

**SOCIAL PERFORMANCE
REPORT**
ECLOF SRI LANKA



ECLOF INTERNATIONAL DEFINES SOCIAL PERFORMANCE AS THE EFFECTIVE TRANSLATION OF THE ECLOF MISSION INTO PRACTICE, IN LINE WITH ACCEPTED SOCIAL VALUES THAT RELATE TO:

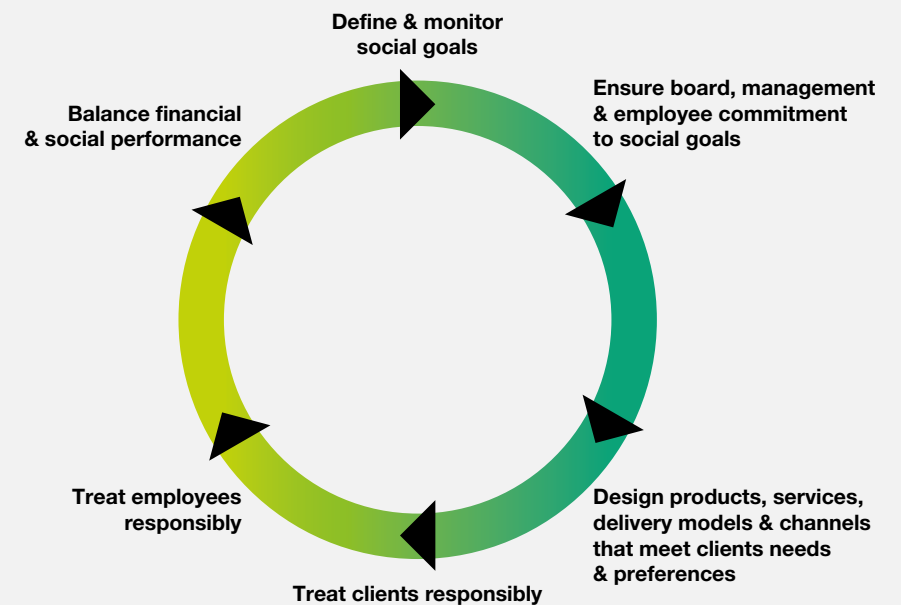
- Reaching our target market
- Delivering high-quality and appropriate services
- Responding to the needs of clients, their families and communities
- Protecting clients from negative effects of accessing financial services
- Ensuring responsibility towards our employees, clients, the communities we serve and the environment

ECLOF International seeks to actively manage the social performance that its network delivers. ECLOF therefore has adopted the Universal Standards for Social Performance Management (Universal Standards for SPM): a set of core management practices that constitute “strong” SPM. In applying the standards, ECLOF members hold themselves accountable to their social mission, facilitate greater social impact and can even boost their operational and financial performance over time.

As part of its strategy to be accountable and transparent in meeting its financial and social goals, ECLOF International conducts social audits of its network members, supports capacity building in the members and monitors the social performance of members through a social performance reporting framework. The framework applies up to 30 quantitative and qualitative metrics to measure the degree of success of network members in reaching ECLOF’s social mission. This report is the result of applying the social performance reporting framework to ECLOF Sri Lanka.



THE SIX DIMENSIONS OF THE UNIVERSAL STANDARDS FOR SOCIAL PERFORMANCE MANAGEMENT



Source: Social Performance Task Force

SOCIAL PERFORMANCE MANAGEMENT AS A MEANS OF ATTAINING SOCIAL IMPACT

ECLOF attains social impact by targeting those in need and giving them access to financial and non-financial services that empower them and effect positive changes in their lives. Impact evaluations attempt to demonstrate the outcomes of microfinance. They tend to be onerous and costly. Because rigorous research methods like randomized control trials usually track a rather short time-frame of 12-18 months, their findings are often questioned. For obvious reasons it is difficult to clearly attribute improvements in clients' lives to a single (microfinance) intervention. Undertaken by researchers rather than practitioners, their results often are not used effectively to improve institutional performance. Social performance management on the other hand focuses on those recognized management practices that can be expected to lead an institution toward positive social changes in the lives of their clients, whether these can be "proven" or not.

It is ECLOF's goal to accompany its clients as they graduate, i.e. they rise on the economic ladder from ultra-poor over poor to vulnerable and beyond. Therefore, ECLOF has started to monitor the poverty level of its clients using tools like the Poverty Probability Index (PPI). With the collected data it will be possible to document how clients graduate over time. It will also help ECLOF to consistently target poor clients.

FACTS & FIGURES OF ECLOF SRI LANKA

ECLOF Sri Lanka is a small microfinance institution operating 8 branches covering the Northern, Southern, and North-Western parts of the country. ECLOF Sri Lanka empowers the vulnerable and poor, especially women and rural dwellers, through accessible and affordable financial and non-financial services.

Year of foundation: 1975

Legal form: Company limited by guarantee
(registered and licensed under the
Microfinance Act No. 6 of 2016)

Number of clients: 9,614

Loan portfolio USD: 1.4 million

Number of branches: 8

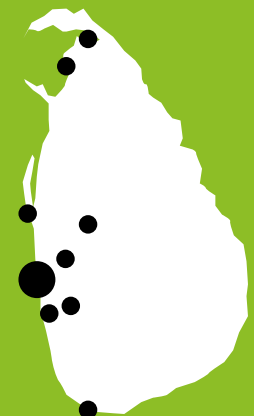
Number of staff: 37

Operational self-sufficiency: 108 %

All information as per March 31, 2020



BRANCH NETWORK ECLOF SRI LANKA



MISSION & VALUES OF ECLOF SRI LANKA

**FAIR CREDIT
TO PROMOTE
HUMAN
DEVELOPMENT
AND DIGNITY**

VISION

**A more equitable
world where all
people are created
equally and with a
right to the dignity
of leading fulfilled
lives.**

MISSION

**To promote social
justice and human
dignity through
microfinance**

VALUES

**Human dignity
Social justice
Solidarity
Participation
Good stewardship
One movement**



WHO DO WE REACH & EXCLUDE

INDICATOR	DATA POINT	COMMENT
Number of clients reached	9,614	ECLOF Sri Lanka serves predominantly women and rural communities.
thereof women	9,422	
thereof men	192	
thereof urban	1,923	
thereof rural	7,691	
Number of people reached	48,070	ECLOF's work can have an exponential effect on the families and communities it serves. ECLOF builds local capacity in its clients and its staff, and it nurtures community ties through the solidarity group lending model. The average household size is 5.
thereof urban	9,614	
thereof rural	38,456	
% of vulnerable clients	98 % of clients are women	Because of limited access to education and assets, women tend to be more vulnerable than men.
	35 % work in the agricultural sector	Because of precarious living conditions in rural areas and often unstable income, smallholder farmers tend to be more vulnerable to external shocks.
Average outstanding loan / Gross national income (GNI) per capita	4 %	This proxy indicator applied across the whole portfolio indicates that a financial institution reaches poorer clients. MIX Market defines that loans up to 20 % of GNI per capita are loans to the lowest income clients. ECLOF Sri Lanka's figure stands well below that.

Officially Sri Lanka is considered an Upper Middle Income Country by the World Bank and lauded for its success in reducing extreme poverty since the 1990-s. 85 % of the poor reside in rural areas but there are pockets of high poverty that prevail even in affluent districts. The poorest districts are those in the post-war Northern Province. ECLOF Sri Lanka intentionally serves especially these geographies: 80 % of loans are made in rural areas and two branches serve the North of the country including the two poorest districts of Kilinochchi and Mannar.

It is important to ECLOF Sri Lanka to demonstrate client-level results to internal stakeholders (such as clients and employees) and external stakeholders (such as national regulators) not just with anecdotes but also through real data. Therefore, ECLOF Sri Lanka has begun to systematically collect poverty data of its clients using the "ECLOF poverty score card", a tool that scores clients via 14 simple questions on their level of access to basic needs like food, medicine, clothes, education, water & sanitation, shelter, land ownership and employment status of family members. Clients who score below 20 are considered vulnerable; those with 20 to 45 are considered poor; and those

scoring 45 to 60 are considered low-income households. A sample taken in the North in 2019 showed that 79 % of clients were from the poor category and 15 % were vulnerable.

98 % of all clients are women. They traditionally face higher economic and social exclusion than men. Many girls from underprivileged families marry early at age 15-17 and quit school. Once they are economically empowered, women tend to be more concerned about their families' welfare in terms of food, child education, living conditions, and even health. Serving women has a direct effect on society in that they are able to reinvest the profits of their businesses into their families and the community.

MICROFINANCE IN THE POST-CONFLICT ZONES OF NORTHERN SRI LANKA

For 30 years internal conflict raged in the North of Sri Lanka, leaving 200,000 dead and infrastructure and livelihoods destroyed. Most houses were damaged or ravaged, many families lost a family member and were traumatized. While the war ended in 2009, its legacies last: the region is still poorer and underdeveloped in comparison to the rest of the country. The level of education and financial literacy is still low. So is the self-confidence and entrepreneurial spirit of the people. Lack of capital exacerbates the problem.

As early as 2012 ECLOF was the first finance provider to serve the area; first with training and then with financial ser-

vices. Traditionally the main industries are fisheries, palmyra products, dairy farming and agriculture. Since 2012, ECLOF has disbursed loans worth more than 2.1 million dollars in the two Northern districts alone. From the beginning there was close cooperation with the Government's Divisional Secretaries and their Women Development Officers or Rural Development Officers who are responsible for re-settlement, development and livelihoods. Before being allowed to start, ECLOF underwent a close examination by the Government Agent to ensure that the already battered people who have lost their livelihood and families disrupted were not exploited in any way.



CUSTOMER EXPERIENCE

INDICATOR	DATA POINT	COMMENT
Client retention rate	96 %	Only 4 % of clients decided to leave the institution in 2019.

ECLOF Sri Lanka puts clients at the center of all strategic and operational decisions. Accessible and affordable loan products help them invest in economic opportunities, cope with emergencies, build assets and manage their daily and life cycle financial needs. High client retention is a proxy indicator for the quality and relevance of ECLOF's service to its clients. There is evidence that a stable long-term relationship with a finance provider can facilitate the graduation of poor clients to higher income levels.

Most clients are women, so it is only consequential that they have their own representation in the governance of the institution: A client representing women's organizations is a member of the General Assembly of ECLOF Sri Lanka.

Every year each branch manager conducts structured consultations with clients in a group format to find out their level of satisfaction and their knowledge and competency in financial literacy. From these ad-hoc surveys new training for clients was developed. Also, procedures were amended and financial products updated.

As a recent outcome of this survey, a new product was developed: a seed capital loan to groups of aspiring entrepreneurs. The local Divisional Secretariat facilitates the forming of women groups, societies and federations, delivers vocational training and thereafter ECLOF provides the required seed capital for their business projects.



SERVING CLIENTS THROUGH REGISTERED WOMEN SOCIETIES

ECLOF uses a unique solidarity lending model to deliver services to clients: through Registered Women Societies. Formed at the initiative of the local government's Women or Rural Development Officers, these Societies gather the most vulnerable women in a village to grant them access to development programs, training or entrepreneurship schemes. Sometimes the Societies get small grants for starting a business or agriculture or to cover medical costs. Normally a Society will have 30 to 100 members under the leadership of a Chairperson, a Treasurer and a Secretary.

ECLOF comes in to offer support to group members in building or expanding a micro business or small farming operation. With help from the local Rural Development Officer and the group

leaders, eligible members are identified and developed over a compulsory period of three months before accessing a loan. During that time the group members are trained on group dynamics, financial literacy, savings habits, and entrepreneurship. Existing and potential businesses among the group members are evaluated and plans of cost and expenditure set up for each interested member. For group cohesion, ECLOF even organizes volunteering action, for example clean-up activities in the community. Often Societies have their own small internal savings scheme. ECLOF encourages this and where there is no such practice, ECLOF trains members on saving habits. When members don't have bank accounts, ECLOF encourages them to open one. Later these accounts are used for disbursing and repaying the loans.

CLIENT PROTECTION

INDICATOR	DATA POINT	COMMENT
Adherence to the client protection principles	4	This indicator shows for which of the 7 CPPs (Client protection principles) explicit policies and procedures are in place.

Client protection —doing no harm to clients— is the foundation of and an integral part of social performance. There are 7 accepted client protection principles. They range from offering suitable products over preventing client over-indebtedness to transparently disclosing information to clients. ECLOF Sri Lanka has formal policies and procedures in place for 4 principles: Prevention of over-indebtedness, transparency, responsible pricing and fair and respectful treatment of clients. Here are examples of ECLOF Sri Lanka's good practices:

Prevent over-indebtedness

There is widespread concern about multiple loans and over-indebtedness among microfinance clients especially in urban areas of Sri Lanka. It is therefore important to assess clients' existing debt and their disposable income before granting a loan —and subsequently offer a suitable loan product.

The unique group model that ECLOF applies reduces the risk of credit—for clients and for ECLOF. Clients get support from their group and from ECLOF

in assessing whether their business idea is realistic and could benefit from credit. Only those with group members vouching for them get a loan. And the three-month capacity building period makes sure that clients acquire basic financial knowledge and don't take hasty decisions. Loan monitoring and recovery is facilitated through the strict supervision by local government officers and group leaders. The groups have their own savings within the group and often internal loan schemes. All of this supports good loan repayment when a member of the group faces difficulties. And when misfortune strikes, ECLOF's Death & Disability Fund can step in.

It is generally accepted that credit bureau information is vital to recognize other financial obligations clients have and consider them appropriately in the credit decision. Currently ECLOF Sri Lanka cannot directly access the national credit bureau CRIB which incorporates only banks, finance and leasing companies. But individual applicants for small business and housing loans are required to submit their own CRIB score. ECLOF Sri Lanka is working on gaining access to the system soon.

Be transparent

During the introductory sessions for new client groups, loan officers present ECLOF's loan products, conditions, interest rates, and benefits. ECLOF Sri Lanka's publishes an annual report available to its constituency. The staff are informed through circulars on important instructions, decisions by management and meetings are always minuted and documented. The salary structure and applicable grades are known to staff.

Price responsibly

ECLOF's loans are easily accessible and affordable to clients. ECLOF requires no collateral or insurance from clients. There are no fees beyond a 1 % disbursement fee and ECLOF's loans usually cost less than loans offered by other MFIs.

Treat clients fairly and respectfully

ECLOF's corporate culture values high ethical standards. It is therefore no surprise that ECLOF Sri Lanka was publicly recognized as a microfinance institution that complies with the Code of Conduct of the Sri Lanka Microfinance Association. The Code calls for highest levels of professionalism, good conduct and strong governance. Only 45 out of over 400 MFIs in Sri Lanka comply. Exemplary here are the practices used to collect overdue payments from clients: ECLOF applies ethical loan collection practices, works with the mediation boards set up by local government and resorts to legal action only in exceptional cases.

There is no formal mechanism yet for gathering and resolving client complaints. Rather this is done ad hoc by branch or head office staff. A policy for protecting the data of clients needs to be introduced. New products are developed according to informal but accepted practices: using client feedback, testing in a pilot branch and then reviewing and rolling out. A formal process needs to be developed.

RESPONSIBILITY TO STAFF

INDICATOR	DATA POINT	COMMENT
Staff turnover rate	32 %	Staff turnover is high in a competitive labor market.
% of staff benefiting from training	60 %	All staff benefit from professional training over the year.

In microfinance, employees are an organization's main asset. They have rights, and if treated well they are more likely to treat clients responsibly. Treating staff well also improves service quality and sustainability because more satisfied staff treat clients better; and well treated clients are loyal to the institution.

ECLOF Sri Lanka competes for good staff in a competitive labor market. Staff are

paid a living wage and are incentivized through a salary scheme that awards portfolio growth and quality. Once a year a central staff gathering is organized where three prizes are awarded: for the best loan officer, for exemplary leadership and to the employee of the year. To further increase the attractiveness of working for ECLOF, training is essential: all staff benefited from professional training in 2019.



BENEFITS TO CLIENTS

INDICATOR	DATA POINT	COMMENT
Number of clients trained	970	Clients trained on financial literacy, entrepreneurship, arts & crafts, drug and alcohol prevention.
% of clients trained	10 %	
Number of services addressing basic client needs	2 loan products 1 insurance scheme	Home improvement, Festival loans. Death & Disability Fund.

For a socially motivated provider of financial services like ECLOF, it is not enough to protect clients from harm. We actively seek positive impact on the lives of our clients: their economic wellbeing, their community integration, their ability to cover basic human needs, and their resilience against external shocks. This is achieved by building clients' capacity, through dedicated financial products and by the very model of solidarity group lending practiced by ECLOF.

Research has shown that the effectiveness of microfinance to reduce poverty is greatly increased when loans are combined with capacity building. Through the group induction trainings, ECLOF Sri Lanka educates clients about financial literacy, savings and entrepreneurship. Once on-boarded, clients are regularly offered training held by in-house trainers or associated external trainers on

practical income-generating skills like small vegetable gardening or crafts (pottery, woodcraft, sewing, light furniture making, weaving or flower works). After attending a generic business planning training, clients attend 12 classes for each skill. Ad hoc and upon client requests, ECLOF offers socially relevant training e.g. on addressing domestic violence or drug abuse.

Besides loans for micro enterprise and agriculture, ECLOF Sri Lanka offers two loan products that address basic needs of clients. Albeit not in the traditional sense directed at "productive purposes", such loans can facilitate greater social impact beyond the income-smoothing effects of conventional microfinance. With a home improvement loan, clients can revamp their home by adding a room, a toilet or upgrading roof or walls. And with a

festival loan, clients cover extraordinary costs incurred during the traditional festival seasons. We found that offering such products increases client loyalty because clients feel that ECLOF is not just supporting their business but also looking after their personal and family well-being.

ECLOF's model serving clients through Registered Women Societies leads to positive impact beyond financial outcomes: it builds social cohesion among the members. Women clients report that they enjoy not being confined to their homes, mingling in the Societies and learning and exchanging with other local women. Generally, their husbands welcome this engagement as the women earn much needed income for their families.

To enhance clients' resilience against unexpected shocks, ECLOF operates its own protection scheme: the Death

& Disability Fund was started in 2000 at the request of clients. ECLOF endows the Fund with a monthly contribution of 1 % of its outstanding loan portfolio. When a client or spouse passes away or is disabled, the Fund writes off the loan balance after a check with the local authorities ("Grama Niladhari"). Every year, the Fund helps 20 to 25 people, most suffer from sudden illness that forces them to stop working.

Being an institution with a Christian tradition, ECLOF donates part of its income to community service. 10 % of the annual profit is allocated to community development through Churches in areas like children, women & girls, domestic violence, or self-employment. With the profit earned in 2018, a home for underprivileged children, the House of Joy in Talawa, was awarded a grant of 1400 dollars to build a water filter and storage system.



ECLOF INTERNATIONAL

Route de Ferney 150,
1218 Le Grand-Saconnex, Switzerland
+41 22 791 63 12
office@eclof.org
www.eclof.org

ECLOF SRI LANKA

Soundaram Thacis Thoumiyan
Executive Director
eclof@eureka.lk
+94 112 34 34 70

JUNE 2020

