring checklist
Risk Report (sample)
Sanction Matrix (under HR manual)
Social and Environmental Policy (draft version)
Social Performance Training delivered by XXX
Staff Exit Interview template
Strategic Guidelines 2015
Training Calendar 2015
Training Report 2014