



# Financial Action Learning System

An integrated methodology for client financial empowerment  
and responsible financial service provision.

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Concept Note

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## Introduction

Financial inclusion has considerable potential to widen and strengthen 'virtuous spirals' of economic, social and political empowerment for poor and even very poor women as well as men. Innovations in financial services, particularly in microfinance, have enabled millions of women, youth and men worldwide to gain access to financial services on an ongoing basis. There are currently many different organizational financial service delivery models ranging from community-based self-managed savings and credit groups, cooperatives and federations, NGOs and specialized microfinance institutions (MFIs). Agricultural banks and commercial banks are increasingly reaching out to poor people in rural as well as urban areas. Financial services offered include not only credit, but savings, leasing, insurance and remittances. There has been a move away from earlier 'one size fits all poor' products, to a diversity of products for different poverty segments, different economic activities and value chains. Recently, rapid development of technology has offered new opportunities for commercial expansion and product development through mobile banking, and more sophisticated electronic information systems.

There is now widespread acceptance of the concept of 'financial inclusion' to enable of women, youth and men from a diversity of economic capacities (including people from very disadvantaged backgrounds) to access, use, and also benefit from financial services. This is reflected in strategy papers of global organisations like IFAD, and policies of government Central Banks like Central Bank of Nigeria<sup>1</sup>. The definition of financial inclusion in the 2016 IFAD Strategy Paper includes a concern not only with access, product diversity and cost but also client benefit. Over the past decade there has been an increasing acceptance of the need for 'smart subsidies' for training to allow very poor people to graduate into the mainstream financially profitable system as part of a sustainable financial business strategy (Morduch 2005, Magner 2007).

However, from as early as the mid-1990s it has been increasingly recognised that complacency about any automatic benefits of access to financial services to women and men clients is misplaced. There is considerable evidence that access to finance *per se* does **not necessarily empower clients** and may simply trap them in a 'vicious poverty cycle'<sup>2</sup>. There continue to be debates about exactly **how inclusive 'inclusion' should be** in terms of poverty depth. There are also questions about potentially negative wider effects of expanding financial services for the 'better-off poor' on poorer people in the same markets. This can distort prices for inputs and products and also introduce labour-saving technology, further disadvantaging the very poor who continue to be financially excluded. A particular area for concern and research has been around **gender impacts**. Gender-blind products for both women and men may serve to reinforce and even increase existing gender inequalities, leading to increased poverty and violence. There has been increasing concerns about the effects of over-indebtedness with reports even of significant numbers of suicides in countries like India.

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<sup>1</sup> See IFAD Strategy paper 2016 and Nigeria National Financial Inclusion Strategy Paper 2012.

<sup>2</sup> Impacts of microfinance are notoriously contested. Some detailed reviews of impact studies have found that because of serious limitations in methodologies used in impact assessments, no definite positive impact on poverty has yet been shown. See for example a review for DFID: Duvendack M, Palmer-Jones R, Copestake JG, Hooper L, Loke Y, Rao N (2011). These studies fail however to substantially differentiate between different types, products and services of FSPs.

Attention to benefits for clients is important not only for clients and their families, but also for FSPs themselves. Poverty and lack of empowerment means that clients are unable to use and manage more profitable products. Irresponsible provision of loans, bad savings and insurance products are not only bad for clients but are also very inefficient for the FSP leading to high costs in chasing up bad debts and savings/insurance contributions. In some contexts like India, Bolivia and large urban centres clients may become over-indebted to different FSPs all seeking the same 'profitable' target client group.

In the wake of the 2007-2008 financial crisis, as a result of acknowledgement of risks of irresponsible expansion of financial services for both FSPs and clients worldwide, there has been a move from looking only at supply of financial products to developing a framework for 'responsible finance'<sup>3</sup>. This places financial inclusion in a broader framework focusing much more explicitly on benefits to clients, including Consumer Protection Regulation, FSP self-regulation in areas like product design as well as management structures, and financial education. However, as discussed in the following section, there continue to be significant limitations in practice, partly because these tend to be seen as separate FSP or donor-driven initiatives.

### Box 1: Responsible Finance definitions

#### CGAP

Responsible finance is a way of doing business – a never-ending process of adapting your products, processes and policies to keep your clients at the center'.

Responsible finance (RF) is simply offering financial services in an **accountable, transparent and ethical manner**. By definition, responsible finance must focus on **financial service providers**, (their practices, what they do or do not do) and on **clients**, (mainly aimed at improving their capacities to access and use high quality financial services).

#### International Finance Group

"The enduring global financial crisis underscores IFC's commitment to advance responsible finance across three pillars:

**Consumer Protection Regulation:** Supporting industry-wide customer protection regulation around principles of transparency; responsible pricing; fair and respectful treatment of clients; privacy of client data; mechanisms for complaint resolution; and financial education and awareness programs.

- **Financial Institutions Self-regulation:** Embedding responsible finance practices into business functions across strategy and governance, customer acquisition and relationship management, product design and delivery channels, processes and risk management, and financial education.
- **Financial Education:** Building capacity of end clients through broad-based financial awareness, financial literacy and financial education programs at the sector level and through financial institutions."

<sup>3</sup> In 2010 International Finance Corporation at the World bank co-founded the sector-wide Responsible Finance Forum (RFF) in 2010 with the Federal Ministry for Economic Cooperation and Development (BMZ) and Consultative Group to Assist the Poor (CGAP). For details see: IFC website: [http://www.ifc.org/wps/wcm/connect/Industry\\_EXT\\_Content/IFC\\_External\\_Corporate\\_Site/Industries/Financial+Markets/MSME+Finance/Responsible+Finance/](http://www.ifc.org/wps/wcm/connect/Industry_EXT_Content/IFC_External_Corporate_Site/Industries/Financial+Markets/MSME+Finance/Responsible+Finance/) and CGAP website: <http://www.cgap.org/topics/responsible-finance>

This Concept Note outlines a framework, tools and processes for a '**Financial Action Learning System**' (FALS) for a responsible finance partnership between clients and Financial Service Providers. FALS adapts simple proven tools from the generic Participatory Action Learning System (PALS) empowerment methodology to integrate:

- **Client financial empowerment methodology** to enable women, youth and men clients to effectively plan how they will best use and benefit from financial products – and become financially responsible clients. FALS Tools also enable clients to share and upscale good financial management and planning practices with other clients and potential clients, ultimately becoming a sustainable network of community financial advisers and therefore an integral part of business expansion.
- **Participatory Social Performance Management** integrating client-identified empowerment indicators not only to 'prove impact', but to identify which specific products and services and/or design elements are most effective in delivering benefits to clients. SPM therefore becomes an integral part of product development, rather than an add-on for donor recognition.
- **Responsible product design** and market research based on information from SPM and use of FALS planning and analysis tools with groups of clients from different backgrounds to discuss potential improvements to products that could increase their usefulness to clients and also be profitable for FSPs.

This integration allows the development and sustainable implementation of:

- **Responsible Finance Memorandum of Understanding (RFMOU)** between clients and FSPs integrated into application processes for loans and other services. This is the core tool in the form of a pictorial Financial Management Calendar based on mutually agreed Client Protection Principles and the understanding that sustainable client empowerment also requires profitability of the FSP (whether commercial or member-owned) to continue to develop and deliver quality products and services<sup>4</sup>.

All these client-led inputs form the basis for a parallel process at all stages of:

- **Organisational Visioning, Planning and Capacity Building** using the same tools within organisations and integrated into staff training enable clearer organisational understanding of responsible finance strategies based on the realities of clients, including women and youth. This leads to better decision-making and communication at all levels.

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<sup>4</sup> The underlying idea is similar to the Decision Tree used by FSPs like Kenya, Equity Bank to help customers open the saving accounts that match their needs. The process of going through the decision tree in itself leads to understanding of improved product features by customers. Akhand Tiwari, et al. ( 2013) But the analysis is much more detailed and performance can be tracked.

### FALS AS INTEGRATED SYSTEM

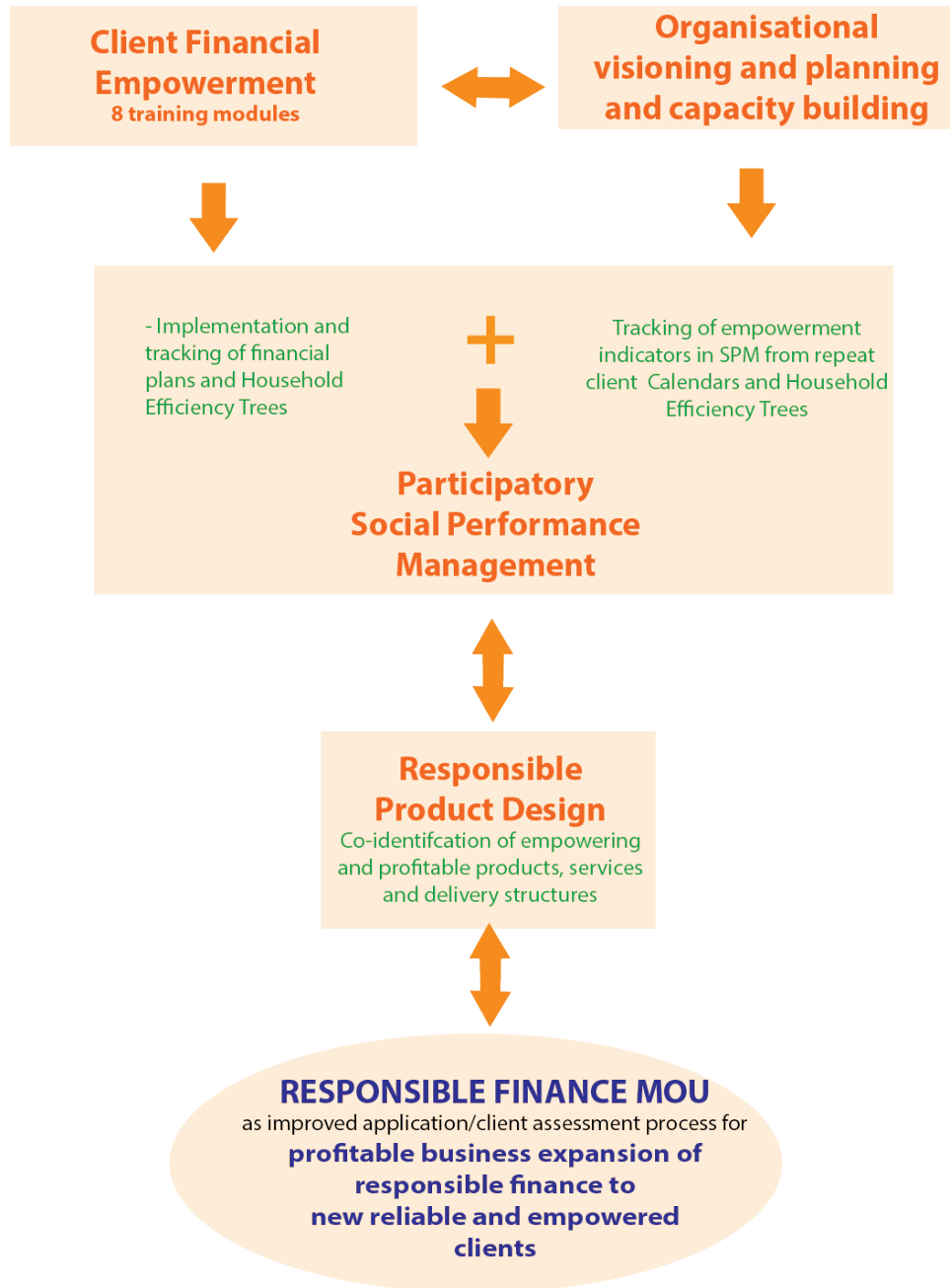


Figure 1: *Financial Action Learning SYSTEM: integrated elements overview*

As discussed in more detail elsewhere, PALS is a proven community-led empowerment methodology used in various forms by at least 100,000 women and men from poor and very poor backgrounds. It has been developed by Linda Mayoux since 2000 with many different organisations in Africa, Asia and Latin America involved in financial services and value chain development<sup>5</sup>. This includes use of the tools since 2001 for organisational gender training with MFIs involved in the Microcredit Summit Campaign and donor members of CGAP like USAID, DFID, ILO and UNIFEM as well as work with IFAD<sup>6</sup>. It also includes work since 2007 with IFAD and Oxfam Novib on the community-led Gender Action Learning System (GALS) for mainstreaming Household Methodologies in livelihoods and value chain development. This Concept Note is based particularly on work on sustainable upscaling community-led empowerment methodologies in private sector and cooperative strategic planning with Bukonzo Joint Microfinance Union in Uganda, Vvasu Cooperative Union Tanzania, and SNV Ethiopia<sup>7</sup>.

What these experiences at organisational and client levels have clearly shown<sup>8</sup> is:

- women, men and youth clients and potential clients can very effectively save and manage financial services as part of livelihood strategies if given appropriate pictorial tools.
- women and youth are able to negotiate significant changes in inequalities within households in ways that also benefit men, and significantly increase resources available for livelihood development, and hence responsible use of financial services.
- clients can and do effectively share these tools voluntarily with other people in their social support networks if equipped with facilitation skills. Many also go on to become very effective community trainers using, innovating and sharing the tools adapted to different economic and social contexts.
- clients and staff can collect reliable information on changes and relative benefits of services if the institutional context is open.
- communication and understanding between women, youth and men in communities and staff of service organisations improves significantly, increasing the job satisfaction of staff.
- much of the perceived resistance to gender mainstreaming at organisational level can be reduced if gender issues and other power inequalities are clearly shown to senior management by women and also men clients and potential clients of the FSPs concerned to be relevant to their realities and ability to use services and repay loans.
- it is possible to integrate delivery of the FALS tools into existing activities and training programmes in private sector as well as cooperatives in ways that are sustainable and self-financing in the longer term.

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<sup>5</sup> For development of PALS see Mayoux 2006. For resources for the PALS and GALS methodologies, including Guides, Toolkits and videos see: <http://www.galsatscale.net>  
 For experience of different PALS processes see: <http://gamechangenetwork.org>  
 For details of the FALS tools proposed here see links on: <http://gamechangenetwork.org/financial-action-learning-system> For experience of PALS in MFI gender training see: <http://gamechangenetwork.org/asia/pakistan>

<sup>6</sup> Mayoux, L. C. and M. Hartl (2009). Gender and rural microfinance: Reaching and empowering women: Guide for Practitioners. Rome, IFAD.

<sup>7</sup> It substantially updates an earlier Concept Paper for Oxfam Novib's WEMAN programme: Mayoux, L. (2011).

<sup>8</sup> Experiences and reports are available on <http://www.gamechangenetwork.org>. See particularly pages for Tanzania, Ethiopia, Uganda and Indonesia. For experience of PALS in MFI gender training see: <http://gamechangenetwork.org/asia/pakistan>



After a 'catalyst' and 'refinement' phase over one year, the FALS system aims to be fully financially sustainable and self-upscaling to new responsible clients, integrated into the long-term financial business strategy.

That said, the full version of Financial Action Learning System as an integrated and potentially profitable client empowerment methodology bringing together these learnings at different levels remains to be developed. The purpose of this Concept Note is to clarify the different dimensions of the methodology and how it could be implemented, based on existing experience. It will need to be further developed and fully piloted in a range of different types of FSP with different structures, developing a spectrum of implementation options for different organisational and client contexts, and identifying the most empowering and profitable strategies for each case.



*Participants using PALS Tools at gender training for MFIs in Pakistan, Nigeria and Ecuador 2006 - 2015*

## 1. Why FALS? Some Current Challenges

The Responsible Finance Forum places financial inclusion in a broader framework focusing much more explicitly on increasing benefits to clients. It is now widely recognised that attention to client benefit is important not only for clients and their families, but also for FSPs themselves. Not only does the failure to take into account client benefits harm the longer term profitability of FSPs, but client empowerment, including gender empowerment, has clear **potential benefits for FSPs** in enabling them to expand and develop more profitable products for a more reliable client base. The bigger the scale on which this can happen, the more the local economy can grow and the more diverse and profitable the value chains that will develop to significantly increase the client base on a sustainable foundation.

### Box 2: The business case for client empowerment

#### Business case for client financial empowerment

***Financial sustainability of FSPs requires sustainable client livelihoods and households.***

- **More reliable clients:** clients who understand their financial situation are less likely to take on products which they cannot manage, leading to fewer bad debts, higher levels of saving and more sustainable insurance and pension products.
- **Client loyalty:** clients who feel that FSPs are acting in their interests, contributing to their empowerment and wellbeing, are more likely to be loyal to particular providers and observe service conditions, even when these may cause temporary hardship for them. Loyal clients require less follow up, and hence take up fewer FSP resources, to recover bad debts.
- **Client promotion:** Satisfied clients are likely to promote the FSP to other clients and thus help expand the business.
- **Market for higher profit products:** Clients who are able to manage their finances to reduce poverty are better able to effectively use more complex and profitable products: larger loans, higher levels of savings and investment.

#### Business case for gender empowerment

***Sustainable livelihoods and households require changing gender inequalities which constrain to men and men from achieving their full human and economic potential.***

- **Large potential and underserved female market:** Women are statistically the majority population in most countries, particularly in the target group for microfinance. In many countries female entrepreneurship is growing faster than that of men and increasing numbers of women entrepreneurs need better and more diversified financial products.
- **Gender inequality is inefficient:** Gender inequalities in property rights, division of labour and decision-making constrain women from having the resources, time and autonomy to make the most effective use of financial services to improve livelihoods. These inefficiencies affect savings, loan repayment rates and insurance claims and prevent women from progressing to use of more sophisticated and profitable products.
- **Some norms of masculine behaviour make men less reliable clients:** Excessive luxury expenditure by men on e.g. alcohol and 'other women' limit resources for productive investment, increase household poverty and, as well as harming women and children. In most cultures where PALS has been used, men themselves assert that this is the case for very many men (70% in Tanzania and Uganda) and many men are anxious to change.

### Business case for a broader ethical vision for wealth creation

*Empowering women, youth and men clients with effective financial products and services can be a significant contribution to wider economic development.*

- **Dynamic local and national economies** provide a larger supply of potentially profitable women and men clients.
- **Brand image:** ethical business is good for brand image across the whole client base.
- **Value chain finance:** This is potentially a very effective means of increasing outreach to people at different levels in chains who need efficient services and who are able to repay. This can enable cross-subsiding more costly services to the very poor with more profitable services to those higher up in the chain.
- **Access to development funding:** FSPs with a broader development vision, and concrete strategies, are well placed to both access funds and enable outreach of nonfinancial services to many thousands or people.

The adoption of the Responsible Finance approach by many in the financial services sector has led many institutional and product and service innovations by FSPs from commercial banks to member-managed VSLAs and Cooperatives. These can be considered under four main headings:

- Client Protection Guidelines
- Product market research
- Social Performance Management
- Client Financial Education

However, despite the very many advances, there are also many remaining issues relating to some inherent tensions, trade-offs and uncertainties<sup>9</sup> and particularly in relation to gender impact (ie affecting over half the potential target population for micro-finance) and poverty deepening. ***The FALS approach suggested here attempts to address many of these issues, bringing the currently separate strategies into an integrated framework and 'action learning system' that can be part of everyday activities of clients, and longer term business investment strategy of FSPs.***

### Strategy 1: Client protection guidelines

Since at least 2003 micro-finance networks, including ACCION, have been developing and implementing consumer protection guidelines covering both relations with clients and quality of products and services. The framework developed by the SMART Campaign supported by IFC and CGAP adapts generic consumer protection principles specifically for financial services and defines precise methods for consumer protection and conflict resolution<sup>10</sup>. These are seen as critical to avoid over-indebtedness and deliver benefits to clients.

Consumer protection is however limited in its scope - it is protective of clients focusing on 'doing no harm' rather than proactively seeking to benefit and empower. There are potentially serious tensions in practice between:

- financial inclusion and ensuring that clients can pay – favouring selection of already better-off clients

<sup>9</sup> See for example discussion by Kate McKee <http://www.cgap.org/topics/responsible-finance>

<sup>10</sup> See <http://www.smartcampaign.org>

- financial returns to FSPs and benefits to clients: how much profit is too much? should providers be expected to pass on most efficiency gains to customers as lower prices or better quality services?
- role of investors in pressuring FSPs towards excessive prices, onerous financing terms, and unreasonable targets for return on equity?

### **Box 3: SMART Campaign Client Protection Principles**

#### **Appropriate product design and delivery**

Providers will take adequate care to design products and delivery channels in such a way that they do not cause clients harm. Products and delivery channels will be designed with client characteristics taken into account.

#### **Prevention of over-indebtedness**

Providers will take adequate care in all phases of their credit process to determine that clients have the capacity to repay without becoming over-indebted. In addition, providers will implement and monitor internal systems that support prevention of over-indebtedness and will foster efforts to improve market level credit risk management (such as credit information sharing).

#### **Transparency**

Providers will communicate clear, sufficient and timely information in a manner and language clients can understand so that clients can make informed decisions. The need for transparent information on pricing, terms and conditions of products is highlighted.

#### **Responsible pricing**

Pricing, terms and conditions will be set in a way that is affordable to clients while allowing for financial institutions to be sustainable. Providers will strive to provide positive real returns on deposits.

#### **Fair and respectful treatment of clients**

Financial service providers and their agents will treat their clients fairly and respectfully. They will not discriminate. Providers will ensure adequate safeguards to detect and correct corruption as well as aggressive or abusive treatment by their staff and agents, particularly during the loan sales and debt collection processes.

#### **Privacy of client data**

The privacy of individual client data will be respected in accordance with the laws and regulations of individual jurisdictions. Such data will only be used for the purposes specified at the time the information is collected or as permitted by law, unless otherwise agreed with the client.

#### **Mechanisms for complaint resolution**

Providers will have in place timely and responsive mechanisms for complaints and problem resolution for their clients and will use these mechanisms both to resolve individual problems and to improve their products and services.

The Smart Campaign <http://www.smartcampaign.org>

Moreover promotion of responsible finance and setting up and supporting a system that is aimed at client empowerment as well as profitability will often require a significant change in attitude and relationship between clients and FSP staff. It requires mutual respect and 'win-win' partnership rather than credit officers policing and penalising clients anxious to squeeze whatever finance they can from a system they do not feel is acting in their interests. This requires also mainstreaming gender strategies across the responsible finance framework, and in FSP strategic planning and staffing.

Ways forward suggested in FALS are:

- to **co-design products** with clients from different backgrounds to ensure that the needs of women, youth and men, including those from particularly disadvantaged groups, can also be met
- to be able to publicly **demonstrate client empowerment** and benefits as a contribution to the FSP's ethical brand image with both consumers and investors
- to ensure that client empowerment strategies themselves are sustainable, and can contribute to profitability as **an integral part of a longer term business investment strategy**.

## Strategy 2: Participatory market research for product development

It is now generally accepted that 'learning from clients' is good business practice in developing and diversifying financial products. Services and products of some of the earliest MFIs like SEWA in India have always been based on consultation with clients. In 2001 Grameen Bank undertook a four year reassessment and redesign based on extensive client research, significantly increasing outreach, sustainability and profits<sup>11</sup>. Many MFIs have used the participatory market research tools developed by MicroSave<sup>12</sup>. This has led to development of services for very disadvantaged groups like street children and refugee communities.

However **participatory market research in itself does not necessarily produce products which will benefit clients**. Most attention so far has focused on microcredit and savings services – trying to reduce indebtedness, overselling to the wrong clients, and abuse (McKee 2015). Many challenges remain in ensuring individual and group lending models to meet current client protection standards. There has been much less attention to gaps in other services (remittances, payments, insurance and pensions) and how innovations such as branchless banking can be delivered responsibly. A key gap has been linking up the product design process with clear evidence of differential benefit of different terms and conditions to clients to enable the best products to be developed on an ongoing basis and capable of adapting to changing contexts.

Relationships within households preventing women and men clients from best using and benefitting from products have generally been seen as outside the responsibility of FSPs – even though they have important implications for product design.

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<sup>11</sup> In the three years to December 2005, Grameen's deposit base tripled and its loans outstanding doubled. Profits have soared from around 60 million taka in 2001 to 442 million taka (about \$7 million) in 2004. Dropouts were returning, and even some old defaulters were repaying and re-joining. See also discussion in Reed 2011.

<sup>12</sup> For details of MicroSave tools see [www.microsave.org](http://www.microsave.org)

Gender blind products are not gender-neutral, but may significantly reinforce existing inequalities and introduce new inequalities. Women clients often have little control over loans or incomes from their activities. In many cultures, even where women use financial services for their own activities and control income, women are expected to contribute this income to the household while men retain more of their own income for their own luxury expenditure. This means not only that women's businesses often fail to grow, but also total income for household wellbeing does not necessarily increase and may even decrease. The workloads of women and girls may therefore increase significantly for little benefit.

Gendered assumptions underlying products for men may also further disadvantage women. Inequalities are also important in products for men. Assumptions that men are the heads of household often undermines women's informal rights to property and role in household decision-making. Women's work may be increased as men expect them to intensify unpaid labour in men's enterprises. Men may spend the proceeds of their business on luxury expenditure rather than the household. Evidence suggests that in some cultures men may even take on new wives once their own income increases and/or their wives become more self-sufficient.<sup>13</sup> As well as harming women, this also has adverse effects on children and other dependents.

The 'devil is in the detail'. There is a need for **cost-effective gender-disaggregated systems for detailed client feedback on benefits and costs of specific products**, and partnership between reliable clients and FSPs in co-developing alternative products that can both significantly benefit clients and be profitable for FSPs. As discussed in detail elsewhere (eg Mayoux and Hartl 2009) changing the details of product design can significantly increase the benefits to women.

### Strategy 3: Social Performance Management

Most FSPs today have some sort of explicit ethical code – from Corporate Social Responsibility Guidelines in the commercial sector to social mission statements, gender policies etc in MFIs and cooperatives. They may be working, for example, to broaden access to financial services, reduce poverty, empower women, build community solidarity, or promote economic development and regeneration. The Social Performance Task Force set up in 2005 has over 1,500 members. The Universal Standards for Social Performance Management incorporate all of the Smart Campaign's Client Protection Principles and focuses not only on the final impact, but also aims to provide a framework to understand the process by which social objectives are achieved. The 21 standards are organized into six broad categories of activity: defining and monitoring social goals, governance, treatment of clients, development of products and services, treatment of employees, and balancing financial and social performance. Each standard is specified by a set of corresponding "essential practices" that must be implemented to meet the standard.

However SPM has faced many challenges in moving from social performance process metrics to measuring client outcomes<sup>14</sup>. Assessing whether microfinance clients move out of poverty on any systematic basis is notoriously difficult – as evidenced by the still inconclusive debate on impact assessment design and conclusions. While many providers cite generating employment and

<sup>13</sup> In particular Mayoux, L. C. and M. Hartl (2009). Gender and rural microfinance: Reaching and empowering women: Guide for Practitioners. Rome, IFAD.

<sup>14</sup> A survey of 405 providers (MBB, July 2011) documented weaknesses in monitoring and reporting on client outcome indicators. For example, few providers did serious measurement of client poverty status and the variety of indicators and tools made the data difficult to benchmark. Quoted by McKee *ibid*.

supporting business creation as development goals, these types of outcomes are not commonly tracked<sup>15</sup>.

#### **Box 4: Social Performance Management**

The concept of social performance focuses not only on the final impact, but also provides a framework to understand the process by which social objectives are achieved.

##### **INTENT and DESIGN**

What does the MFI seek to achieve (its mission and social performance objectives)? How are services and performance objectives designed to this end?

##### **ACTIVITIES**

How are services to target clients through specific organizational structures created to reach the organization's objectives?

##### **OUTPUT**

What services are delivered? How good are they? To whom are they delivered? What is the breadth and depth of the outreach? Are the services sustainable?

##### **OUTCOME**

What changes result from the use of the services provided? Do businesses expand? Incomes increase? Skills develop?

##### **IMPACT**

What are the longer term, sustainable changes as a result of the outcomes, such as poverty reduction? What are the unintended consequences?

#### **10 Lessons from Experience**

- Secure Board and management buy-in.
- Take adequate time to review the Standards.
- Be honest when assessing current practice.
- Gather feedback from employees and clients.
- Create an action plan very soon after completing the self-assessment.
- Communicate about SPM vertically and horizontally within the institution.
- Put specific people in charge of implementation.
- Create short-term and long-term implementation goals.
- Build on existing systems for cost effectiveness.
- Remember who you are working for!

Source: <http://www.cgap.org/news/top-10-lessons-social-performance-management-microfinance>

Firstly there are questions about the social indicators to be tracked – how relevant are they to clients. SPM only assesses performance in relation to existing organisational mandates. These mandates have rarely been developed together with clients. Importantly, they do not necessarily include gender, beyond a target for women's access.

<sup>15</sup> Kate McKee <http://www.cgap.org/topics/responsible-finance>

Secondly there are questions of data collection – how reliable can it be? Key opportunities for involving clients in assessment of benefits are rarely realised. Clients themselves have a clear interest in assessing which products benefit them most, and why. Clients in group-based delivery systems can track and aggregate information themselves – provided there is no incentive for bias eg only poor people will get loans or loans are only available for specified activities. The loan application process itself can also provide an opportunity to collect information from repeat clients – if the tools used are designed in such a way that they are difficult to falsify and staff are appropriately trained.

A key underlying issue is the lack of real feedback between SPM and product design.

#### Strategy 4: Client financial education

The key strategy for achieving client benefits has been seen as financial education by the FSP or within the sector in general to promote client financial literacy. Some of the most well-known and widely-used methodologies are those produced by organisations like CARE and Freedom from Hunger. In PRODEFI in Burundi financial literacy is introduced in literacy training. The REFLECT functional literacy classes of a duration of 6 months enable awareness raising and training about issues like malnutrition, rural finance, agricultural practice and others, and thus set the ground for further training.

##### Box 5: What is Financial Literacy?

*Financial literacy is the ability to understand how money works in the world: how someone manages to earn or make it, how that person manages it, how he/she invests it (turn it into more) and how that person donates it to help others. More specifically, it refers to the set of skills and knowledge that allows an individual to make informed and effective decisions with all of their financial resources.*

Wikipedia

*"Personal finance describes the principles and methods that individuals use to acquire and manage income and assets. Financial literacy is the ability to use knowledge and skills to manage one's financial resources effectively for lifetime financial security. Financial literacy is not an absolute state; it is a continuum of abilities that is subject to variables such as age, family, culture, and residence. Financial literacy refers to an evolving state of competency that enables each individual to respond effectively to ever-changing personal and economic circumstances."*

National Financial Educator's Council, UK

However the concept and also methodologies for financial education have had their critics. Financial education can become yet one more means by which FSPs persuade people to buy their products and make poor women and men feel guilty for not being thrifty enough to use products from which they benefit little. Some have seen them as patronising and insulting in the assumption that the main challenge for poor people is lack of awareness about saving and managing money, rather than just lack of money and resources and unsecure and unpredictable incomes (Veena Yamini A and Bhat 2012).

Methodologies have also been questioned 'In many Financial Education/Literacy/Capability classes, the attendees are expected to learn the same material at more or less the same speed, from an external trainer with whom they have no personal connection. In real life, however, very



few of us actually retain and implement information this way.'(ibid.) Curricula are often not well designed for people who cannot read and write, for women and may not be effective. <sup>16</sup>

A key challenge is that financial education initiatives are generally project-led paid for from separate donor budgets, costly and so underfunded, and limited to available project funds. Equally importantly, financial education is seen as a one-way process whereby an all-knowing FSP and its staff tell clients what is in their best interests. In a FALS process, it is accepted that the FSP (and particularly young loan officers) probably does not know all the optimum strategies that clients may use. Facilitators provide tools that help clients directly analyse and plan their own financial management. Facilitators learn from clients about the ways that they perceive their needs and develop strategies to address them. This learning is then fed back into product design so that it becomes part of the longer term business expansion strategy.



*Members of Mwana Molho Women and Men United Group, a self-funding community group using PALS, quantify progress on their group vision journey.*

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<sup>16</sup> The Financial Education manual used by LAPO in Nigeria for example, based on the Manual by Freedom from Hunger, assumes that people will either write, or just contribute orally to discussions.

## 2. What is FALS?

### 2.1 What is innovative?

**'Financial Action Learning System' (FALS) promotes a responsible finance partnership between clients and Financial Service Providers.** It **integrates** use of the simple proven tools from the generic Participatory Action Learning System (PALS) at different levels to promote understanding, communication and constructive dialogue between FSPs and clients to develop and deliver empowering and profitable products, based on solid information and collaboration. As noted above, the FALS tools proposed here have been used already over many years with women, men and youth clients from many different backgrounds in many different contexts and types of organisation. They have also been used for FSP capacity building at organisational level, particularly for gender training but also more widely on poverty issues and strategic planning. All the tools discussed here have been effectively used in some form and shared through community peer sharing on a one-on-one basis within families and/or within groups. Full details can be found through the web links given at the end of this Concept Note. As also noted in the introduction however, these need to be fully adapted and streamlined for use by different types of Financial Service provider, in different contexts and for different client groups.

FALS is based on an understanding that **clients as well as FSPs need to become financially responsible and learn to critically assess which products will best benefit them, and develop the planning discipline to make best use of services offered. At the same time FSPs need to respect and support client interest.** The basis for this is development of communication and trust. As discussed in the concluding section there will always remain challenges and tensions in a competitive market system. But these assumptions underlie the way that clients expect to be treated, and are expected to behave, in advanced economies. There is no reason why such expectations should be any less in poorer contexts.

#### Box 6: FALS: Underlying Assumptions

- **Women clients are treated as intelligent actors** with considerable resourcefulness in the face of multiple constraints, not 'victims of subordination in need of consciousness-raising' or needing to be taught 'thrif'.
- **Men clients have household as well as business responsibilities**, but are frequently trapped into unproductive expenditures and discriminatory behaviour by peer pressure and social norms of masculinity.
- **Clients (women and men) have a self- as well as moral interest in developing and strengthening their social support networks.** They can and should play an active role in promotion and training others for sustainability of well-designed products from FSPs.
- **FSPs have a longer-term business interest** as well as ethical responsibility in integrating client empowerment into design and delivery of their products and services.

In order to arrive at a sustainable and cost-effective integrated system, the order of priorities in Responsible Finance are client-led, with FSPs learning directly from clients on an ongoing basis. FALS bases the whole system on:

- **Client Financial Empowerment** methodology as the starting point and basis to enable women, youth and men clients to effectively plan how they will best use and benefit from

financial products. FALS Tools also enable clients to share and upscale good financial management and planning practices with other clients and potential clients, ultimately becoming a sustainable network of community financial advisers. This is the starting point and sustainable basis for the system, rather than a project add-on. Facilitators learn a lot from clients' discussion and plans that then feed into other elements of the system.

At all stages the client empowerment process links to, and provides the basis for:

- **Organisational Visioning, Planning and Capacity Building** using the same tools within organisations and integrated into staff training enable clearer organisational understanding of responsible finance strategies based on the realities of clients, including women and youth. This leads to better decision-making and communication at all levels.

This means that instead of SPM being a separate FSP-imposed rather mechanical process of data collection to 'prove impact' and validate general organisational effectiveness, it becomes:

- **Participatory Social Performance Management** based on client-identified empowerment indicators to co-identify which specific products and services and/or design elements are most effective in delivering which benefits to which clients. FALS tools enable assessment of attribution as well as just change over time. Information is collected by clients as well as the FSP.

The information generated by the client empowerment methodology and SPM are then used for:

- **Responsible Product Design** and market research based on the ways that clients can use and benefit from products, identifying ways in which they can also be profitable for FSPs. FALS tools are adapted to identify the differential benefits of different products for different types of client. Client participation in product design using the same FALS principles further reinforces client financial management skills.

The core tool that brings together all the others and promotes partnership between clients and FSPs is the:

- **Responsible Finance Memorandum of Understanding (RFMOU)** between clients and FSPs integrated into application processes for loans and other services. This is in the form of a pictorial Financial Management Calendar based on mutually agreed Client Protection Principles and the understanding that sustainable client empowerment also requires FSP profitability to continue to develop and deliver quality products and services<sup>17</sup>. It requires prospective clients to work through in detail how they will use and pay for services in a way that will enable them to best achieve their own goals. This is nearly impossible to falsify, and clients learn how to do it from Community Financial Advisers who they pay<sup>18</sup>.

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<sup>17</sup> The underlying idea is similar to the Decision Tree used by FSPs like Kenya, Equity Bank to help customers open the saving accounts that match their needs. The process of going through the decision tree in itself leads to understanding of improved product features by customers. Akhand Tiwari, et al. (2013) But the analysis is much more detailed and performance can be tracked.

<sup>18</sup> The principle of the Community Financial Advisers is similar to that of Village Officers in VSLA systems.

## FALS SYSTEM SUSTAINABLE EMPOWERMENT for RESPONSIBLE PROFITABILITY

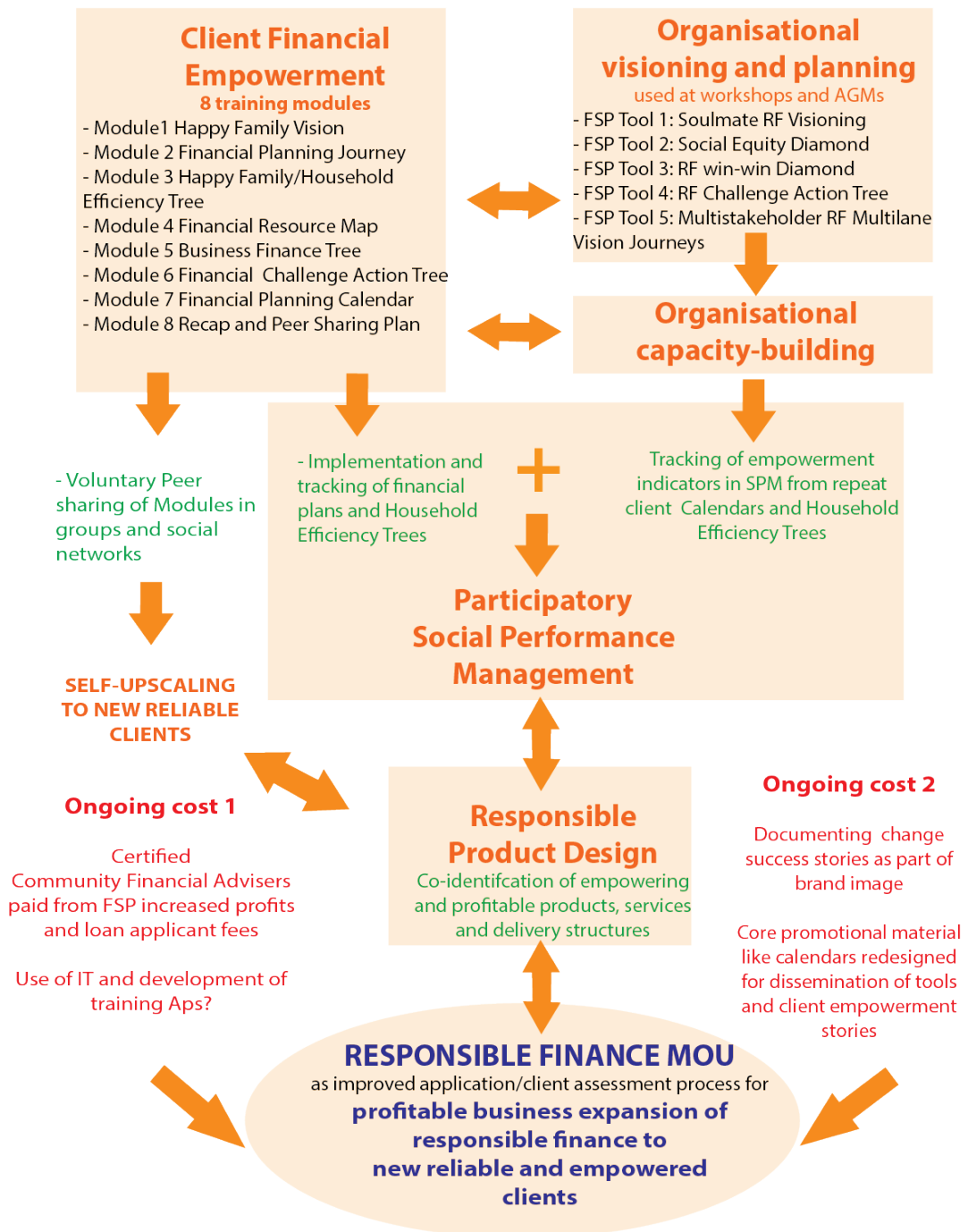


Figure 2: *Financial Action Learning SYSTEM: integrated elements in detail*

Clients are required to produce these RFMOU on an ongoing basis as a condition of continuing access to products, but also as a financial learning process for their own empowerment and livelihood development. New clients are also required to provide these financial plans – learning from friends, relatives, other existing clients or simple pictorial pamphlets. The main ongoing costs are expansion to potentially excluded clients and communities through paid community trainers with a strong record of effective volunteer training. Specific data on repeat clients are extracted to feed into SPM and Product Development. Used over time, this tool also increases staff understanding of, and communication with, women, men and youth clients from different backgrounds and with different needs.

Once established FALS becomes the basis for '**relational marketing**' of products and services as a means of recruiting new reliable and financially empowered clients at minimal cost to the FSP. The methodology is upscaled mainly through voluntary peer sharing in client support networks and microfinance groups with minimal FSP facilitation beyond initial capacity-building in the methodology. Women and men clients design their own pictorial manuals to teach others the tools they themselves have found most useful. They share their strategies and the methodology with others in their households and communities whom they have a personal interest in helping. They also share what they have learned in group meetings, community, religious and local government meetings.

The peer trainers with the best track record become **Community Financial Advisers** who train in new groups outside their own support networks. These CFAs are periodically reassessed on the basis of both ability to recruit reliable clients who have fulfilled their obligations to the FSP, and also social criteria in terms of changes in their own lives and inclusion. They form a set of qualified community-base champions who are paid through a combination of fees from FSP from their contribution to increased profits, and clients applying for loans. It is common for clients to pay bribes to MFI recruiters. In FALS they pay a fee to someone who can help them to make a beneficial financial plan. This system is similar to the Village Officers in the VSLA system.

FALS is particularly innovative in its integration of discussion of sensitive gender issues like inequalities in access to and control over resources. All FALS tools and processes are based on underlying gender justice principles and designed to promote gender equality between women and men clients, help them identify ways of seizing opportunities and addressing gender-based challenges which prevent women and men from achieving their visions.

FALS is a potential entry point for more in-depth livelihood, market and value chain process using more advanced versions of the same tools<sup>19</sup>, or for other methodologies. It provides a solid basis on which to significantly reduce costs and increase effectiveness of more advanced personal finance education, market research and impact assessment. The analytical action learning skills in FALS increase the ability of clients, including the very poor with no formal education, to better understand, document and benefit from more advanced livelihood and business skills development, and more in-depth training on gender and leadership. The participatory structures developed at all levels enable scarce funds and resources to be better targeted to services which are really needed and really need ongoing subsidy – for example targeting excluded groups and gender advocacy. FALS produces a wealth of useful information on financial service needs at different levels of value chains and structures for information exchange between stakeholders.

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<sup>19</sup> See livelihood and value chain Toolkits on <http://www.galsatscale.net>.

## 2.2 Client Financial Empowerment Methodology

FALS is client-led and empowering in that it **starts with the visions, aspirations and strategies of women and men clients** in relation to their households and livelihoods. It does not start with an assumption that clients just need to save, or take a loan, and all will be well. Nor does it assume that FSP staff necessarily know better than clients themselves how best to manage their finances in the particular context of opportunities and constraints that they find themselves in. It assumes though that financial management needs to be strategically analysed, planned and tracked so that women, youth and men clients can make best use of services offered and create for themselves the conditions they need in order to best succeed.

### Box 7: Client Financial Empowerment: aims

- To develop skills and social networks of women and men clients to accurately assess their financial needs from different sources.
- To enable clients to successfully manage their finances and livelihoods so that they benefit from products and services and are able to move onto ever more profitable products.
- To enable women and men clients to identify and implement strategies to address gender and generational opportunities and constraints at household, community and value chain levels.
- To establish the needs and capacities of different stakeholders in value chains and local economies to promote value chain upgrading and diversification of local economies.
- To establish skills and structures for clients to share what they have learned with others in their families and communities in order to provide an ever-expanding base of reliable clients for FSPs.
- To establish skills and structures within FSPs to support client empowerment as an integral part of all their activities.

The first step to motivating clients to improve their financial management is to help them to clarify their **vision** – to move from vague dreams to a concrete achievable plan. It is important for both clients and FSPs to be honest about the fact that financial services, and even business, are a means to an end. Acknowledging this fact will lead to more open and honest relationships and better financial management.

**Intra-household** inequalities and inefficiencies in work, expenditure, decision-making and asset ownership are tackled from the beginning as key elements to address if visions are to be achieved. Experiences in PALS and GALS processes so far indicate that, far from inevitably being a long-term and conflictual process imposed by a few middle class or Western feminists, gender justice is important for the vast majority of women and men in poor as well as better-off households:

- Many changes in gender relations which empower women (including equality in land ownership and decision-making and freedom from gender-based violence) can be achieved for a significant number of people in a relatively short time (1-6 months) as the basis for longer term widespread change.
- It is possible, and also beneficial, for men to consider gender inequalities in their personal lives, households and market relationships as an integral part of their own economic strategies to increase their wealth and that of their households.
- This leads to greater happiness at household level leading to more efficient livelihoods and greater well-being for children, men and women.

- The benefits of change in gender relations are enjoyed not only by poor households, but also households of the better off entrepreneurs and traders.
- These changes enable participatory and sustainable structures for involving poor women and men in local government, and ultimately national level decision-making.
- Gender justice is not therefore seen as only 'for women', but a mainstream concern for women and men which can be integrated in different ways into any wealth creation intervention to make it more effective for men as well as women.

The FALS tools can be used independently by people who cannot read and write as well as FSP staff and academic researchers. The basis for the diagrams is drawing and visual communication – not just for 'illiterates', but also because this enables much more information to be mapped onto one page to show interrelationships, colour-coding and tracking over time. Clients keep their own individual diaries in ordinary A4 exercise books which they themselves buy, together with coloured pens. They **use these diaries to analyse, implement and track strategies for livelihood development and empowerment**<sup>20</sup>.

The finished diagrams are used to build up the Financial Management Calendar (See above) that forms the Responsible Finance MOU integrated into application processes for products. **The Financial Management Calendar places client financial responsibility – having savings and assets and not being saddled by debt - not as a top-down FSP-imposed duty, but a means to a clear motivational end: a profitable livelihood and ultimately a Happy Family.** The task of the FSP then becomes not policing bad debts, but analysing which products work for whom and advising clients based on a solid database of examples.

The Calendar is a multilane and more detailed variant built up from the basic PALS Vision Journey (FALS Tool 2 see underlying narrative in Box 8.) Vision Journeys can be of many different levels of complexity, depending on the purpose – from very simple inspirational diagrams, in-depth accounts of past actions and extremely complex strategic plans based on a SWOT analysis showing multiple inter-linkages on one page. The Financial Management Calendar adds a lane to the top for savings and assets, and to the bottom for loan repayment. Focusing first on dreams and visions, then progressively developing SMART objectives has been found to be the best way of motivating women and men clients to think more strategically about their use of financial services – and to see the mutual interest they have in sustainability of good FSPs. The Vision Calendar, where multiple lanes are used with a monthly breakdown, has been successfully used with coffee and horticulture farmers of different levels of literacy in Tanzania, Uganda, Ethiopia, Indonesia and Kyrgyzstan.

#### **Box 8: Financial Vision Journey: underlying narrative**

Moving forward in life requires a clear vision, an understanding of where we are now, how we got here and how step by step we can move forward to achieving our vision. It is like a road journey. Some people are not really sure of where they want to go. There is no plan and no map. So they are swept along with all the other traffic and crowds, unable to turn where they want and often not even being able to see the road ahead. Others drift aimlessly; not even

<sup>20</sup> In this FALS builds on the idea of client diaries from other methodologies like Helzi Noponen's Internal Learning System. But the design of the diaries is done completely by the client in simple locally available notebooks that they buy. There are therefore no costs for manuals etc.

looking around them to see what is there that can help them, or not even anticipating dangers. They miss opportunities. They repeat the same mistakes again and again. They fall down, or go around in circles without knowing.

For people who have enough resources and a car, maybe it does not matter. Someone will be there to show them the way or give them a lift. They may still at least get somewhere. But people who are poor and can only walk slowly get stuck forever in the same place or even go backwards.

There is no one to give them a lift and they are likely to get lost and may die young. For women the journey is likely to be particularly difficult. Girls start life with many dreams and many skills. But very soon society tells them they cannot learn to drive; that they should not even walk alone, and never accept a lift. They should look pretty and wait for a man to show them the road – never mind if that man does not want to go the same way. And often he leaves her behind by the roadside, or never arrives at all.

Life's road will never be easy. Not all dreams will be realised. We may think everything will be solved if we can just get a loan or some money. But without a clear plan and determination to use what resources we have to move forward, we may just waste everything. And 'fate' may unexpectedly strike any time.

But with a clear vision and proper road map plan which is consulted frequently, to learn from experience and plan the next steps, it is possible to move on further and more quickly. Analysing opportunities and what we have already achieved makes it easier to feel positive about the future.

And when the going gets tough, there is always the clear shining vision to help us pick ourselves up. It is possible to steer along the difficult and rocky road with some degree of dignity and control - and also decide when a new road altogether might be needed.

When many people know where they want to go, and how they can get there, new and better roads will be made for the whole society to move towards a new future. Through discussing with fellow travellers you may also learn much from each others' road maps and help each other take opportunities and avoid risks. And once you have reached the end of one road there is always another interesting one to travel.

Source: Mayoux 2014 'Rocky Road to Diamond Dreams': GALS Catalyst Manual, Oxfam Novib.

The Calendar is progressively built up over 8 modules through analysis using other tools, together with a structured development of visual communication and participatory skills (See Box 9). These Modules look in detail at business planning, intra-household relations and social networks that can help clients to succeed – and effectively use financial services. These are all variants of three basic tools: Road Journeys, Circle Maps and Trees which are probably familiar in some form to most people who have been involved in participatory development planning processes or capacity-building. The generic PALS tools and variants for gender, livelihoods and leadership have been described in detail for different contexts in the various toolkits that can be found on the FALS blog page. (!!!Insert link and note). A final module then provides a recap of all the tools, with pictorial steps drawn by them at the back of their notebooks as their own personal manual. The champions then share these with others in their families and communities on a voluntary basis.



How quickly clients will progress to in-depth analysis will depend on their levels of understanding of economic activities. Some people who have had no school education and cannot read and write can quickly do very sophisticated and useful analysis on their diagrams, and have implemented their plans to significantly increase the incomes of themselves and their families. People with even University-level education have also found it useful to draw and put a lot of information linked to a clear vision on one diagram, even if they also do cash flow analysis and detailed planning on more standard formats as well. The important thing is that the process should be useful for clients at whatever level of analysis is useful for them. And that they should be in control of the process and have confidence from the beginning. Showing staff different ways of building this confidence is one of the key roles of the FALS consultant from the beginning.

### **Box 9: Client Financial Empowerment Modules**

#### **Module 1 Happy Family Vision (HFV)**

Financial management is a means to wealth creation and development, not an end in itself. Wealth creation is in turn a means to empowerment, happiness and well-being and also not an end in itself. The Happy Family Vision Journey includes visions for business, family and personal development as the main motivation for financial planning. It starts to examine the role of financial products, particularly savings in creating security but also wisely invested loans. This tool may be the first time that people have drawn, or even held a pen. They may also lack confidence to talk in groups, or with people from a different background – or listen to people they think are different. A key part of this module is therefore to promote drawing, communication and participatory skills necessary to developing a strong client-led participatory process.

#### **Module 2 Vision Journey (HFVJ)**

The Vision Journey tool is based on the common concept of 'Road Map' for planning combined with a SWOT analysis. The exact focus of this First Vision Journey is likely to be a business or livelihood activity, but it could also be an asset like a house or land. The main aim is to develop analysis and planning skills, and to examine opportunities and challenges that can affect their ability to use financial services.

#### **Module 3 Achievement Journey**

Clients already have experience and strategies. Before any trainer can help them improve their financial management, they need to learn from clients what these existing strategies are. Helping clients to share their real experiences and strategies is the most effective way of capacity building, builds their confidence and helps to build a sense of collective support. It also identifies very clearly exactly what extra information is needed from the FSP. The Achievement Journey plots out how the client arrived to the current situation focusing on financial strategies and showing opportunities and challenges that may also affect them in future. Where time is short this can be substituted by a retrospective analysis later of progress on the Vision Journey.

#### **Module 4 Household Efficiency Tree (HET)**

The HET looks at intra-household relations, who does what, who gets what, who decides what and who owns what. Based on this analysis people identify things they want to change in order to make these relationships happier and more efficient. This generally leads to significant commitments on savings and investments, that are then implemented and tracked.

### **Module 5 Financial Resource Map (FRM)**

FSP products and services should be designed to strengthen, rather than undermine existing access to other informal and private sector financial resources and need to take into account financial responsibilities. The Financial Resource Map is a variant of the Change Leadership Map (also known as the Social Empowerment or Empowerment Leadership Map). The FRM variant places particular emphasis on the financial dimension, quantifying financial flows. It also draws on the MicroSave financial mapping tool, adding social networks to examine in more detail the range of financial opportunities and constraints – both family and informal resources as well as institutional. Aggregated information from this tool can also be used by the FSP to identify poverty and gender issues in access to different types of financial services and implications for product design.

### **Module 6 Financial Flow Trees (FFT)**

Financial Flow Trees are a type of Business/Livelihood Tree. Business/Livelihood Trees are used to examine inputs required to set up or grow a business, how much income is likely to be generated, how any profit will be allocated between necessary family expenditure and investment, and what contribution other income activities can make. Trees are either individual and/or household - whichever makes most sense to the client/business and also enables examination of intra-household issues in access and control. The financial flow tree put special emphasis on identifying exactly how credit, savings and other products like insurance, remittances etc. can improve the input/output balance, with anticipated cash amounts. Financial flow trees can be used as part of service agreements with FSPs, and actual use of services are tracked over time against projections as part of a client learning process.

### **Module 7 Financial Management Challenge Action Tree (FMCAT)**

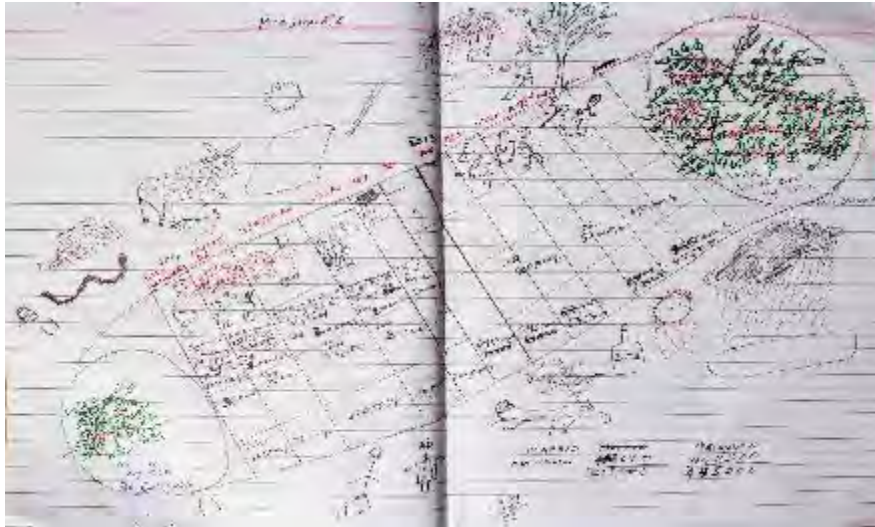
Challenge Action Trees are used to discuss the range of challenges financial management at individual, household, livelihood and institutional levels and to share ideas on how these can be addressed at each level. The aim is to promote individual client responsibility for resolving their personal and household challenges before making demands from FSPs and/or NGOs.

### **Module 8 Financial Management Calendar (FVC)**

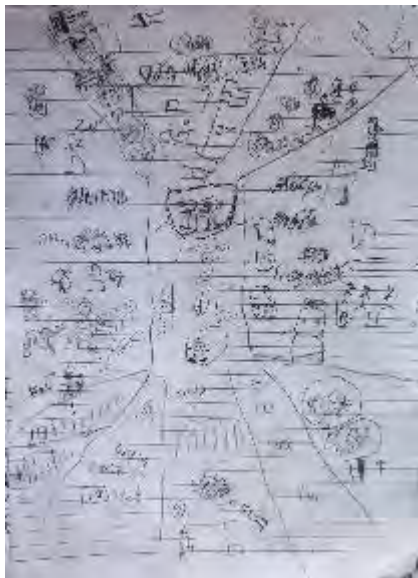
builds on the livelihood vision journey and other tools to produce a sophisticated financial planning and tracking tool as the basis for a service contract between clients and FSPs. The wealth creation and is now revisited and transformed into a 'multilane highway' showing SMART time bound steps and objectives, financial services needed and opportunities and constraints from the analysis using the other tools. Progress is then tracked over time, comparing actual achievements with what was anticipated. This also forms part of a service agreement with FSPs.

### **Module 9 Recap and Peer Sharing Plan**

This final module makes sure that all champions have the basic steps for all the tools at the back of their notebooks and examines their plans for voluntary pyramid peer sharing with their family and friends to start to consolidate their own planning skills, practise their facilitation skills and start to upscale the methodology.



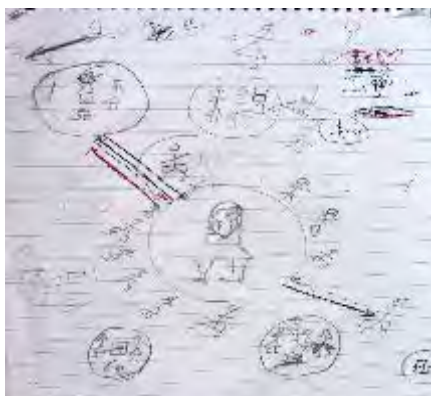
*Multilane Financial Planning Calendar to be based on this coffee livelihood planning calendar, adding lanes for savings and loan repayment/premiums.*



*Happy Family Tree from woman who had not held a pen before on third day of training*



*Financial Flow Tree to be based on this Coffee livelihood input/output tree adding financial quantification*



*Financial empowerment map*

## 2.3 Tools at FSP level

FALS aims ultimately to be financially sustainable as a means for cost-efficient recruitment of reliable and sustainable clients and fully integrated into existing FSP activities, particularly application processes and any capacity-building and/or group mobilisation.

As discussed above, the underlying idea is that simple diagram tools can be used on an ongoing basis by clients themselves as a continual input to participatory Social Performance Management and responsible product design. The tools are designed to increase clients' understanding of their situation and financial literacy and hence are an empowerment process in themselves. The finished Financial Planning Multilane Calendars form the Responsible Finance MOU contracts with MFIs or banks and also give information which can be fed into social performance management. Other tools are used for business and household planning to facilitate implementation of the MOU. Once the system is established the tools are integrated into the application processes for products and clients are required to produce these on an ongoing basis as a condition of access to products, but also as a financial learning process for their own continuing empowerment. New clients are required to provide these financial plans – learning from friends, relatives, other existing clients or simple pictorial pamphlets. In this way the methodology is self-upscaling to provide an ever expanding pool of potential reliable clients at minimal cost to the FSP.

The role of the FSP is then to maintain the system and input information to SPM and product design. This requires staff to learn from clients and have good listening as well as communications skills. This does not mean being lax with clients who do not take their own financial responsibilities seriously. It means developing and partnering with responsible clients to use evidence from SPM to design products that can profitably enable clients to maximise their own incomes increase, invest in assets and develop livelihoods and businesses. It means also staff learning about the opportunities, constraints and strategies of clients from different backgrounds – women, youth, men and people from poor and marginalised backgrounds to identify ways in which they can move up into the mainstream financial system.

### Box 10: FALS at FSP level: SPM, product design and organizational planning and capacity development

#### Participatory Social Performance Management

- Clients themselves use the FALS Tools to identify empowerment indicators, track and assess benefits and costs of different products, share these in group meeting or workshops as input to SPM.
- Client empowerment indicators and information indicators are integrated into SPM systems within the FSP.
- Other stakeholders, including value chain actors, government and local research institutes use information outputs as basis for focused studies of particular value chains and client empowerment impacts, including the lessons from exit cases and negative impacts.

#### Responsible Product Design

- Puts needs and empowerment of clients at the centre of product and service innovation and delivery.
- Examines gender and other social inequalities and identifies strategies for change at individual, household and community levels as an integral part of product and service innovation and delivery.

- The product and service innovation and delivery methodology itself catalyses and reinforces individual changes, gender and generational empowerment and develops communication skills between clients and providers.
- Identifies priorities and focus for any necessary 'smart subsidies' needed to increase contribution to empowerment, gender justice and wider development.

### **Organisational visioning, planning and capacity development**

- Uses the FALS tools as part of multi-stakeholder visioning and strategic planning to generate consensus and commitment to Responsible Finance principles across the organisation.
- FALS tools are integrated as part of staff training to improve understanding and communication with clients, leading to more informed decision-making at the operational level.
- This enables full mainstreaming of gender training and gender policy development as an integral part of the longer-term business strategy.

The same tools from the Client Financial Empowerment methodology are adapted with increasing degrees of analytical sophistication and rigour for use in different ways at different levels as a combined and cumulative process of client action learning and planning, tracked by FSPs over time integrated into SPM, product design, SPM and organisational visioning, planning and capacity development. This enables a multi-stakeholder perspective and participation of clients in product design and organisational planning and capacity building.

## **Box 11: Multistakeholder Tools**

### **FSP Tool 1: Soulmate Responsible Finance Visioning**

Develops a common vision for Responsible Finance across different stakeholders as the basis for the strategic plan in Tool 5.

This is the start of the Catalyst process at FSP level to promote communication between clients and FSPs. It is then periodically revisited eg as part of an AGM.

### **FSP Tool 2: Social Equity Diamond**

This tool has been most fully documented as the Gender and CEDAW Diamonds. But adapted for youth and ethnic diversity. When used within organisations it can identify issues for gender and diversity policy.

The generic diamond is part of the Catalyst process, then the more specific CEDAW and other Diamonds can be used by the FSP as an impact assessment tool to feed into SPM.

### **FSP Tool 3: Responsible Finance win-win Diamond**

This tool builds on the social equity analysis in Tool 2 as the basis for identifying indicators for Responsible Finance and/or specific products and services, bringing together client (women and men), FSP and other stakeholder priorities. A key aim is to promote partnership and mutual understanding between clients and FSPs on their respective roles and responsibilities in making products as empowering and also sustainable as possible.

These are part of the Catalyst process, but can also be used by the FSP as part of the co-design of new products and services.

### **FSP Tool 4: Responsible Finance Challenge Action Trees**

This tool deepens the analysis of the different challenges, solutions and action commitments of the different stakeholders to making Responsible Finance and/or specific products and services work.

These are part of the Catalyst process. They can also be used independently by client and other stakeholder groups. The challenge roots can be quantified as part of SPM, disaggregated by client group. The trees as a whole are the main tools for product and service innovation.

**FSP Tool 5: Multistakeholder Responsible Finance Sustainability Vision Journeys**

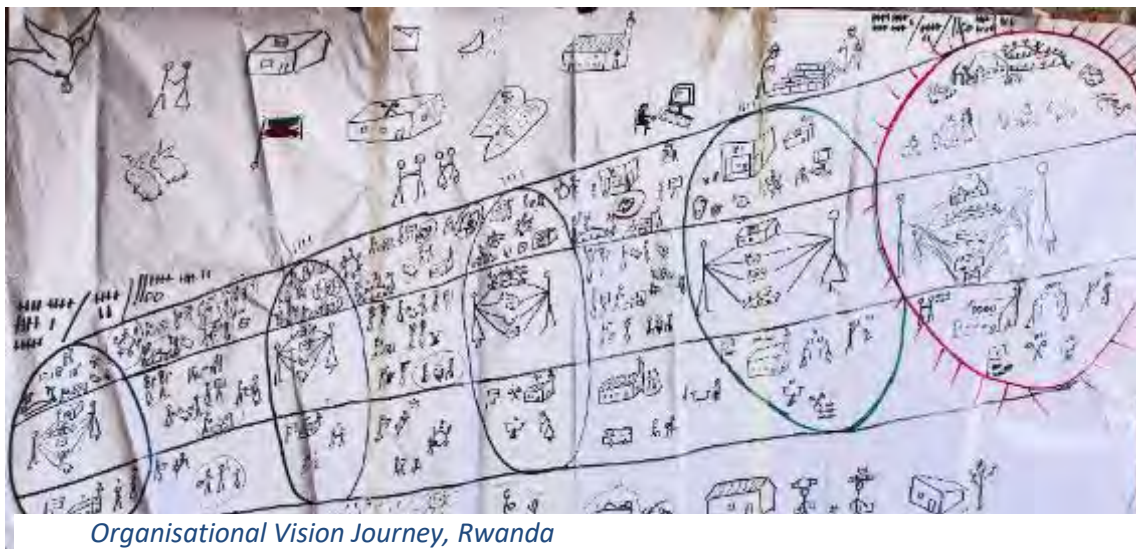
This combines the inputs from the other tools into a strategic plan on multiple levels: top lane is product innovation and development, middle is SPM/empowerment of clients, bottom lane is business expansion by clients and the FSP. This is the main Sustainability Planning and monitoring tool.



*Visioning Gender Policy by Union Board of a coffee cooperative in Tanzania – this was implemented.*

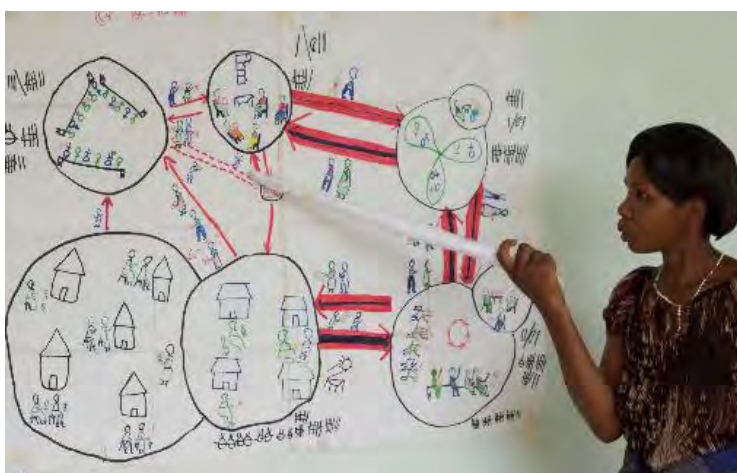


*Empowerment Diamond – Group level*



*Organisational Vision Journey, Rwanda*

As described above, and at length in the different PALS and GALS Manuals, the FALS system integrates client self-monitoring and quantification using the FALS tools within groups and workshops. Certain indicators are agreed between clients and FSPs for integration into the existing MIS. These indicators can cover almost any issue that is considered important and relevant by the client and FSP. This includes collection of information on sensitive issues like violence, ownership and decision-making.<sup>21</sup> The form that the monitoring system would take will vary significantly between FSPs depending on their client base and the nature of their existing MIS. There are no blueprints. These decisions start to be made at the first Catalyst workshop and then further refined in Phase 2. But the Monitoring and Evaluation is clearly linked to organisational learning and product design, not seen as external and extractive policing by the FSP or donor agency<sup>22</sup>.



*1Polonia Ithungu (who 5 years earlier was a poor coffee farmer with little formal education who then became cooperative chairwoman) explains in English the information flows from members to local government advocacy in the Bukonzo Joint Participatory Action Learning System*



*2Impact Trees for land ownership, division of labour and coffee quality quantified for 2,500+ members through Bukonzo Joint Participatory Action Learning System.*

<sup>21</sup> For use of Diamond tools for looking at gender-based violence see Mayoux 2005 and 2009.

<sup>22</sup> For further discussion of the PALS approach to MandE see for example Mayoux !!

### 3. How is FALS implemented?

FALS can be implemented in some form in any type of financial service provider (FSP) that is committed to the Responsible Finance agenda ie contributing to client empowerment and development as well as making profits. FALS is not ultimately a separate 'project' or additional cost. Once the system is set up, integrated and upscaled to the main geographical areas, it should be self-expanding to reliable clients, easily monitored and lead to identification of profitable products.

FALS can be a stand-alone process. Individual tools can be used on their own, although they are more effective and sustainable as an integrated methodology. The tools can be integrated in different ways, with different entry points, depending on an FSP's existing activities and the capacities and needs of existing and/or potential clients. FALS may also be an entry point for other PALS livelihoods and/or leadership and/or GALS gender advocacy processes that can be progressively integrated.

#### 3.1 Phases of design and implementation

FALS as presented here is designed and set up in three phases:

- **Phase 1: Catalyst Process to adapt the methodology** to a specific context with a small number of pilot champions
- **Phase 2: Financial Action Learning System** to further refine the methodology and establishing ways of streamlining integration of the tools into SPM, product design and organisational planning and capacity development.

leading to the final:

- **Phase 3 'Sustainable empowerment and responsible profitability'**. The main ongoing costs, apart from cost-efficient integration into core business activities, being part payment of the certified Community Advisers and branding activities.

The precise form that the methodology would take will vary between different service providers, depending on such factors as:

- Main client segments: whether these are very mixed, poverty-targeted, youth or women-targeted, levels of education and business experience and so on.
- Geographical spread: rural/urban balance, ease of access and networking between areas etc.
- Types of products: whether these are mainly savings, loans, insurance etc.
- Types of other services: types and methodologies for training, marketing etc
- Mode of delivery: whether this is to individuals or to groups and cooperatives and types of networks available for peer sharing and dissemination of information
- Existing roles and capacities of FSP staff: whether they have MandE, training and other skills, levels of gender and social awareness
- Existing information systems: indicators, software and how the information is collected and analysed
- Vision and Mission of the FSP: is there a social mission? Is there a gender policy? If so what is their nature and how were they developed?



## Phase 1: Catalyst process

Phase 1 establishes client ownership of the methodology from the start through developing a core of client 'champions' from different target client groups who adapt the methodology to their own needs, and use the methodology for a period for their own empowerment and changing gender relations in the family. These should include very poor women and men who are able to change their own lives, rather than existing leaders who have many other things to do, and also do not make such credible role models for others if they have not faced the same challenges. Once a solid core of demonstrated champions are there and a culture of client peer training established, then the process develops its own momentum. Clients not only start their own A4 diaries to plan and track progress, but also develop their own A4 pictorial manual in their own diaries, based on the training they receive. They then use these pictorial manuals from their notebooks to help other clients develop in turn their own manuals in their own A4 diaries.

Phase 1 also brings together the different stakeholders with clients to build a joint Responsible Finance vision and agenda, laying the basis of understanding, indicators and mutual awareness of differing needs and perspectives as the basis for deciding priorities for product and service innovation, SPM and the Responsible Finance MOU. In particular it starts to develop the participatory and communication skills of a core of staff who will take the process forward. Staff learn directly from clients, including the poorest clients. They combine what they learn from clients with their own notes to make a staff manual in their own local language/s. They start to establish the most manageable ways of integrating the methodology into their work.

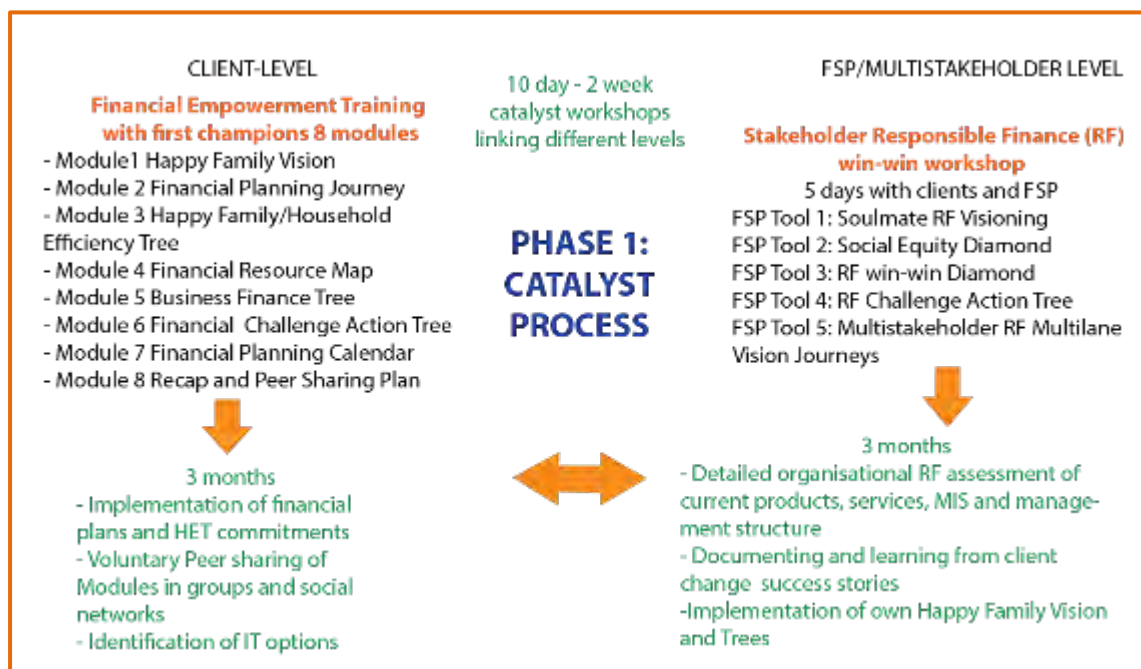


Figure 3: *Phase 1: Catalyst Process*

Whatever the process, right from the beginning it is important to have:

- gender balance – in some contexts and at some levels this may require separate processes for women and men.

- women and men from very poor and vulnerable groups, and people who cannot read and write, if these are part of the target client groups of the FSP. These should not only be existing leaders – the majority of client champions should be clients who really need this methodology.
- ideally a visit by some clients and/or staff to an organisation already using FALS or inclusion of clients or staff from such an organisation involved in the initial capacity-building

Outputs from this phase include:

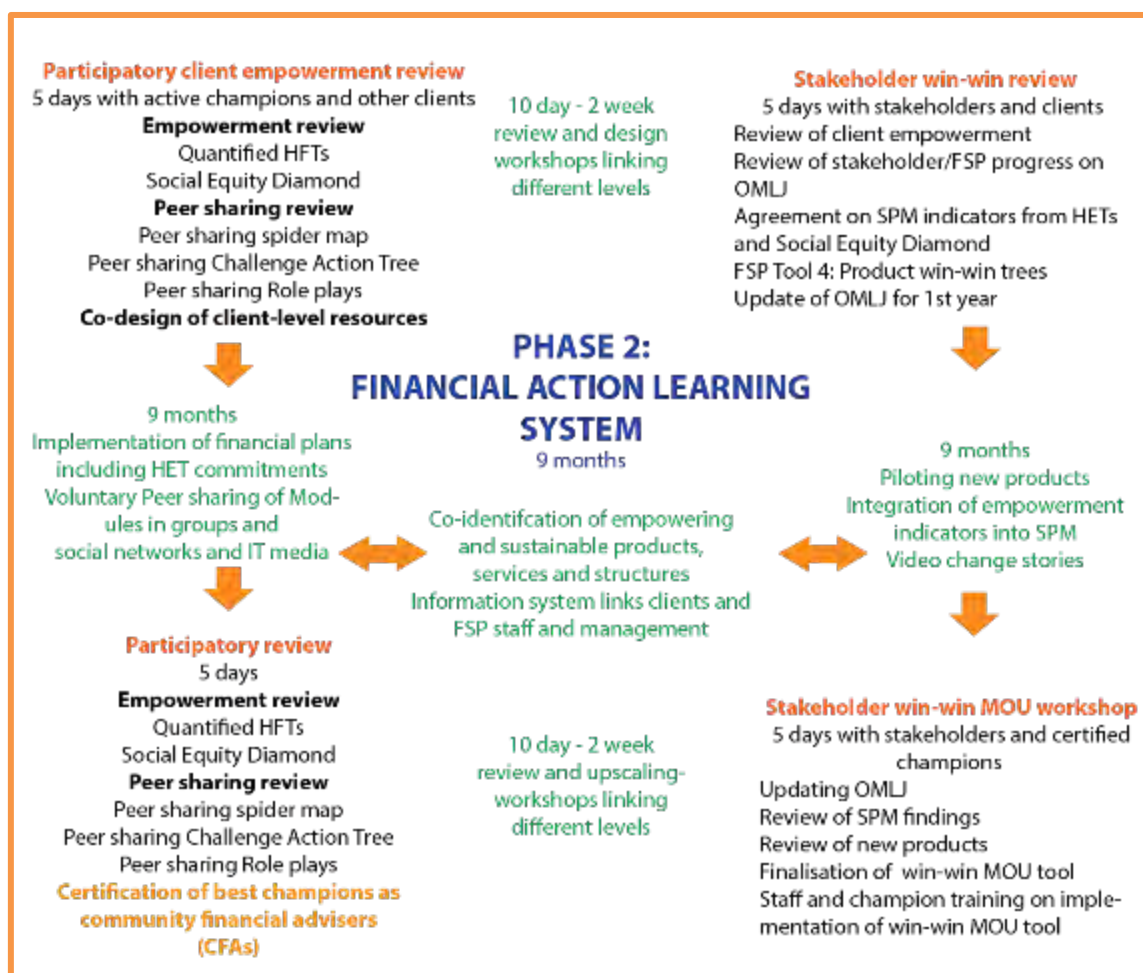
- Small core of champions: 50-100 clients using the methodology for their own empowerment with skills
- Client-designed pictorial manuals in A4 diaries
- Clients have plans to share the methodology with others and have already started this sharing process aiming at an upscale factor of average 1:20 over 3 months for the core tools
- Core of 10-20 staff integrating the methodology into their work with skills and plans to share this with others
- Improved respect and communication between clients and staff
- Staff-designed staff manual in local language/s
- Review report and sustainability plan (the Multistakeholder Sustainability Vision Journey) for Phase 2

## **Phase 2: Designing the Financial Action Learning SYSTEM**

Phase 1 has established a core of client and FSP staff champions who should quickly experience positive changes through using the methodology. It has also started to establish and implement mechanisms for peer upscaling and integration into FSP activities. The methodology has been adapted to context and pictorial and staff Manuals have been produced. Whatever plans and activities have been decided are then implemented for about 3 months to see how they go.

Phase 2 is then a 9-month process of implementation, refinement and voluntary upscaling, starting with a review at client and FSP levels. It is important to have this in-depth follow-up after 3 months before things have the possibility to go off track. As noted above, FALS aims to bring about substantial changes in attitudes and behaviours in regard to the relationship between FSPs and clients, and also within households and communities and organisations themselves. Significant changes generally occur during and immediately after the catalyst workshops, and it is important to see how things go 'naturally' before deciding next steps. But relations can slowly return to 'business as usual' unless there is a reflection point to recognise and celebrate changes achieved, often with a lot of effort, and also refocus things that may have gone off course.

Figure 4: Phase 2: Financial Action Learning System



Experience suggests that issues that are likely to require particular attention are:

- to demonstrate the benefits to clients of understanding and continuing to track their business strategies, achievements and financial flows. So that this information can then reliably be fed into SPM.
- to reinforce group facilitation skills of clients and staff for participatory product innovation.
- to deepen the changes in gender and generational relationships beyond changes in luxury spending and some cooperation and joint decision-making to a more profound shift in power and ownership.
- to strengthen the concept of pyramid peer sharing to go beyond direct sharing of champions to the second and third tiers of the pyramid.
- to review the quality of information and information collection structures for SPM and product development.
- to assess the effectiveness of the design of the MOU and refine the tool – making sure that intra-household issues are sufficiently covered.

This enables the methodology to be further refined to make it as empowering and sustainable as possible.

After the 3-month review the changes identified are integrated into the strategy and implemented for 6-9 months:

- clients continue to plan and track using the tools for their own financial management and empowerment using A4 diaries and/or flipcharts
- these clients also teach the skills to other people in their families, communities and/or groups
- FSP staff monitor the process and outputs to input into SPM
- Clients and staff use the product win-win trees for product innovation
- The MOU is used for new clients

Over this 9 months, the outcomes and impacts are monitored and periodically by clients and staff culminating in a 1-year participatory review where representatives feed-back the outcomes to a multi-stakeholder workshop. This includes certifying a core of the most active client champions as Community Financial Advisers who will then be paid by the FSP and potential new clients to upscale to new areas outside their existing networks.

The pace and scale of implementation and expansion will depend very much on the nature of the implementing FSP. In small local FSPs implementation and upscaling may depend largely on community peer sharing, be limited to a small membership and outreach to their communities and support networks in a limited geographical area and be largely achieved by the end of year 1. In very large nation-wide FSPs roll out to new areas will need to wait until Year 2 when the whole system has been properly tested and a core of certified CFAs has been established. It is very important that the CFAs are involved in the upscaling, and that the culture of peer training and client ownership of the empowerment methodology is maintained. Otherwise upscaling will be more expensive and less effective in bringing about change. Precious FSP staff time, skills and energies are best spent on ensuring that the outcomes continue to be tracked and fed into SPM and product and service innovation.

Outputs from this Phase include:

- Large numbers of women and men clients (thousands) using the methodology for empowerment<sup>23</sup>
- Information from statistically significant numbers of women and men clients as input to product and service innovation
- Structures and systems established for sustainable impact monitoring and integration into SPM
- Review report and Multistakeholder Sustainability Vision Journey plan for Phase 3

### **Phase 3 'Sustainable empowerment and responsible profitability'**

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<sup>23</sup> In Tanzania a GALs process with coffee farmers in private sector supply chains in two separate locations North and South had upscaled to 2,000 plus over 6-9 months from an initial 10-20 champions with very little external support. Cooperatives were weak and early in the project the company withdrew completely from one of the areas for commercial reasons. Quality of diagrams was good, many people were achieving their visions and gender changes had occurred in areas like land ownership. See <http://www.gamechangenetwork.info/Tanzania> With FSP support the upscaling could be expected to be higher than this.

Ultimately as stressed above, the Financial Action Learning System should lead to a sustainable process of client empowerment and empowerment information for SPM, and identification of profitable products that are promoted by a cadre of certified Community Financial Advisers, paid partly on commission basis for their recruitment services, and partly by fees from prospective applicants for higher value products. Some of the monitoring functions can also be carried out by the Community Financial Advisers, as happens in Bukonzo Joint. The MOU tools are used as a more effective form of client application for products and services, replacing existing application processes. The FALS tools are integrated into existing organisational activities as a more cost-effective way of some of the visioning, planning and capacity-building activities.

The main ongoing costs, apart from cost-efficient integration into core business activities, being part payment of the certified Community Advisers and branding activities.

The time taken to establish the methodology to Phase 3 will depend on whether or not FALS is the first PALS or GALS process in which the FSP is involved, and if so whether or not there are other FALS resource organisations in the same country or region who can do or at least support the initial catalyst process or part of it.

### 3.2 What is funding needed for?

As noted in the introduction to this Concept Note, although the PALS tools have been tried and tested for livelihoods development and empowerment at community level and also used in gender training for MFIs, the full version of Financial Action Learning System as an integrated and potentially profitable client empowerment methodology bringing together these learnings at different levels remains to be developed.

This means that the first step has to be to pilot the full methodology with selected FSPs with contrasting delivery models in a small number of countries. Ideally implementation would be by a national network of collaborating FSPs of different types who could then share some of the training and documentation costs. In the first set of countries where the methodology is developed the process may be slightly slower than below. Costs are then substantially reduced for other organisations coming in as they can learn from the initial FSPs through exchange visits or Learning Routes – probably paying for the training and maybe some ongoing mentoring and advice.

The client voluntary upscaling is designed to be cost-free and no printing costs for manuals etc is required for upscaling. Depending on the existing activities of the FSP, there may need to be a budget for some of the activities relating to the product innovation and SPM.

The main costs are for the first year start-up Phase 1 Catalyst process, and Phase 2 Design of the integrated FALS system. This includes particularly:

- Costs for the 3x 10-day workshops and associated administration and logistics. Some of these could be shared between FSPs in the same country.
- Exchange visit/s and/or Learning Route for the core staff and most active champions to another FALS resource organisation where the methodology has been functioning for some time.

For the first set of FSPs in a country or region the field-testing design, process and its documentation is coordinated, advised and 'facilitated from the back' by a qualified FALS

consultant with in-depth knowledge of PALS, gender and other social issues in financial services and ability to bring these together into a cost-effective system. The level and nature of involvement of the consultant at the different stages will depend on context and levels of skill at community as well as FSP level, gender expertise at these levels or local NGOs and the nature of relations between these various actors. The consultant would need to be involved in preparing and facilitating the 3x10 days workshops, associated in-country preparation and meetings, tailored manuals and resources for the FSP coordinating staff and some interim support. Some of these costs could also be shared between FSPs as a network eg on production of resources. By the end of the first year the aim would be that the consultant would have handed over to the FSP.

In some cases external consultancy may be need may need to continue periodically as new inputs and/or external expert documentation are needed. If the FSP is close to a FALS Resource Centre, then some of the tasks of the consultant can be achieved through exchange visits and/or involvement of clients from the resource organisation in the capacity building. During the field-testing stage the consultant needs to assess when and how to plan either for their own eventual withdrawal from the process and what inputs would be needed for this. In some cases some limited role may need to continue to support replication in different contexts or for new organisations in a network. As far as possible however, the plan should be to hand over to the FSP at the end of one year, linked to global discussions and networks.

### 3.3 Main challenges: issues to be addressed in piloting

There remain however inevitable challenges that will need to be addressed in piloting FALS. FALS cannot be seen as a magic bullet to address all the potential conflicts of interest between clients and FSPs, organisational tensions between priorities within FSPs and competition between FSPs in the sector. As with any initiative in the sector these will need to be worked through.

There are NO BLUEPRINTS. FALS evolves and adapts through experience, not tailor-made TOTs. The challenge is that there are very many ways in which FALS tools can usefully be used. Most will work in most situations. However, each context will present specific challenges. But also opportunities for streamlining and building on contextual circumstances. The most effective and cost-efficient way of streamlining the methodology for a sustainable partnership and upscaling will need to be adapted to the specific financial services and organisational models involved. The potential opportunities and constraints offered by commercial banks are very different from those in VSLAs.

Underlying discussions and assessments of plans at all stages is a framework of questions relating to Responsible Finance. This is also refined and agreed based on consensus at the first Catalyst workshop. But likely to be something like the questions in Box 12.

#### Box 12: Empowerment, Gender Justice and Sustainability checklist for Responsible Finance at all stages

##### Inclusion

- Are very poor people participating or the 'better-off poor' only?
- Are women and men participating and benefitting equally? Is there a gender balance of participation of clients? Of staff? Are there any gender stereotypical attitudes and behaviours by men and women which need to be (tactfully) addressed in future to ensure

equal voice?

- Are youth participating? Girls and boys equally?

### **Client Empowerment**

- Are women and men clients able to effectively analyse and plan individual and household financial strategies for empowerment and wealth creation?
- Are clients finding the FALS methodology useful? Are there still ways in which it can be improved?
- Are financial plans being implemented? Are profitable economic activities being expanded and incomes increasing? What is the diversity of activities/likelihood of market saturation?
- What have been the positive achievements in client empowerment? Are clients able to move towards their visions? Are there sufficient success cases to show?
- What gender issues are emerging as important at individual and household levels for women? For men? Where are the main lines of difference?
- Has the methodology promoted the increased understanding between women and men within households and communities? Are household and community action strategies being developed and implemented by clients to promote gender justice?
- Are clients strengthening their social support networks through peer training?

### **Organisational learning**

- Have empowering products and services been identified?
- Has women's empowerment been integrated into design of products and services? Are women clients' voices well articulated and listened to? What empowering products and services have been designed for women?
- Have the gender dimensions of products and services for men been considered? Have products and services for men been proposed which would support gender justice?
- What sort of support might women from different backgrounds need to ensure they benefit fully from access to financial services? To increase their control over incomes? Is there need for support for vulnerable men?
- What are the implications for further improving design and delivery of financial products and services? Improving poverty reach? What are the remaining challenges?
- Have FSP staff been able to increase their own personal empowerment?
- Have gender policies been developed for FSP women and men staff? Has the methodology promoted the increased understanding between women and men within FSPs to break down barriers and discrimination?

### **Sustainability**

- Has the methodology improved communication between FSPs and clients? Between staff within FSPs?
- What have emerged as win-win business cases for promoting empowering and financially sustainable products and services?
- Has there been an increase in women and/or men clients? Has this increased financial sustainability?
- Have sustainable structures for peer training been set up? How effective are they? How can they be further upscaled? What support is needed?
- Have FALS tools and empowerment and gender justice been integrated into FSP activities? Have the skills and performance of women and men staff improved?
- Are the businesses and activities supported by financial services economically sustainable? Are value chain interventions needed?
- What additional resources might be needed? Are these a one-off or ongoing? If ongoing,

how will these be met in the longer term? What preparations for longer term sustainability will be needed?

- Are there any empowerment and/or gender dimensions of meso- and macro-level policies which need to be addressed through advocacy and collaboration with other organisations?

Because of the transformational aims of FALS, particular attention will continually need to be paid to:

- **Reinforcing the confidence of clients** that they can vision, plan and manage their finances
- **Maintaining the necessary momentum for change** at household level once there are dollar signs.
- **Overcoming the common prejudice** in MFI, and even NGO, staff and management that 'illiterates don't have a brain'. It is important that clients are supported to really analyse their situation and financial management strategies in as much depth as possible. Even people without formal education can do very sophisticated diagrams – and teach staff – after only 5-10 minutes of explanation. They are often much quicker to understand the tools than staff – provided staff do not interfere.
- **Facilitation skills:** FALS facilitation skills are different from most other participatory and gender training methodologies.<sup>24</sup> These skills can only be learned from experiencing a GALS process – although video and multimedia training could help in this. It relies at times on 'chaos theory' to take people outside their comfort zone to open up to change, and is often the opposite of what is taught in many 'Good facilitation' trainings.

It is important to be aware of, and address, power relations at all levels. This will be important within households and communities, in assessing and certifying the work of Community Financial Advisers as well as within and between FSPs.

In many processes that have been project- or donor-driven, implementing agencies have content with 'pretty pictures' and a bit of change in gender relations. However those are not enough for the real transformations needed to create wealth and address underlying inequalities, and are not sustainable. It will therefore be important for organisations to treat the client-led approach seriously as an integral part of their business investment strategy, and seriously tackle the blockages in understanding and communication. If this is done, then the experience of organisations like Bukonzo Joint Cooperative Union in Uganda<sup>25</sup>, who have integrated the methodology throughout the organisation, suggests that really significant changes can be brought about. And that this is very good for business.

<sup>24</sup> See GALS Facilitation Guide: <http://www.galsatscale.net/documents/GALSatScale0Facilitation.pdf>

<sup>25</sup> See Mayoux 2012 for details of Bukonzo Joint experience and updates on: <http://gamechangenetwork.org/africa/uganda/bukonzo-joint-cooperative-union>



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### Web Resources for FALS

For background and resources for the PALS and GALS methodologies see: <http://www.galsatscale.net>

For achievements of different PALS processes see: <http://gamechangenetwork.org>

For details of the FALS tools proposed here see links on: <http://gamechangenetwork.org/financial-action-learning-system>

For experience of PALS in MFI gender training see: <http://gamechangenetwork.org/asia/pakistan>