

PROMUJER BOLIVIA
Non Governmental Organization
BOLIVIA
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Rating*

Social Rating	Excellent
Social Risk	Low
Performance Rating	α-

* See Annex 1

Date of visit: **December 2006**

Bolivia: Key Statistics

	2001	2005	2006
Population (millions)	8.3	9.4	9.6
Population density (persons / Km ²)	8.6	8.6	8.6
GDP (US\$ billions)	7.9	9.3	
GDP per capita (US\$)	953.0	987.0	
Poverty Rate	0.6	0.7	0.7
Poverty line (US\$ per capita per month)	43.0	37.5	37.9
Extreme poverty line (US\$ per capita per month)	23.0	21.6	21.8
Life expectancy	62.9	62.9	62.9
Infant mortality (per 1000 live births)	61.2	61.2	61.2
Adult illiteracy (persons over 15 years of age)	86.7		

Source: Bolivian National Statistics Bureau

Summary Description

PROMUJER Bolivia (Programas para la Mujer-Bolivia) is a nongovernmental organization within the Pro-Mujer International Network. It was founded in 1990 as a provider of training programs for women and began offering microlending services in 1993.

It serves poor female microentrepreneurs with limited access to the formal financial system in urban, peri-urban and rural areas in eight of the country's nine departments. Microloans are integrated with social services, such as basic health care and business development. It has over 81,000 clients in 47 service centers and a loan portfolio of US\$ 13.6 million.

Rating Rationale

PROMUJER Bolivia is one of the few microfinance institutions able to combine social programs with a successful microlending business. It offers all its clients integrated financial and social services, maintaining a strong social culture, due largely to an effective management and sound internal procedures.

Its social services are among the best observed by MicroRate. The organization prioritizes these types of services, which are complemented by financial services that respond to the funding needs of a poor and marginalized market niche. Moreover, the professional management of its financial services is excellent. Although it offers a limited diversity of financial products, and social services are partially borne by the financial services, the MFI continues to be profitable.

Furthermore, with its customer orientation, product development efforts are geared to meet client needs. This has resulted in a high degree of customer loyalty and has minimized the risk of the institution deviating from its social mission.

Lastly, although the institution relies on donations to cover the high cost of delivering social services, the financial risk is marginal. In other words, a shortage of donations would simply limit its future social services.

Highlights
POSITIVE

- A strong social culture at all levels of the organization, with an active and effective leadership.
- Social and financial services with good depth of outreach.
- Internal procedures aligning individual and organizational performance with its social mission.
- Strategic plan that effectively integrates social and financial services.

NEGATIVE

- Ineffective incentive system.
- A limited range of financial services.
- The combination rapid growth and the imminent retirement of its Executive Director threatens to put pressure on the organizational culture.

Organizational Mission

“To help underprivileged women achieve self-sufficiency for themselves, their families and their communities through integrated services.”

- PROMUJER Bolivia

Summary Assessment

Outreach	Relatively broad outreach given the size of the organization.
Depth and variety of services	Depth of operations has been steadily increasing. Excellent variety of social services, though the range of financial services is somewhat limited.
Cost and sustainability	Social services are funded by earnings and donations. Financial services are self-sustaining.

SOCIAL PERFORMANCE

Outreach:

PROMUJER Bolivia reaches a relatively large population considering the size of the institution. It reaches close to 81,000 persons in nearly 90% of the country's departments with its social and financial services. The MFI makes many of its services available to the family members of its clients, extending the organization's outreach to more than 450,000 Bolivians (representing nearly 5% of the country's population).

Depth and Variety of Services:

The small average size of its new loans, its large share of poor female clients, and its even larger share of rural clients underscore the depth of its operations. The broad ranges of its social service offerings meet the principle needs of its clientele. However, its financial product offerings are still rather limited.

Cost and Sustainability:

Its financial performance is strong, but only moderately profitable (*see the Performance Rating report*). The incremental costs of its social services are financed by a combination of revenue from social services and donations.

Organizational Responsibility:

Has a sense of organizational responsibility towards its employees and clients, but is still in the early

stages of formalizing its official policies. The organization has effectively empowered its employees by forging close ties between its staff and management, strictly complying with all employee rights under the law.

SOCIAL RISK

Mission, Communication and Management Leadership:

Management has successfully imbued the entire organization with a sense of its mission. The institution has a strong, effective social culture. With its simple organizational structure, it has been steadily growing, while at the same time, upholding its social mission as the backbone of its operations.

Strategic Planning:

In the opinion of MicroRate, PROMUJER Bolivia is one of the few MFIs with a strategic plan designed to coordinate and capitalize on its social and financial services, promoting excellence in both programs.

Customer Service:

It has the most sophisticated data collection and analysis system designed to tailor products to client needs seen by MicroRate. It has one of the best social service programs of any Latin American microfinance institution; however, it could offer a larger variety of financial services.

Monitoring:

It has implemented a wide array of projects and investments designed to study and monitor the social impact of its operations. It is hoped that the new IT system will improve its social and financial performance monitoring capacity.

Recruitment and Training:

The organization's recruitment process is effective in finding qualified employees identified with the mission and suited to the type of work. In many cases, its employees are recruited from among its own clients, thereby ensuring their affinity with the program. However, the organization's recruitment and training process has been weakened both by its rapid growth and by its decentralization.

Incentive System:

The incentive system has been ineffective, both in motivating its staff and as a strategic tool, due to its complexity and to the organization's inability to communicate the system with its employees.

SOCIAL SERVICES

PROMUJER was originally designed as a social assistance program delivering comprehensive services to poor Bolivian women. In keeping with its clearly defined mission, it continues to offer specialized social services. These services are systematically monitored, both through their internal procedures outside assessments.

Most of PROMUJER Bolivia's social services focus on health and education programs. All of its programs have specially equipped facilities and specialized professional staff.

The principle social service is primary health care. Special clinics have been established for this service at all its regional centers. These same centers also offer reproductive counseling services, pediatric examinations, and medical check-ups for women, among other things. All centers are staffed with nurses, and the organization has its own staff of physicians regularly servicing its regional centers. Certain regional centers also offer specialized services, such as X-rays.

In addition to healthcare services, PROMUJER Bolivia provides all its members with ongoing advisory services delivered on topics ranging from general medicine to management and accounting. Business training and financial education are provided by specialists in the relevant field, while health counseling services are provided by nurses at its regional centers.

The institution also offers English and computer literacy classes at all regional centers. These centers are outfitted with computer equipment and staffed with specialized instructors. Such services are available to the children of its members and are offered informally to other family members and, even, friends and neighbors of PROMUJER members at no additional cost.

Other service offerings include workshops for young entrepreneurs targeted at the older children of members. These workshops are designed to promote entrepreneurship and give advice on how to start a project that can be transformed into a new family business.

Finally, PROMUJER provides child care services for young children of its members attending meetings and informal talks. These services are

located in small, well-equipped facilities managed by professional educators, mainly recent graduates.

Major social services offered in 2006

Service offering	Number*
Sexual and reproductive health services	69,247
Sexual and reproductive health counseling services	32,946
Pap tests for organization members	13,297
Pre-natal check-ups for pregnant women	7,953
Health services for children under 5 years of age	16,465
Growth screening services for children under 2 years of age	20,297
Health training services for organization members	62,054
English and computer courses for children and youths	6,204
Business development training for organization members	68,076
Total	296,539

*Source: Internally generated statistics by Promujer Bolivia

SOCIAL PERFORMANCE

This section assesses the organization's results through indicators designed to quantify certain aspects of its social performance.

Service Outreach

All other things being equal, an increase in the number of clients serviced means a larger social impact.

Outreach	2004	2005	2006
Number of borrowers	48,496	64,517	74,106
Population served by PROMUJER Bolivia	4.10%	5.30%	5.10%
Sexual and reproductive health services		74,145	69,247
Health services for children under 5 years of age		14,975	16,465
Growth screening services for children under 2 years of age		19,148	20,297
Members receiving health training services		61,145	62,054
Children and youths attending English and computer courses		4,617	6,204
Members receiving business training services		44,651	68,076
Geographic coverage (percentage of departments with active clients)	78%	89%	89%

PROMUJER Bolivia has had a presence in 8 of Bolivia's 9 departments since 2005. The organization has 81,517 members, nearly all of whom are women. More than 68,076 members have received business training, 62,045 have received health-related training and more than 74,100 were granted business loans at its 47 regional centers. It sustained this level of coverage throughout 2006, while expanding its client portfolio by opening new service outlets or regional centers in departments in which it was already providing services.

The organization has further expanded its outreach by making many of its services available to the family members of its clients. On average, each member has six¹ relatives, which would extend its outreach to more than 480,000 individuals, or approximately 5% of the country's population. This figure is considered quite high for an organization of its size, in a country where 67% of the population is living in poverty.

However, the growth of its client portfolio appears to have slowed over the past year for two main reasons.

¹ Source: Bolivian National Statistics Bureau: global fertility rate = 3.8 children per woman (3.1 children in urban areas). The nuclear family also includes 2 parents or 1 parent and another relative.

The first was related to internal control problems in one regional center, which led to loss of part of that centers' portfolio. The organization reacted quickly, successfully solving the problem and thus preventing damage to its image.

The second factor contributing to the slowdown in its growth was Bolivia's growing political instability, in the face of which most institutions took a conservative stance, preferring to slow down their lending activities. The event that most impacted microfinance institutions was the sale of one of Bolivia's flagship MFIs (PRODEM) to a Venezuelan state bank. Nonetheless, PROMUJER expanded the number of clients served by nearly 15% during 2006, while its gross portfolio grew by 22% during the same period.

Depth and Variety of Services

These indicators show the depth of the niche market served by the organization and the range of its service offerings.

Depth and Variety of Services	2004	2005	2006
Share of clients in rural areas	15%	18%	20%
Share of women clients	95%	95%	95%
Share of loans with unconventional guarantees	98%	98%	98%
Average size of new loans	us\$ 100	us\$ 100	us\$ 100
Number of financial products	3	4	4
Number of voluntary savings products	1	1	1
Client retention rate	77%	78%	94%
Client dropout rate	23%	22%	6%
Portfolio growth attributable to long-standing clients	32%	55%	22%
Share of the portfolio corresponding to clients who have been with the organization for more than 2 years			48%

According to PROMUJER's mission statement, the organization is clearly focused on serving Bolivian women, who account for over 95% of its financial clients, with the remainder consisting mostly of male family members of current or former clients.

PROMUJER is strategically positioned in urban and peri-urban areas, but it is increasing its presence in rural

areas in search of new members and clients for its financial services. Its concentration in urban and peri-urban areas allows it to serve large numbers of clients, maximizing its productivity and giving its programs greater depth.

PROMUJER furthers its goal of serving the poorest microfinance market niche by extending loans to new clients in amounts of up to US\$ 100. However, the average size of the loan serviced by the organization is US\$ 183 due to its “stepped” lending activities under which subsequent loans to the same borrower increase in size. Nonetheless loan sizes are remarkably small by Latin American standards. In MicroRate’s database, the average loan size of Latin American MFIs using the village banking methodology was US\$ 261 as of December of 2006.

PROMUJER Bolivia offers a wide range of social counseling and training services, complemented by health services. However, its financial offerings are still somewhat limited. Financial services were developed as complements to its training services. The financial services were introduced in response to client needs in light of the limited financing facilities available to this niche market.

All told, PROMUJER offers four different types of loans through its network of village banks. In addition, it offers its clients membership in a savings plan under a strategic partnership with FFP FIE². PROMUJER offers no financial services other than loans and savings services

Its social services are designed to serve women in two main areas. The first is health, because of its strong impact on the household economy. Poor health is considered the main factor keeping PROMUJER’s clients in poverty. The second area is education, which seeks to provide poor women with the tools they need to realize their potential. As a complement, the organization is starting to make educational services available to the children and other direct family members of its clients. The organization has made a number of changes in the past few years designed to strengthen its structure, primarily in product research and

² FFP FIE (Fondo Financiero Privado para el Fomento de Iniciativas Económicas S.A.) has service counters at PROMUJER regional centers through which it operates a savings plan for each group of PROMUJER clients. FFP FIE does not offer individual savings accounts to this market segment due to the small amounts involved

development-related areas. One innovation was the formation of discussion groups on matters of special interest to its members, addressing issues such as business training and health-care. These groups are highly valued by the clients.

MicroRate had never before offered such a highly-organized effort and wide range of discussion topics, which partially explains the organization’s high client retention rates despite the high cost of its financial services.

An example of the loyalty of its clientele is the fact that, even after repaying their loans and, in many cases, without needing a new loan, many clients choose to remain in its savings plan in order to retain their membership status in PROMUJER and continue to reap the benefits of its social programs.

Cost and Sustainability

Producing social impact over time requires organizational efficiency and the ability to generate the necessary funding to ensure long-term institutional sustainability.

Cost and Sustainability	2004	2005	2006
Return on equity (ROE)*	2.4%	6.1%	4.1%
Return on assets (ROA)*	1.6%	3.8%	2.0%
Portfolio at risk / gross portfolio	0.5%	0.5%	0.3%
Interest and commissions collected / average portfolio	34.5%	35.3%	34.4%
Operating expenses / average gross portfolio	29.5%	27.3%	25.5%
Operating cost per client	US\$ 39.03	US\$ 38.73	US\$ 42.59

* Adjusted figures, not including donations

Social Services

PROMUJER Bolivia took in close to US\$ 450,000 in revenue from social services in 2006, of which nearly 70% came from dues of US\$ 0.60 collected from organization members. Added to this revenue were donations of close to US\$ 500,000 for the year 2006. Non-financial revenues and donations covered the cost of all social services provided by the organization, making it unnecessary to use revenue from its lending operations.

However, the organization’s growth is making it increasingly reliant on a dwindling supply of donations. As a contingency measure, the organization needs to generate enough revenue to make up for an eventual shortage or scarcity of donations. Without the

donations of the last two years, profitability for 2006 would have been nil, or slightly negative.

Financial Services

Since its inception, PROMUJER has consistently maintained a conservative capital structure and moderate profitability. The debt to equity level has been remained under 1:1. The adjusted Return on Equity was 4.1, and its Return on Assets was 2.2%. It has also managed to restructure a majority of its debt obligations to a long-term, position, thereby avoiding maturity mismatches. Furthermore, only 10% of its debt is exposed to interest-rate risk.

PROMUJER Bolivia has a sound, conservative financial policy, with a consistent interest rate policy and a portfolio yield of 34.4%. The portfolio yield is the lowest in the *MicroRate Latin American Village Banking Methodology Sample*, but similar to other Village Banking MFIs in Bolivia. Nonetheless, the yield remains quite high when compared to the formal Bolivian microfinance institutions (Average of 18% as of December of 2006).

The organization has effectively empowered its employees by forging close ties between its staff and management through an inverted pyramid management model.

PROMUJER fully complies with its obligation to offer its employees all benefits established by law. In addition, it offers health services to all staff members in the clinics operated by its regional centers. However, it does not offer any supplemental insurance for additional services.

Organizational Responsibility

The organization's social performance is determined in part by its relationship with its own staff, clients and local community and how well it meets the needs of these groups.

Organizational Responsibility	2004	2005	2006
Are there internal policies governing relations between employees and customer-employee relations (Social Enterprise Responsibility - SER)?	NO	NO	In progress
SER strategy?	NO	NO	In progress
Organizational values?	NO	NO	In progress
Is there a code of ethics and conduct?	NO	NO	In progress
Does the MFI give its clients formal access to its management?	SI	SI	SI
Does the MFI provide health insurance for its full-time employees (in addition to national health insurance)?	NO	NO	NO
Does the MFI disclose the real interest rate on all its loans?	SI	SI	SI

PROMUJER Bolivia has a sense of organizational responsibility towards its employees and clients, but is still in the early stages of formalizing the official policies. It hopes to formalize its internal processes in the course of 2007.

SOCIAL RISK

This section assesses internal areas of the organization that allow for the measurement of social risk. Social risk is a measure of the likelihood of the organization deviating from its social mission and failing to produce forward-looking social outcomes.

Mission, Communication and Management Leadership

In the long run, social performance depends on the creation of a social culture. This, in turn, requires a clear social mission and active leadership communicating and reinforcing the mission at all levels of the organization.

With its simple organizational structure, PROMUJER Bolivia has been steadily growing, while at the same time upholding its social mission as the backbone of its operations. Its management has effectively imbued the entire organization with a sense of its mission.

Its Executive Director, backed by a highly efficient and communicative team, has taken a personal interest in reaching out to the organization's staff and motivating its employees to make a personal commitment to working towards the empowerment of Bolivian women. Thus, its management staff appears closely identify with its mission.

All staff members are familiar with the organization's mission and clearly identify with it, although many were unable to articulate it consistently. There is also a clear propensity on the part of its staff to want to help clients and strengthen their potential by providing them with moral support and knowledge in addition to mere financial assistance. Thus, the organization has effectively embraced its social objective, which is focused on the promotion of Bolivian women.

However, while all levels of the organization are effectively imbued with a sense of its mission, this is not the case as far as organizational values are concerned. The organization shows certain weaknesses in this respect, which were exposed in several cases of fraud, which destabilized part of the loan portfolio, forcing the organization to take action. Management rose to the challenge and showed strong leadership by effectively dealing with the problems and improving institutional integration.

The organization's operations, service centers and staff are growing rapidly, making the task of effectively communicating its mission that much more challenging.

In the past, its Executive Director would personally take charge of the orientation of new staff members who, as a result, closely identified with her. Furthermore, most center directors are founding members or have been with the organization for a long time. The more the organization grows, the harder it is to imbue it with a sense of mission through the example set by its founders. This challenge is magnified in the short-term with the Executive Director changing jobs to PROMUJER International.

Standardization of its recruitment and orientation procedures will be vital for the continued effective communication of its mission (*see the section on Recruitment and Training*).

Strategic Planning

In the long-run, an organization's social performance depends on the institutionalization of its social mission and goals in a strategic plan. The degree to which its social mission is taken into account in the planning process is another reflection of its importance to the organization.

PROMUJER Bolivia offers a comprehensive product providing integrated financial and social services. PROMUJER is one of the few MFIs with a strategic plan designed to coordinate and capitalize on its social and financial services, promoting excellence in both programs.

PROMUJER Bolivia's expansion and market positioning are the result of a duly planned and executed professional approach. The approach begins with clearly identifying its target clientele, finding its niche market and developing social and financial products tailored to the needs of its clients.

The strategic plan includes a market evaluation designed to maximize the impact of its operations on the target population. Each service center is studied

and evaluated with a view to serving the largest possible target population. Once its strengths and weaknesses have been clearly established, the next step is an in-depth study for purposes of the strategic planning of its operations, setting realistic targets according to the market needs.

Thus, the reduction in the average loan size and the market penetration observed in 2006 are in keeping with its previously established strategic plan and a way of preparing the organization to weather the impact of anticipated changes in the economic and political conditions at the country level.

Clearly, its non-financial services have been instrumental in helping the organization gain a solid foothold in its target niche market. Its market positioning gives it a competitive advantage in what is turning out to be a highly unstable and risky political climate, particularly for organizations and institutions limited to providing financial services.

Accordingly, the successful integration of its social and financial programs put PROMUJER in a leadership position in what is regarded as one of the most mature microfinance markets.

Customer Service

Social outcomes are largely dependent on the quality of customer service. The quality of customer service is reflected in client loyalty.

Social Services

PROMUJER Bolivia has the most sophisticated data collection and client assessment system designed of any MFI evaluated by MicroRate.

PROMUJER has always identified with its target clientele, confining itself to a single, clearly defined niche market of poor female microentrepreneurs without access to formal financial services. Accordingly, it has forged rather strong ties with its clients, who are the main drivers of new products.

To this end, it has developed a rather elaborate system for gathering data on customer satisfaction and identifying client needs and concerns.

This system is one of the most complete systems of its type, including tools ranging from suggestion boxes and surveys to focus groups and personal interviews. It is an ongoing process conducted by a specialized unit within the organization reporting directly to its Executive Director. Thus, the organization's top priority is on satisfying its clients and on regularly developing new products and services. As a result, it offers a wide variety of client-driven social services.

Financial Services

While its basic village banking product is extremely successful, PROMUJER's financial product lines, and its responsiveness to the financial needs of its clients, are not nearly as well developed as its social services.

This is explained in part by the fact that financial products were originally developed as an extension of social services in response to client needs transforming themselves over time into a major product line. Consistent with its mission, PROMUJER continues to focus on the social services.

PROMUJER offers four distinct loan products through the communal bank methodology. It also offers savings accounts through FFP FIE in which clients deposit obligatory and voluntary savings.

Despite the lack of variety in its financial offerings, PROMUJER's financial products are both well managed and profitable. It offers clients the lowest interest rate possible that allows it to achieve a position of financial sustainability and maintain a solid financial position.

PROMUJER's dedication to customer is reflected in a major improvement in its client retention rates. In 2006 client retention reached 94%, up sharply from 78% in 2005. This is among the highest rates observed by MicroRate.

Monitoring

An effective monitoring system is needed to steer the organization towards social goals and prevent or correct any deviations from this path.

PROMUJER is in the process of installing a new IT system to enable it to monitor its operations in greater depth. The old system had a number of limitations and was designed to focus on its lending activities, making it unsuitable for the number and variety of different social services offered by the organization. The new system is expected to provide much more feedback, improving the sources of data for its research projects and designed to measure its operations and social performance.

The new system is customized for PROMUJER operations. It is designed to facilitate efforts to monitor different types of non-financial services. However, at the time of the on-site visit, the new system was limited mainly to data collection functions.

The team observed that data was being entered manually and there were a number of inconsistencies in the recorded data. Moreover, the system was not yet able to interpret the collected data and, thus, was limited to producing general reports.

The organization is currently in the process of conducting various monitoring projects in an effort to measure its social performance. There are few, if any, organizations that have performed more studies of this type. It has effectively capitalized on opportunities to obtain domestic as well as international donations and loans to fund these studies. Despite its leadership role in this area and the large amount of available data on this subject, the organization needs to consolidate its findings in order to make use of the wealth of information generated by such studies.

In 2005, PROMUJER Bolivia received an outside assessment of its integrated services by FINRURAL. The study found PROMUJER to have had a positive impact on its target population, revealing how Bolivian women had stepped up their involvement in social organizations and strengthened the household economy by earning

more income and helping to better manage family businesses.

In addition, PROMUJER has been actively involved in a number of projects, including the selection of social indicators as part of a SEEP (Small Enterprise Education and Promotion) Network,¹ project working with several microfinance institutions. PROMUJER also took part in the SPI – CERISE (Social Performance Indicators Initiative - Comité d'Échanges, de Réflexion et d'Information sur les Systèmes d'Épargne-crédit, a network of French-based microfinance stakeholders) social audit, scoring very well in all four facets of its social performance.

Recruitment and Training

The staff recruitment and training process is a way of communicating and reinforcing the organization's social mission and providing the skills and knowledge with which to fulfill the mission.

PROMUJER's recruitment process remains effective at finding new employees suited to the type of work and that identify with the mission. The training process, which began as a centralized, personalized process, is client-driven and geared to its target population. However, the process has been weakened, both by the organization's growth and by its decentralization.

Initially, as a small organization, the recruitment process was handled by management. Qualifications for prospective employees had clear social overtones. Moreover, successful clients were recruited as analysts thereby helping to promote closer identification with the niche market. This gave staff an attractive job opportunity with a well-respected career path. This type of recruitment process has the advantage of ensuring empathy with its target clientele and a commitment to the social mission.

As the organization grew, it decided to upgrade the professional level of its staff at the recommendation of a consulting firm. To this end, it began to hire a more highly qualified professional staff, with very poor results. In sum, it was unable to establish needed synergies due to the inability of its new staff to identify with its target population and the difficulty of dealing

³ An international network supporting micro and small-scale development projects.

with the idiosyncrasies of its clients. As a result, none of the professionals recruited to upgrade its staff are still with the organization.

In the wake of this experience, and after a study of the labor market, the organization established a new set of job qualifications more in keeping with its objectives and with the market to help improve the recruitment of new personnel.

Though its training system is adequate, enabling it to control its level of quality, there were inconsistencies in training procedures at different locations, putting the system at risk.

These inconsistencies are attributable to weaknesses in the Human Resources area, where there are no standardized hiring and training procedures. This risk is heightened by the organization's rapid growth and the decentralization of training activities.

Moreover, during the field visit by MicroRate, the HR manager lacked the necessary resources with which to effectively head up the unit. However, the organization's top management was carefully examining this issue, and considered it a top priority for the organization's short-term plans.

Incentive System

An incentive system is a tool for motivating staff members and aligning their actions with the organization's social mission.

PROMUJER's incentive system has been ineffective, both in motivating its staff and as a strategic tool, due to its complexity and to the organization's inability to communicate the system with its employees.

Since 2005, the organization has been experimenting with incentive systems involving all personnel. It is noteworthy that the incentive system includes members of its social service staff and remunerates them in the financial service results. The involvement of the social service staff incorporates social objectives into the incentive program and promotes team work with the microcredit staff.

However, the lack of information on the incentive system and a limited understanding of the correlation between the variables affecting incentives have undermined the effectiveness of the current system and, thus, its usefulness in motivating staff members. In addition, the old IT system did not allow timely distribution of incentive bonuses for several months in 2006, with adverse effects on staff expectations.

One of the system's main weaknesses was the need for manual calculations and the manual entry of necessary data. However, the new system provides for the automation of these processes. Thus, hopefully, these constraints can quickly be overcome.

In the face of this problem, the organization's management chose to temporarily suspend the incentive program and to try and speed up implementation of the new IT system.

ANNEX 1 – MicroRate Social Rating Scale

Social Rating	Social rating measures the organization's efficiency in carrying out its social projects, its consistency in accomplishing its mission, its internal capabilities and its social outcomes.
Excellent	Very good social outcomes with outstanding service outreach and depth. Excellent future outlook for its social projects. MFIs whose operations are exceptionally well-aligned with their social mission.
Good	Good social outcomes with good service outreach and depth. MFIs whose operations are well-aligned with their social mission.
Adequate	Acceptable social outcomes with moderately good service outreach and depth. MFIs whose operations are adequately aligned with their social mission.
Poor	Weak social outcomes with limited service outreach and depth. MFIs whose operations are poorly aligned with their social mission.
Social Risk	Social risk measures the likelihood of a microfinance institution deviating from its social mission and failing to produce a forward-looking social impact.
Low	Low probability of the organization deviating from its social mission or failing to produce a forward-looking social impact.
Medium	Medium probability of the organization deviating from its social mission or failing to produce a forward-looking social impact.
High	High probability of the organization deviating from its social mission or failing to produce a forward-looking social impact.
Performance Rating	A performance rating ranks an organization in terms of best practices in microfinance, taking into account financial, operational and strategic considerations. More specifically, it measures the organization's efficiency and effectiveness, level of risk, risk management and future prospects.
α++	MFIs consistently maintaining a clear, sensible balance among financial, operational and strategic microfinance best practice considerations compared with an international assortment of similar firms and emerging microfinance industry standards, an optimum level of efficiency and effectiveness, a very low level of risk, a sophisticated risk management system, with excellent future prospects.
α+ α α-	MFIs endeavoring to maintain a clear, sensible balance among financial, operational and strategic microfinance best practice considerations compared with an international assortment of similar firms and emerging microfinance industry standards, with a high level of efficiency and effectiveness, a low level of risk and good risk management practices, minimally affected by swings in the economy, with good future prospects.
β+ β β-	MFIs striving to achieve a clear, sensible balance among financial, operational and strategic microfinance best practice considerations compared with an international assortment of similar firms and emerging microfinance industry standards, with a satisfactory level of efficiency and effectiveness, a moderate level of risk, affected to some extent by swings in the economy, with satisfactory future prospects.
γ+ γ	MFIs with financial, operational or strategic weaknesses jeopardizing their current or future viability compared with an international assortment of similar firms and emerging microfinance industry standards, a low level of efficiency and effectiveness, a high level of risk, significantly affected by swings in the economy, with poor future prospects.