



**USAID**  
FROM THE AMERICAN PEOPLE

# **CONSUMERS AND CREDIT:**

## **THE CURRENT STATE OF AFFAIRS IN CONSUMER PROTECTION**

**AN ONLINE SPEAKER'S CORNER DISCUSSION LED BY BETH PORTER, DAVID BAGUMA AND KATE MCKEE AND HOSTED BY [microLINKS.ORG](http://microLINKS.ORG)**



**October 10 - 12 2006**

This publication was produced for review by the United States Agency for International Development. It was prepared by International Resources Group and QED Group LLC.

# CONTENTS

<b>INTRODUCTION</b>	<b>2</b>
<b>DAY 1: The Current State of Affairs in Consumer Protection</b>	<b>3</b>
<b>DAY 2: Implementation of Consumer Protection Principles</b>	<b>20</b>
<b>DAY 3: Ethical and Legal Issues</b>	<b>34</b>
<b>CONCLUSION</b>	<b>43</b>
<b>LIST OF CONTRIBUTORS WITH AFFILIATIONS</b>	<b>45</b>

## **DISCLAIMER**

The views expressed in this publication do not necessarily reflect the views of the U.S. Agency for International Development or the United States Government.

## INTRODUCTION

**Post by: Beth Porter**

Hi, I'm Beth Porter, Vice President of Program Services at Freedom from Hunger. I have been working on promoting ethical treatment of clients of microfinance institutions within my organization and with our partners and within the SEEP network for the past several years. I believe that the majority of the microfinance lenders out there have every intention of treating clients fairly. Nevertheless, there are those lenders who believe they gain competitive advantage but cutting corners with clients. Their actions can hurt consumers (microfinance clients) and give microfinance a bad name—and possibly lead to backlash from clients or the public or to the imposition of draconian regulations by government agencies in an effort to protect consumers.

The purpose of this virtual conference over the next three days is to have a lively discussion about consumer protection in order to learn more about the thinking going on and what is being experienced in consumer protection issues in microfinance around the globe. We welcome your active participation, and encourage you to invite others to participate as well. The topics for each of the three days of the virtual conference are as follows:

- Day One (Tuesday 10 October): Current State of Affairs in Consumer Protection
- Day Two (Wednesday 11 October): Operationalization of Consumer Protection
- Day Three (Thursday 12 October): Ethical and Legal Issues in Consumer Protection

## **DAY ONE: THE CURRENT STATE OF AFFAIRS IN CONSUMER PROTECTION**

**Post By: Beth Porter**

Let us start the first day of this virtual conference on consumer protection by looking at recent events in the news in two countries which are changing the way people look at consumer protection in microfinance.

In the state of Andhra Pradesh, the hotbed of Indian microfinance, in March of this year the state government closed down tens of branches of several of the leading microfinance institutions, accusing them of usurious interest rates, taking illegal collateral, and employing questionable recovery practices. Although the MFIs denied the charges, later that month, MFIs operating in Andhra Pradesh adopted a voluntary mutual code of conduct, which included an interest rate schedule, statements about credit delivery and recovery as well as savings mobilization, governance and transparency, and a complaint mechanism.

On the other side of the ocean in Rwanda in June of this year, the central bank announced the immediate closure of eight MFIs citing gross mismanagement, poor credit management practices, failure to meet minimal conditions for licensing, loss of customer confidence resulting in massive withdrawals of deposits, and failure to attract new deposits. The debate is ongoing whether these actions will lead to needed clean up in the microfinance sector or will further lower the confidence in the sector and contribute to people resorting again to mattresses for their savings and moneylenders for their credit.

**What do you think could have been done to avoid these crises? What can we learn from them to avoid crises elsewhere? Are people paying enough attention to learn these lessons before they occur on a widespread basis in other countries, or will the sector continue to be reactive rather than proactive?**

---

## **RE: DAY ONE: THE CURRENT STATE OF AFFAIRS IN CONSUMER PROTECTION**

**Post By: Teresa Maru-Munlo**

First I think it is a shame that after more than a decade of preaching MF best practices, the government has to become a customer "watchdog" I presume of last resort. My experiences with several MFIs in East and Southern Africa is that the learning is not happening fast enough! There is still a lot of focus on what benefits institutions as opposed to a win-win for the institutions and the customers. There is still too much focus on achieving sustainability at any cost even if that cost is the business or the livelihood of the customer; this possibly is one reason why some MFIs are recording very high client exit rates.

The crisis I believe could be prevented if best practices include policies on consumer protection and institutions like CGAP should be at the top of this as they have been in other areas like sustainability and transparency. If this were to happen I will not be surprised to find many African MFIs passing the test of transparency and failing miserably on consumer protection.

Teresa Maru-Munlo

Chemonics Int. /DMS Project

Malawi

**RE: DAY ONE: THE CURRENT STATE OF AFFAIRS IN CONSUMER PROTECTION**

**Post By: David Baguma**

Dear Beth,

Thanks for this information from 2 countries. To answer your questions: What should have been done to avoid these crises. MFIs needed to have come together and agree on the vision for sustainable microfinance for their countries. MFIs need to come to terms that microfinance, like any other business, has to be marketed in a professional manner and provide continuous business to its customers. An unethical behaviour only works for the eventual downfall of the business.

Lessons learnt should teach others that short cuts to business is not sustainable. Informed customers are the best customers. Code of conduct need to be agreed upon. One failure of an MFI has negative repercussions to the entire Industry.

Are people paying attention? Whether they pay attention or not, the truth remains that you cannot continue doing business as usual, hiding important information from the customers. Competition has come to stay in the industry of Microfinance - meaning that there are options. Clients know what is good for them. This brings a strong case for networks to bring together the industry and cause them to agree on key principles of doing professional MF with customers.

Best regards

David T. Baguma  
Executive Director, AMFIU  
Box 26056, Post Bank House, Nkrumah Rd  
Tel +256 41 259176;  
Mobile: + 256- 772- 447387  
[www.amfiu.org.ug](http://www.amfiu.org.ug)

---

**RE: DAY ONE: THE CURRENT STATE OF AFFAIRS IN CONSUMER PROTECTION**

**Post By: Katharine McKee**

I want to echo much of what David has said about the long-term interest of microfinance practitioners in being proactive in consumer protection. One of the things that I like about all of us agreeing on disclosure standards (e.g., of interest rates, fees, other terms and conditions, key practices, etc.) is that it provides a basis for consumer protection and education, and can permit a way for legitimate microfinance players to compare their services to others in the market -- if they truly have a better product, disclosure should provide them

with a competitive advantage! If not, as David says, perhaps they need to look at improving their products and services.

That said, a key issue in many countries (and I'd like to hear more about how this was addressed in Uganda) is how to get the ball rolling on disclosure. In the short term, if a single MFI chooses to do the right thing and disclose its interest rates, for example, stated as an Annual Percentage Rate (APR), it may suffer harm since clients will see a high number and assume (from the misleading materials available on other financial institutions' rates) that this MFI has high rates. This is an advantage of a national association, for example, leading a process whereby members representing a significant share of the market all agree to "jump" at the same time and disclose their terms in a clear and transparent manner. This has the advantage, first, that no single "good" player is harmed by going it alone, and second, that the industry can establish its credibility on these issues in a very public fashion. Is that how it looked on the inside, David? And has this happened in other countries?

Kate

Katharine McKee  
Senior Advisor on Policy, Poverty Outreach and Aid Effectiveness  
Consultative Group to Assist the Poor (CGAP)  
c/o World Bank  
1818 H St., NW, Washington DC  
phone: 202-473-1255

---

**RE: DAY ONE: THE CURRENT STATE OF AFFAIRS IN CONSUMER PROTECTION**  
**Post By: Laté Lawson**

Hello Beth and everyone,

Thanks for leading this discussion which is very pertinent for the sustainability of the microfinance industry.

In my view, customer protection is not yet part of the microfinance culture. This is true since this is an emerging industry and even in most developing countries, there are no strong customers' organizations or associations to advocate for their rights. Nor the Government has strong customer protection policies. In this context, it is very clear that most of MFIs' leaders have not yet set their mind in order to adopt and enforce core policies toward putting their customer in the center of their business. This is true not only in the microfinance industry, but also in the business and the public services areas. The very high rate of corruption in the public services is one example. In most countries in the South, citizen could not get their basic services without having to kick back civil servants. In this context, it is very hard to hold microfinance institutions accountable for their customer protection.

A culture shift is needed to happen, and the legal framework in those countries has something to do with that as well.

More and more, some MFIs and their associations are coming up with some kind of customer protection code

of conduct or code of deontology, but those are still good wishes. In the ground, abuses are still happening and those MFIs, neither their associations have the adequate means to deal with such issues. But this is a good starting point and we shall encourage such effort. Microfinance partners should support this effort and hold MFIs and their associations accountable for this. There is also a need to invest in customer abuse reporting facilities, like hotline, etc. But the question will be what will happen to those living in very remote areas with no infrastructure?? Moreover, government has also a strong role to play in putting in place the adequate and conducive framework to prevent customer abuse and to facilitate complaints reporting and judgment. This should not focus on the microfinance industry alone, but all business and services (public or private) as well. The culture shift needs to happen as stated above and government institutions themselves need to become more accountable.

Having said that, I strongly believe that one of the best way to deal with the abuse issue is to empower customers themselves by investing in their education on their rights and responsibilities. They should also be able to organize themselves in order to advocate for their rights and hold the services providers accountable. Everyone, including NGOs supporting this sector, donors, governments, MFIs' association and the MFIs themselves, will have a role to play. Once customers are well educated and also have choices, they could shop around, turning down one offer to another one.

Cheers

Laté LAWSON

-----  
Senior Technical Advisor  
Economic Development Unit  
CARE USA - Atlanta  
151 Ellis Street, NE  
Atlanta, GA 30303  
USA  
[llawson@care.org](mailto:llawson@care.org)  
Tel: 404 979 9167  
[www.care.org](http://www.care.org)

---

## **RE: DAY ONE: THE CURRENT STATE OF AFFAIRS IN CONSUMER PROTECTION**

**Post By: Beth Porter**

Great discussion! I would to find some examples of positive deviants to help us understand how to increase the orientation of the sector as a whole towards a more pro client approach. In terms of actual experiences, I have cited incidents in Andhra Pradesh and Rwanda as those in which microfinance institutions were reactive (in the case of AP) or worse (in the case of Rwanda in which meetings had been held more than six months earlier with government raising the issues and stating what needed to be done to address the problems). These examples demonstrate what Late has observed as the lack of culture around consumer protection and education. Are there examples in which microfinance institutions took a proactive approach, and thereby

avoided government intervention? What were the factors that led to such a proactive approach and enabled competitors to recognize the benefit of cooperating on this issue?

Beth Porter, VP Program Services, Freedom from Hunger

---

**RE: DAY ONE: THE CURRENT STATE OF AFFAIRS IN CONSUMER PROTECTION**  
**Post By: Paul Rippey**

Dear All,

I am having trouble finding anything to disagree with in your remarks which all are consistent with my experience.

One thing from Uganda (in response to Kate's question about Uganda). For a while, at least, UMU, Uganda Microfinance Union, was the only one of the licensed "MDIs" - Microfinance Deposit Taking Institutions - to calculate their interest on the declining balance (which for me should be required - anything else is just deliberate obfuscation). Their growth has been spectacular, and they remain the leader in product innovation and customer orientation among the MDIs. That is, while in principle it should have hurt them relative to the other MDIs to be more transparent about their rates, in fact, it was a source of institutional pride to them, and any damage caused by their apparent higher rates was probably more than compensated for by the fact that their transparency was a motivating factor to their staff. That is, a good institution has little to fear by being more consumer friendly.

Isn't this a bit like the comparison of Walmart and Price Club in the States? (Forgive me if I have the wrong companies here). Walmart treats their employees like expendable, replaceable, commodities, while Price Club provides health insurance, better working conditions, better pay. It's true that Walmart is making a fortune, but SO IS PRICE CLUB. That is, you could position yourself as, say, "The MFI that LOVES its Customers", and do just fine.

Paul

Is it Price Club or Target? Whatever!

---

**RE: DAY ONE: THE CURRENT STATE OF AFFAIRS IN CONSUMER PROTECTION**  
**Post By: Patrick McAllister**

It is Costco, a Seattle company of which the Pacific Northwest is justifiably proud (I think they own Price Club - not Target!).

---

**RE: DAY ONE: THE CURRENT STATE OF AFFAIRS IN CONSUMER PROTECTION**

**Post By: Kate McKee**

Paul -- Excellent points! I think it's Costco rather than Price Club, by the way . . .  
Kate

---

**RE: DAY ONE: THE CURRENT STATE OF AFFAIRS IN CONSUMER PROTECTION**

**Post By: Beth Porter**

So we have an example of a positive deviant in UMU of Uganda, thanks to Paul. And such deviants should be encouraged to take the risks of being first movers and lauded when they do.

But we know that this will not be enough, as too many will still perceive that the risks of being first mover outweigh the benefits. Networks--national, regional, and international--will continue to be extremely important in promoting a proactive stance in developing ethical statements/codes of deontology/codes of conduct. They will also need to take leadership on operationalizing these codes (a subject that David will take up in tomorrow's discussion).

Other entities can also play a role. CGAP helped to put a premium on transparency simply by establishing an award for it; could the same be applied to consumer protection as Kate suggested? Through the benchmarking of the MicroBanking Bulletin, the MIX Market helps standardize what MFIs measure towards; could an indicator be included as to whether or not an organization has a code of conduct in place be included (recognizing that there would be subjective judgments involved and it would not be quantifiable)? The SEEP Network has adopted a network-wide code and asked members to self-report whether they have their own statements or codes in place, but much more could be done to promote adoption and operationalization. At the national network level, mechanisms for making complaints could be an important complement to simply getting members to agree on minimum standards and disclosure. And the convergence indicated by Kate and Anita around establishing a common terminology could help facilitate the understanding of who is doing what, make it easier for consumers to comparison shop, and make it easier for governments/lenders/investors know who is forward thinking and looking to maintaining and growing a healthy client base for the future.

None of this sounds very futuristic--it could be done now. Is there the recognition that these are important steps to take and the will to take these steps? These are steps that could make it easier to be proactive, more obvious if an institution is not, and reward those who take the lead.

What are your reactions? How helpful would such steps be, given that at the end of the day it is the microfinance institutions themselves who must make the decisions and take the actions to be protect and educate their clients.

---

**RE: DAY ONE: THE CURRENT STATE OF AFFAIRS IN CONSUMER PROTECTION**

**Post By: Chandni Ohri**

This is a very interesting discussion and I am glad that we are being asked to think about practical solutions/next steps so that the MFIs can be encouraged to introduce more transparency and principles of customer protection in their operations.

I do want to address an underlying assumption in today's discussion that I am uncomfortable with. It seems to me that we are thinking of MFIs being transparent or not being transparent in very black and white terms whereas I see it more as a spectrum where some organizations are more advanced than others. In my experience, most MFIs think that they are being transparent but best practices around transparency or codes of conduct are not very well defined. Thus, each institution goes by whatever it thinks is the best way. Some of the MFIs in AP which were highly criticized for not being transparent were, on the ground, not doing anything much different than others (for example, in charging flat interest rates).

I think the focus should be, as Beth points out, for the international community to start putting a premium on transparency as has been done in the past on issues of sustainability and impact. And then define the best practices/measures related to transparency and customer protection. Once the donor and investor community starts focusing on adherence to codes of conduct, the MFIs will start adopting them in response. Of course, some of more forward looking institutions, perhaps like the one in Uganda, will take the initiative anyway without waiting for a push from the international community.

Chandni

Chandni G. Ohri  
Regional Coordinator, South Asia | Grameen Foundation

---

**RE: DAY ONE: THE CURRENT STATE OF AFFAIRS IN CONSUMER PROTECTION**

**Post By: Patrick McAllister**

Those are excellent points, Chandni. One problem, though, is that the term 'transparency' is already used by CGAP to mean financial transparency, whereas here we are talking more broadly about policies, terms, rates...Is there another term that encompasses this broader idea? I would call it consumer protection but, as some have suggested, consumer protection can be interpreted as a government regulatory issue.

---

**RE: DAY ONE: THE CURRENT STATE OF AFFAIRS IN CONSUMER PROTECTION**

**Post By: Katharine McKee**

I wonder if a term more akin to social performance (customer orientation?) might work. In that broader context, consumer protection would be one but by no means the only aspect. Also, I think one issue with talking about transparency at this stage is that it implies that there are agreed-upon definitions, standards, etc. which is not the case. What would be the steps to get to the point where awards-type incentives could be created? What about something more like the "Pro-Poor Innovation Challenges" or other innovation-focused programs that accelerate our identification of interesting ideas and approaches?

kate

---

**RE: DAY ONE: THE CURRENT STATE OF AFFAIRS IN CONSUMER PROTECTION**

**Post By: Kelly Hattel**

I think that the SEEP Network has done so much great work to promote the adoption of pro-consumer codes and to bring the issue to the forefront of microfinance. However, one potential result is that MFIs who are members of a country-level network, which is in turn part of a regional network or an international network and MFIs which are affiliates with technical assistance providers, could theoretically fall under 2-3 codes at the same time. This is already the case for a number of leading MFIs. Ideally all of these codes would have common principles and themes, but it could get very complicated, particularly in terms of compliance and enforcement. I think the best solution is one that has been proposed, to have a common standard for consumer protection. The CGAP transparency awards have worked so well in rewarding good conduct and MFIs advertise their awards at every opportunity - even the most commercial and largest MFIs in the industry. Since CGAP is widely seen as a credible industry leader that has helped to set a number of important and well-respected standards in microfinance in the past, it seems that this is an appropriate role for CGAP to play in this area of consumer protection. The best part of the Transparency awards is that they focus on rewarding good behavior rather than the negative. There could eventually be sanctions for poor behavior or non-compliance, but starting off in the spirit of a positive reward system is the right way to go. However, I think it would also make sense to go beyond awards for industry leaders in consumer protection, and also to think about an industry-wide certification system as has been suggested in the past by Beth Rhyne

of ACCION I believe. Something else to think about.

Kelly Hattel  
Independent Microfinance Advisor  
former Director, MicroFinance Network

---

**RE: DAY ONE: THE CURRENT STATE OF AFFAIRS IN CONSUMER PROTECTION**

**Post By: David Baguma**

Kelly's observation on a common code of conduct is a good idea. However I think this should only cover the major areas but country level networks should be allowed to add on based on their specific conditions. It should take the route of Performance monitoring.

Best regards  
David T. Baguma

---

**RE: DAY ONE: THE CURRENT STATE OF AFFAIRS IN CONSUMER PROTECTION**

**Post By: Kelly Hattel**

In Benin, the national microfinance association, Consortium ALAFIA adopted a code of Deontology (Code of Ethics) in October 2005 which seeks to further the professionalization of the microfinance industry in Benin. It seeks to ensure sustainable, quality services that inspire respect and confidence on the part of the clients and on the part of the government authorities and partners. It states that this specific code is to be recognized by members, authorities and partners. This reduces any confusion around the introduction of a number of overlapping or competing codes. It defines 17 principles and 4 sanctions for non-compliance. In order to ensure oversight of the code among the association members, the association created a Board Committee tasked with the review and enforcement of the code. According to association's statute the committee must meet 4 times per year.

This is one of the few examples I have seen where there is such a clear system in place to oversee the practice of the members in this way. This pro-active code was developed by the members of the association, the MFIs in Benin for all the key players in the industry, including the clients. While there have been recent threats on the part of government towards the microfinance sector having to with high interest rates, the government, for the most part, accepts the role of the association in enforcing the code. More importantly, if a crisis does arise, such as accusations by the authorities of improper conduct by MFIs towards consumers, Consortium ALAFIA has a foundation (ammunition) to open discussions with the government. This doesn't mean that the code will solve all problems, but just the existence of this code and the existence of a system for oversight demonstrates the association's credibility and commitment towards the ethical behavior of MFIs and the responsibility towards their clients. The Consortium has also led a number of key industry-wide discussions in Benin around some of the concerns often raised in terms of consumer protection, including collection

practices and interest rates. The key is that the Association is helping to lead the discussion rather than scrambling to react. In addition to the code, Consortium ALAFIA also operates a credit bureau which serves to reduce the risk to MFIs in Benin of taking on multiple clients, but also serves to reduce the risk to clients by preventing them from taking multiple loans. This is another way in which an association of MFIs can be pro-active in protecting both themselves and their clients.

Kelly Hattel  
Independent Microfinance Advisor

---

**RE: DAY ONE: THE CURRENT STATE OF AFFAIRS IN CONSUMER PROTECTION**  
**Post By: Laté Lawson**

Thanks for sharing the Benin example.

I was part of the Deontology Committee set forth by the Board from 2004 to 2005 and I recall that this committee had to play a very pro-active role. Even though the code is an emanation of the majority of the MFIs themselves, the ownership by those MFIs, especially by the field staff is very difficult to attain. I remember that the deontology committee had to conduct several campaigns across the country even on TV and radio to explain the content of the code to the member MFIs and their staff.

Another example of an active role an association of MFIs could play is the case of FENACREP in Benin, one of the leading MFIs in rural areas in Benin in late 90s behind FECECAM. This MFI went through very difficult situations putting at risk the savings of its members and went almost bankrupt. Thanks to the association and to its pro-activeness, the government appointed new management committee to overtake the MFI in order to make sure that savings mobilized is not jeopardized. Almost four years later, this MFI is almost back on track again with a brand new name, UNACREP and sound business practices. How far will it go, this is one of the question, but at least, this shows how an industry association could anticipate and work closely in partnership with regulator to protect the interest of the customers.

Thanks Kelly for highlighting Benin's experience.

Consortium Alafia is also coming up with social performance indicators along with its financial ratios. Hopefully, this will help to instill good practices in terms of client friendliness.

Cheers

Laté LAWSON

**RE: DAY ONE: THE CURRENT STATE OF AFFAIRS IN CONSUMER PROTECTION**

**Post By: Kate McKee**

Late raises several important points. First, that it's critical to find ways to intervene to actually protect consumers when their MFI risks going under (especially if it is a savings institution), and second, that the discussion around consumer protection should relate to the ongoing discussion in the field about social performance management. How do participants in this discussion see the two relating to each other?

Kate

---

**RE: DAY ONE: THE CURRENT STATE OF AFFAIRS IN CONSUMER PROTECTION**

**Post By: Kelly Hattel**

Kate, this is an interesting question. In my mind, consumer protection or being pro-consumer should be a standard in microfinance, no matter what kind of MFI you are – an NGO, regulated, deposit-taking MFI, a credit union, a commercial bank, etc... Social performance is the translation of an MFI's mission into practice. This will, thus depend on each MFI's own mission and will be much more difficult to find common standards for measurement, reporting and certainly for benchmarking on social performance.

However, even if there is some cross-section between the issues (several microfinance rating agencies are actively looking to integrate elements of the recently-adopted consumer pledges into the social ratings they are developing), I think it is useful to see how these issues are perceived by the MFIs themselves.

Having been a part of both the SEEP Pro-Client Working Group and the Social Performance Task Force, I think that there will be much wider “buy-in” or participation right now on the part of MFIs around pro-consumer policies than around participation in initiatives around social performance (at least the MFIs I am familiar with). My sense is that there is much greater industry consensus at the point (even though there is a long way to still go) regarding what constitutes a pro-consumer policy than how social performance is defined. The MicroFinance Network recently held its annual conference and there were two sessions related to this question. One session looked at consumer protection issues in terms of political risks. Sogesol from Haiti, BancoSol from Bolivia and SKS from India shared their experiences and responses to current and potential unfavorable political environments. Another session looked at the social objectives of MFIs, how can we measure and report on the social performance of MFIs. The purpose of the session was to inform participants about social performance initiatives in the industry and for donors and other stakeholders to better understand the perspectives of leading industry MFIs' on social ratings and social performance management, measurement, and reporting, as well as to discuss the idea of developing a common set of social performance indicators. It seemed clear to me that there was a strong understanding, interest, and desire to work pro-actively with regard to consumer protection issues after hearing about the experiences in India, Bolivia and Haiti than there was to actively engage in social performance issues. The lessons shared were very real and it provoked a serious discussion around ways to be pro-active. There seemed to be a clear readiness to act in a

concrete way. During the sessions on social performance, there was a fair amount of skepticism (even by MFIs practicing some form of social performance management) about social performance and confusion around the terminology being used and the wide number of current initiatives. There seemed to be a willingness to better understand the initiatives, but much less conviction as to why MFIs should report in the ways currently being proposed (including participating in social ratings). So, while the two issues are related, I think in the short-term, we will see more concrete participation on the part of MFIs and success in finding common ground around pro-consumer policies/consumer protection issues and it makes sense to approach them independently as we have been doing.

At the same time, one of my biggest concerns is that of cost. What would be the cost to MFIs of implementing and complying with pro-consumer policies versus social performance management, measurement and reporting? If it were a case of an MFI having to choose to spend funds developing one or the other – which would/should they choose? If there was a way to integrate elements of a pro-consumer and social performance approach, perhaps this would reduce the ultimate cost of complying and reporting on both?

Kelly Hattel  
Independent Microfinance Advisor  
former Director, MicroFinance Network

---

**RE: DAY ONE: THE CURRENT STATE OF AFFAIRS IN CONSUMER PROTECTION**  
**Post By: Beth Rhyne**

I think Kelly makes an important observation that there is a lot of consensus around the basic tenets of pro-consumer policies, and that is good news because it means that the microfinance world can come together on this. We should think about what needs to be done to develop "Consensus Guidelines" that are accepted industry-wide.

---

**RE: DAY ONE: THE CURRENT STATE OF AFFAIRS IN CONSUMER PROTECTION**  
**Post By: Beth Porter**

Consumer protection and social performance management are indeed related. Social performance management is a broader more proactive concept, whereas consumer protection at its narrowest can be construed simply to mean that a consumer is protected from harm. Another distinction is that whereas the state may have an interest in ensuring that consumers are protected (and indeed they can and have done so in various instances cited earlier in this discussion), whether or not an institution is managing its social performance is more an internal matter that would be taken up by an institution's board insofar it contributes to the achievement of its bottom line (be it single, double, or more). If Kelly's examples are indicative, there may be broader recognition (however begrudgingly) that microfinance institutions need to address issues of consumer protection, if only to avoid having it imposed on them. Recent events in several countries add a certain urgency to it. We will need to move on multiple fronts, enumerated in various

postings, to get ahead potential harm to consumers that could be avoided as well as potential inappropriate regulation. We should however look for opportunities for efficiencies with social performance management, however, in terms of reporting, social audits, etc. **What other views are there regarding the relationship between social performance management and consumer protection?**

This perhaps brings us back to questions of the role of consumer education in consumer protection: **are we simply trying to provide protection from bad lending and collection practices and misleading presentation of interest rates, etc.? Or are we going beyond minimum standards of treatment to providing a satisfying or educational customer experience?**

Beth Porter, VP Program Services, Freedom from Hunger

---

**RE: DAY ONE: THE CURRENT STATE OF AFFAIRS IN CONSUMER PROTECTION**  
**Post By: Véronique Faber**

I think that both concepts are linked in the MFI's mission and intention, but are very different things in practice.

Although any MFI that takes its social mission serious should put the interest of consumers at the center of its activities and therefore should encourage (and give input to) consumer protection initiatives, consumer protection associations or projects need to be "independent" and "neutral" and should not be linked to a particular MFI or MFI network. They should provide a safe space for consumers who feel served unfairly. Ideally, such association would spring from a client network or group.

Social Performance Management should aim at the improvement of the customers situation according to the MFIs specific objectives (e.g. women political empowerment, reduction of poverty on household level...) and therefore, is primary concern of the MFI itself.

Véronique Faber

ADA asbl. - Appui au Développement Autonome

Phone: +352 456868-25 Fax: +352 456868-68

21-25, Allée Scheffer, L-2520 Luxembourg

E-Mail: [veronique.ada@microfinance.lu](mailto:veronique.ada@microfinance.lu)

Websites: [www.microfinance.lu](http://www.microfinance.lu) ; [www.lamicrofinance.org](http://www.lamicrofinance.org) ;

[http://www.microfinancegateway.org/resource\\_centers/insurance](http://www.microfinancegateway.org/resource_centers/insurance)

**RE: DAY ONE: THE CURRENT STATE OF AFFAIRS IN CONSUMER PROTECTION**

**Post By: David Cracknell**

Part of the challenge in consumer protection is the fact that pricing is not transparent, there are a multiplicity of fees and charges and customers simply do not have the time nor energy to go around all the MFIs or banks to get the best deal. This is made worse by misinformation being spread by competitors, often at field level.

There has been some discussion of compulsory disclosure, the Kenyan experience in the formal financial system is interesting here. The Central Bank has for the last year or so published in the national newspapers the fees and charges of the formal banks on a quarterly basis. This has I believe increased awareness on pricing issues, and has led to some banks taking advantage by pricing certain services very competitively.

David Cracknell, MicroSave

---

**RE: DAY ONE: THE CURRENT STATE OF AFFAIRS IN CONSUMER PROTECTION**

**Post By: Kate McKee**

The Kenyan example is an interesting one. David, do you think there would be greater consumer awareness/impact if the individual financial institutions were also required to post their rates, according to a standard formula mandated by government. Or is it sufficient to have periodic publication in newspapers? Has this been accompanied by any more proactive outreach pro consumer education (by the government or another "neutral" party)?

Kate

---

**RE: DAY ONE: THE CURRENT STATE OF AFFAIRS IN CONSUMER PROTECTION**

**Post By: David Cracknell**

Kate,

It may be that the Central Bank is taking one step at a time, using publication to bring rates and practices more into line before considering next steps, if so this is a pragmatic approach. On a personal level I like the idea of Annualised Percentage Rates, though even here there are some problems in that loans have to be of an identical size and duration to be directly comparable.

However, it is important to realise that this would penalise microfinance operations (in the eyes of customers) as many microfinance programmes operate very short term loans which include application and other fees

which when loaded into an APR formula would give very high annualised rates. Does this mean that an adjusted APR formula should be used? Or that an APR formula should be used with extensive explanation and financial education? The balance that is fair to the consumer and to the microfinance programme is a challenging one.

No there has been no financial education given by the Central Bank or the Government or another neutral party.

David

---

---

## **RE: DAY ONE: THE CURRENT STATE OF AFFAIRS IN CONSUMER PROTECTION**

**Post By: Patrick McAllister**

David, very nice summation of the potential and complications of standardised disclosure - thank you. I do think it is important that microfinance customers are not made to feel that they are being penalized for their poverty (that, too, is part of consumer protection). For example, I would not like to see a situation where APRs are published and the poor always have to refer to the bottom of the page where the rates are double those at the top. I would prefer a different formula used for microloans, perhaps stated monthly, so that the distinction is clear. I should think this could be accomplished easily in countries that have specialized laws and regulations for microfinance.

---

---

## **DAY ONE: NEW THREAD: CONSUMER PROTECTION AND SOCIAL PERFORMANCE**

**Post By: Masami Hayashi**

Regarding the question on the relationship between consumer protection and social performance management, the MicroFinance Network is supporting its members to move from one to another: consumer protection to social performance management. In 2004 the members signed pro-consumer pledge; in 2005 the members agreed on MFN's new focus, which is to ensure social performance along with financial performance; and in 2006 we are starting up a working group on social performance, through which we will implement a set of standard social indicators. Obviously, a part of the social indicators will be related to consumer protection.

I think in order to move from a mere "good will" to a real compliance, it is important to develop a business case where MFI leaders can clearly see the benefits they will get out of the investment (social ratings imply high cost compared to financial ratings, for example). I believe that social performance management is an area where donors can have an important role in developing and promoting best practices with financial support.

Masami Hayashi  
Director, MicroFinance Network

---

**RE: DAY ONE: NEW THREAD: CONSUMER PROTECTION AND SOCIAL PERFORMANCE**  
**Post By: Patrick McAllister**

I am glad this distinction between consumer protection and SPM is coming up because I have had a hard time reconciling the two myself. From Masami and others postings, it now seems to me that SPM is a good way for retail institutions to measure and monitor their consumer protection efforts. However, as Beth points out, consumer protection is more specific than SPM, leading me to think the most appropriate entry point for consumer protection initiatives is in some type of grouping of multiple institutions. The grouping could be voluntary (such as a voluntary association like ALAFIA), a requirement of membership (like SEEP or MFN) or externally imposed (such as a regulator's role in enforcing consumer protection legislation under the Consumer Credit Act in South Africa). Does this make sense to others?

---

**DAY ONE CONCLUSION BY BETH PORTER**

Thank you to all participants for an excellent discussion. I encourage all of you--as well as those who are following the dialogue but who have not yet been able to share your views--to participate in the discussion tomorrow that will be led by David Baguma on operationalizing the principles and the discussion on Thursday that will be led by Kate McKee on legal and ethical issues.

Today we started with examples of situations in Andhra Pradesh and Rwanda in which the government had to step in when abuses were discovered and there were no consumer protection policies in place to have avoided the situation or to have addressed the problems once they emerged. During the course of the day, however, we learned about examples in which networks have been effective in addressing problems (ALAFIA helping find a solution to FENACREP's problems in Benin) or in proactively taking on consumer education (AMFIU in Uganda), and even one instance of an individual MFI, UMU in Uganda, fully disclosing its interest rate without doing so with the cover of peer organizations doing the same. These examples illustrate both the risks of being reactive (AP and Rwanda) and the benefits of being proactive (Benin and Uganda).

It may be more realistic to expect that consumer protection efforts for the most part are going to be undertaken by networks at one level or another. Such collaborative efforts provide cover on issues like interest rate disclosure, as well as being relatively more efficient (neutral parties can run complaint hotlines, for example) and effective (government less likely to be worried about issues if consumer protection is being undertaken by multiple organizations sharing standards and approaches). We will have opportunities to discuss further how these approaches can be operationalized in our discussion on Wednesday.

A number of discussants saw the value of international networks, aid agencies, and other industry leaders playing a role in helping to define terminology, set standards, and promote good practices. (This may result in institutions being subject to several codes due to multiple network affiliations). These actions can help to

create a pro-client culture that takes seriously not only the minimum required to protect consumers, but goes further to educate consumers, and promotes an ethical approach rather than simply meeting legal requirements, such as they are. There is more to pick up here, particularly on Thursday in regard to public and private roles in consumer education, and consumer versus lender responsibility, including "reckless lending."

We closed the day with a discussion of how consumer protection relates to social performance management. It was recognized that consumer protection is narrower and applies to all institutions--although as noted above it may most frequently be undertaken collectively. Social performance management can provide a means to monitor performance on consumer protection, but is generally something that is developed on an institution by institution basis, which takes into consideration the particular mission and strategies of each organization. It is hard to imagine a social performance management system that did not have consumer protection at its core.

Beth Porter, VP Program Services, Freedom from Hunger

---

**RE: DAY ONE CONCLUSION:**

**Post By: Kate McKee**

Very nice wrap-up, Beth!

Kate

---

## **DAY TWO: IMPLEMENTATION OF CONSUMER PROTECTION PRINCIPLES**

**Post by: David Baguma**

Dear E-Conference Participants,

Today, we discuss the implementation of consumer protection principles, which entails incorporating these principles in our organizational strategy, culture, and day-to-day operations. In addition to pro client principles like customer care need to be operationalised at an MFI level. Fair treatment of the client, though an elusive concept to define, is perhaps the essence of consumer protection.

In AMFIU, we have consumer education as one of the core activity areas. Note that we use the word 'Education' rather than protection because in our view 'consumer protection' is a notion more associated with statutory regulations, compliance and sanctions. Our consumer education programmes covers Code of Practice and Financial Education

Our code of practice which is largely voluntary has been signed on by over 42 member MFIs, and covers issues regarding, Information disclosure, financial assessment for lending, Client Data Protection & Confidentiality, Operations of Client Account, and Complaint Handling Procedures. The financial education component is conducted through 'Stand-and-Deliver' training, Music Dance & Drama, and other print and electronic media. Our guiding belief is that 'An educated consumer is the best customer' because they know their rights and obligation, use financial services appropriately, and can shop around for information/better options.

You can now join the discussion, and some of the questions to guide our discussion are as below:

- a.. What is the role of local associations in implementing consumer protection principles?
- b.. How can organizations ensure compliance with their social mission?
- c.. What can principled organizations do when competitors do not follow consumer protection principles?
- d.. How can organizations monitor and enforce consumer rights without negatively harming their business?
- e.. What role can financial education play in strengthening the rights of consumers?

David T. Baguma

---

## **RE: DAY TWO: IMPLEMENTATION OF CONSUMER PROTECTION PRINCIPLES**

**Post by: Teresa Maru-Munlo**

David

I like the idea of Networks taking the lead in ensuring their members first and foremost develop a code of conduct that includes consumer protection and that they are implementing such codes. But then my question is what does the Network do when its members are not following the code? In Malawi a code of conduct (not for consumer protection) exists but members have simply ignored this code and the Network has not been able to penalize its errant members.

I think the solution lies in two areas; when MFIs shift their focus from product orientation to customer orientation we will not need government or CGAP or any other forum intervene for the customer, because then the MFIs focus will be meeting customer expectations and retaining those customers. For this to happen MFIs need capacity and able leadership that looks beyond short term objectives and achievements. Opportunity International Bank in Malawi is doing a great job focusing on customer needs; they have regular interaction with customers at different levels to receive feedback and they are acting on this feedback as evidenced by their product reengineering or introduction of new products.

The bottom line is that MFIs must stop perceiving every solution as a nail because they got an hammer in their hand!

Teresa Maru-Munlo

---

## **RE: DAY TWO: IMPLEMENTATION OF CONSUMER PROTECTION PRINCIPLES**

**Post By: Anita Campion**

I wonder if it would be helpful for us to think in terms of "minimum" standards for a code of ethics for consumer protection. I think it will be easier to reach consensus and less costly to networks and financial institutions to ensure adherence. I always get concerned about the potential for over-regulation and the related costs, which in this case would end up having a negative impact ultimately on the clients we are trying to serve. Does that make sense? What would you all think of in terms of minimums?

Anita

---

## **RE: DAY TWO: IMPLEMENTATION OF CONSUMER PROTECTION PRINCIPLES**

**Post By: Patrick McAllister**

I agree with Anita's concern about over-regulation and cost. There was a lot of consensus yesterday that Social Performance Management is a way the MFIs can include consumer protection in their operations, but how many institutions actually use SPM? Is it sufficiently widespread that we can pin our consumer protection hopes to it, or do we need to develop a lighter touch framework that can be adapted by different institutions?

**RE: DAY TWO: IMPLEMENTATION OF CONSUMER PROTECTION PRINCIPLES**

**Post by: David Baguma**

Dear All,

Thanks for your excellent contribution to the topic of operationalisation of pro client principles. Issues raised included focus on product development that meet clients' needs which means clients get a better deal from MFIs. Over regulation came out strongly as not necessary, making a strong point that countries need minimum principles to apply. Definitely the issue of enforcement of codes of conduct are key in implementing the pro client principles. The way around this is the state that issues justice is accorded to its citizens. The way to collaborate with government, without becoming another government department, becomes a necessary "evil". Self management is not always sustainable .

In Uganda, there was a lot of consultations with the members through regional workshops where the draft code of practice was discussed and views collected which enhanced it - leading it its eventual signing up and adoption. A lot a posters have been printed and distributed. Not only MFIs should disclose but such information should be in public places. Radio spots were carried on FM radios encouraging clients to know their rights and obligations. Clients need to be empowered to ask questions. This may be difficult where competition is not yet effective.

Thanks

David T. Baguma

---

**RE: DAY TWO: IMPLEMENTATION OF CONSUMER PROTECTION PRINCIPLES**

**Post by: Anita Campion**

One concept that might work in encouraging higher standards for consumer protection is for MFIs to sign an agreement with the local or regional network, committing to adhering to minimum standards. To recognize this, each participating MFI would receive a sticker from the network/association to put in their branch windows indicating their commitment to those principles. No oversight would be necessary unless complaints started showing up at the network/association, in which case it then might become necessary to certify adherence to the principles in order for MFIs to be able to display the sticker. How does that sound? It should be fairly effective for a minimum cost, at least until clients become more aware of the fact that they even have the right to expect certain standards, which to me is the starting point.

Anita

**RE: DAY TWO: IMPLEMENTATION OF CONSUMER PROTECTION PRINCIPLES**

**Post By: Beth Rhyne**

Social Performance Management is not sufficient for a number of reasons, including 1) embryonic state and diversity of approaches being taken; 2) irregularity of application and 3) span of concerns means that consumer protection issues may receive only cursory treatment. Still, SPM is good for flagging the issues. Nevertheless, I agree with the ideal of a light-touch framework.

---

**RE: DAY TWO: IMPLEMENTATION OF CONSUMER PROTECTION PRINCIPLES**

**Post By: Laté Lawson**

I agree with this statement. SPM is just one coin of the answer. Ideally, each MFI and Network should come up with a separate and clear policy/pledge regarding customer treatment and protection and action plan for its implementation.

---

**RE: DAY TWO: IMPLEMENTATION OF CONSUMER PROTECTION PRINCIPLES**

**Post By: Kate McKee**

I think what was proposed is that consumer protection (and broader pro-client measures, policies, safeguards, etc.) should be a category within social performance management, not that going whole-hog with SPM is the best way to protect consumers. Every MFI does some aspect of SPM, and we would be urging MFIs to make progress on consumer protection-- learning from good practices in this very young field -- if they were serious about social performance. As Late from CARE mentioned earlier today, a network thinking about affiliating with an MFI would look to whether it had (and followed!) a code of conduct on consumer protection as one indicator of its double bottom line; investors and donors might do the same. This would be one way to create incentives for MFIs to take action, if they were subject to the question "what's wrong with you? You don't have a code of conduct yet?" from those with financial and technical resources to offer them. In the short run, it is likely to reach far more MFIs than legal/regulatory approach anyway. The "good housekeeping seal of approval" approach that Anita and David B mentioned earlier -- where an MFI would earn the right to be accredited if it adopted a code and followed it (or at least didn't receive a lot of complaints about non-compliance) would be another way to achieve this.

Kate

---

**RE: DAY TWO: IMPLEMENTATION OF CONSUMER PROTECTION PRINCIPLES**

**Post By: Rossana Ramirez**

I'd like to add one more point on the discussion about SPM. I agree with the previous statements made that SPM is not a panacea for protecting consumer rights, but I think SPM can be a major driving force of consumer protection, if implemented correctly and, as mentioned earlier, if MFIs are truly serious about their social performance and not simply paying lip service to it. At the core of SPM is the idea of translating an institution's social mission into practice. The challenge is to determine whether part of the social mission of an institution includes a concern over consumer's rights. If this is not the case, an institution committed to social performance and consumer rights can utilize SPM to guide and align its strategy and operations with consumer protection.

Cheers,  
Rossana Ramirez

---

## **RE: DAY TWO: IMPLEMENTATION OF CONSUMER PROTECTION PRINCIPLES**

**Post By: David Cracknell**

Teresa has some good points

A) There is no penalty for not following the code and many institutions who sign up do not follow...

B) That successful implementation of a customer friendly framework critically depends on how customer focused an institution is...

From experience many institutions claim to be focused on the customer, but often the degree of focus changes over time in accordance with institutional realities. However, consumer protection goes further than product re-engineering or new product development it means explaining these and other developments to the customers well. This brings in issues of financial education and much wider adoption of core standards by the industry within a particular country. The challenge is that financial education is a common good and so tends not to be performed on wide scale across a market by individual institutions.

This raises questions, to increase the penalty for not following the code is customer awareness of the code necessary - how much consumer awareness raising is necessary and who pays.

Are there mechanisms for encouraging compliance? An interesting example here is the MicroFinance Regulatory Council in South Africa, which sets a broad range of standards for the South African Microlending industry. The MFRC is not a traditional regulator, but is actually driven to respond by complaints registered by members of the public. If complaints are upheld penalties can include de-registration, and registration is a legal requirement for operation.

David Cracknell

---

**RE: DAY TWO: IMPEMENTATION OF CONSUMER PROTECTION PRINCIPLES**

**Post By: Kate McKee**

David C and David B, Teresa, Anita and others have raised the question of what are effective sanctions (and exercised by whom -- financial regulators, other government entities with consumer protection mandates, national associations, networks) for non-compliance. David B suggested some sort of government follow-up -- perhaps he could clarify how this would work and whether it has actually happened yet. Anita suggests decertification (by the association) and David C points out that in South Africa, the MFRC can actually take matters to the court and effectively withdraw the right to do business legally (by decertifying the lender). What other options exist?

Kate

---

**RE: DAY TWO: IMPLEMENTATION OF CONSUMER PROTECTION PRINCIPLES**

**Post By: David Cracknell**

Seeing as there is interest, I thought you would like to see something from the MFRC website in South Africa... This is the process that a customer complaint goes through...see below for those interested in learning more the website address is [www.mfrc.co.za](http://www.mfrc.co.za)

David

Complaints that are received by the MFRC are received via a number of different ways. Borrowers who wish to log a complaint have the following options:

- § Contact the MFRC call centre on the toll share number 0860 100 406
- § Send a fax to the MFRC on 647 4440 (011).
- § Send an e-mail to [complaints@mfrc.co.za](mailto:complaints@mfrc.co.za)
- § Log a complaint on our website

When the complaint is received, it is logged onto the Complaints database, and a complaint reference number is generated that is unique to that complaint. This reference number is provided to the borrower along with

information regarding the Complaint Officer that is dealing with the complaint.

The Complaint Officer will then contact the borrower to verify the complaint, and to request any further information if necessary. The complaint will then be forwarded to the lender. The lender is required to respond to that specific complaint, and to provide us with any supporting documentation that we may need. The MFRC normally gives the lender 10 business days to respond. This response time by the lender may be changed depending on the severity or nature of the complaint.

When a response has been received, the Complaint Officer will assess the file, and make an objective decision as to whether there has been any contravention by the lender. For a simple complaint this process should not take more than 21 business days. However, complaints may take longer to resolve depending on the complexity of the complaint.

Complaints that can not be resolved by the Complaints Division, or that are of a serious nature are forwarded to our Investigations & Prosecutions Department. This may result in further delays to the resolution process.

Note: the more information that is supplied to the Complaints Division by the borrower will result in a quicker resolution process

---

**RE: DAY TWO: IMPLEMENTATION OF CONSUMER PROTECTION PRINCIPLES**

**Post By: Beth Rhyne**

Much better to have the complaint process inside the MFI.

---

**RE: DAY TWO: IMPLEMENTATION OF CONSUMER PROTECTION PRINCIPLES**

**Post By: Kate McKee**

Ideally, it's not an either/or situation (within the MFI vs. performed by government). We would expect well-managed and ethical MFIs to have an internal complaints process. In addition, the industry (and particularly the good players within it) would be well-served by having an outside body that can act on egregious and/or persistent abuse. This is good for the good players, in terms of building consumer and policy maker confidence, and helps distinguish microfinance from predatory lending. South Africa has a long experience of some players in the market that were less than scrupulous and use of practices that are hard to defend on any grounds. In countries where there have been pyramid schemes, well-publicized failures of financial institutions, etc. there might also be an argument for any policy/mechanism of this type that builds confidence (if it's designed well enough that compliance is not costly and typical microfinance practices are not deemed abusive). And I wonder about the case of societies where it is important to demonstrate ethical behavior, e.g. where interest rates are sensitive due to the prevalence of Islam . . . ?

On another note, thinking now about policy makers, I wonder if there are cases where the microfinance sector should try to be proactive in adopting voluntary codes of conduct (e.g., being clear about non-tolerance for certain abusive practices, having safeguards in place against reckless lending, having complaints procedures and confidentiality protections, etc.), plus agreeing to voluntary disclosure of rates/fees/terms of lending -- and using these proactive measures to fend off criticism (and policy making) on interest rates? Does this seem a feasible compromise? Would it work in many places, or would policy makers tend to accord the greatest weight to interest rates even if the industry were demonstrably pro-client in other ways?

Kate

---

**RE: DAY TWO: IMPLEMENTATION OF CONSUMER PROTECTION PRINCIPLES**

**Post By: David Baguma**

Teresa and all,

It is common knowledge that in marketing, customer care, a customer is king etc are used. The bottom line is profit. Focusing on customer needs is what makes a business a business. Sellers can use the best language to entice the customer but in some cases customers do not get value.

In Uganda, we recognize that voluntary subscription to codes may not be adhered to always. We are now lobbying government to delegate some authority to networks to implement some self regulation and can report MFIs that go against the established codes for quick action.

David T. Baguma

---

**RE: DAY TWO: IMPLEMENTATION OF CONSUMER PROTECTION PRINCIPLES**

**Post By: Kate McKee**

David -- Can you provide more details on how the sanctions would work? Would the government delegate oversight of compliance with the code to the association for all MFIs or only for licensed ones? What about those that are not members of the association? And what basis would the government have for intervening with those it doesn't supervise? Is there separate consumer protection legislation that enables the government to apply sanctions? What kinds of sanctions would be legal/likely?

Kate

**RE: DAY TWO: IMPLEMENTATION OF CONSUMER PROTECTION PRINCIPLES**

**Post By: David Baguma**

In Uganda there are 3 apex organisations - AMFIU, UCA, and UCSCU. The majority of MFI belong to at least one of the apexes. However membership to these apexes bodies is voluntary which causes a problem of enforcement. We believe that if membership becomes compulsory to any of the apex bodies and is the basis for an MFI to operate if it does not comply to the code of practice, government can deregister it based on the recommendation of the apex organisation. These are some of the proposals we have put to government to consider as they enact a law to regulate Tier 4 MFIs.

---

**RE: DAY TWO: IMPLEMENTATION OF CONSUMER PROTECTION PRINCIPLES**

**Post By: Beth Rhyne**

Dear All -

I have been following this discussion with interest, but given the volume of submissions, I can barely keep up!

I wanted to address the need to look inside MFIs at their corporate culture and staffing. There is a lot of work for MFIs to do in this area, and they need tools to do it.

Even when institutions endorse pro-consumer principles, have lending policies that are pro-consumer, and have strong commitment by boards and senior managers, what matters for the consumers is how the front line staff work. There is often an inherent contradiction between the push for staff productivity (especially in competitive environments) and pro-consumer principles. Loan officers try to meet their targets - more clients, larger portfolios, better repayments - have incentives to go over the edge - not telling customers about all the costs, over-lending, strong-arming clients for repayment. MFIs need to have active programs of corporate culture development, codes of ethics, etc. to ensure that what is endorsed at the top is practiced at the branch and beyond.

I suggest that this is an area for further attention for those interested in the consumer protection issue.

Cheers,  
Beth (Rhyne)

---

**RE: DAY TWO: IMPLEMENTATION OF CONSUMER PROTECTION PRINCIPLES**

**Post By: Katharine McKee**

I think this is absolutely crucial, and an area ripe for further (and candid) exploration by MFI leadership, international networks, and others. We are kidding ourselves if we don't recognize that even while we can reach agreement on the principles, the details can be quite tricky -- and we should also recognize that there are trade-offs on many issues and at many levels. I think this customer service orientation (plus quite specific requirements on disclosures, prohibitions on certain behavior by staff, standardized documentation, anti-corruption measures, etc.) is the cornerstone for the specific consumer protection aspects of the client interface. What are some good examples where individual MFIs or networks have been able to really operationalize a customer service culture on the front lines while maintaining incentives for efficiency, etc.?

Kate

---

## **RE: DAY TWO: IMPLEMENTATION OF CONSUMER PROTECTION PRINCIPLES**

**Post By: Patrick McAllister**

I would be interested to know if Social Performance Management (which we identified in day 1 as a potential way for MFIs to ensure compliance with consumer protection standards) is an example, or does that reside more at the upper management levels as described by Beth? Anyone with SPM experience?

---

## **DAY TWO: NEW THREAD: IMPLEMENTATION OF CONSUMER PROTECTION FOR MFIS AND MF NETWORKS**

**Post By: Dana de Kanter**

Day two of our virtual conference is focused on the "nuts and bolts" designed and used by MFIs and MF networks to operationalize consumer protection policies. As Kate mentioned, SEEP produced a technical note in 2003 that provides background of the consumer movement and the response of business to consumer issues. This technical note includes an overview template and discussion guide that the Consumer Protection Working Group developed and published. It is currently available in a downloadable form for free on the SEEP website ([www.seepnetwork.org](http://www.seepnetwork.org)). We have seen this technical note adapted by MF networks and MFIs as policies developed and adopted by institution's board of directors.

At another level of operationalizing consumer protection policies - the same working group, took the SEEP membership through a two year process of building awareness on the topic to leading the members into adopting an ethical statement of pro-client policies for the SEEP Network. In essence the membership agreed to a set of 6 principles that each member organization would apply and promote. These principles address the following topics: quality of service, dignified treatment, truthful and transparent information, appropriate pricing, protection from unethical and illegal practices and privacy of client information. We can certainly make this document available to anyone that is interested in reading it.

Dana de Kanter

---

---

**RE: DAY TWO: NEW THREAD: IMPLEMENTATION OF CONSUMER PROTECTION FOR MFIS AND MF NETWORKS**

**Post By: Anita Campion**

I would love to read that and thanks for the information Dana!

---

---

**RE: DAY TWO: NEW THREAD: IMPLEMENTATION OF CONSUMER PROTECTION FOR MFIS AND MF NETWORKS**

**Post By: Patrick McAllister**

Anita and others, the SEEP Principles are included in the latest Progress Note "Consumer Protection Principles in Practice" that is available for download on the Speaker's Corner website.

---

---

**DAY TWO: NEW THREAD: CONNECTION TO CONSUMER INTERNATIONAL**

**Post By: Beth Rhyne**

Dear All –

Recently I met a consumer advocate working in the UK on financial sector issues. He talked about broadening financial access as one of the issues his group was working on. But as his work was limited to the UK, he referred me to Consumers International.

It seemed like a potentially exciting idea to engage consumer advocates on the side of microfinance in fighting for greater access to financial services. It seemed to me important to ensure that the consumer advocates would be enrolled on "our" side rather than looking at microfinance as sub-par lending and starting from the opposite pole. I sent one email to Consumers International attempting to explain briefly, but the reply was in the standard attack dog mode. I didn't follow up.

Does anyone think there would be a net gain from engaging with mainstream consumer advocacy groups? Has anyone done so? Would it backfire by unleashing hostility to microfinance? Does anyone know good consumer advocacy organizations?

I'd be interested to hear your thoughts.

Beth Rhyne

---

---

**RE: DAY TWO: NEW THREAD: CONNECTION TO CONSUMER INTERNATIONAL**

**Post By: Kate McKee**

In the US, the Board of Governors of the Federal Reserve (our central bank) has a Consumer Advisory Council. It includes representatives from bank, non-bank, credit union, community development and consumer interests. It is often addressing this balance between consumer protection and access/market development, and advising the Fed on how to find the middle ground. It might be interesting to touch base with the CAC and with the part of the Fed that deals with both consumer protection and community development issues (such as implementation of the Community Reinvestment Act, the Home Mortgage Disclosure Act, the Truth in Lending and Savings Acts, various anti-discrimination laws and regulations). Do any developing or transition countries have multi-stakeholder bodies that try to bring together and reconcile the (sometimes) competing goals of protection and broadening access?

Kate

---

---

**RE: DAY TWO: NEW THREAD: CONNECTION TO CONSUMER INTERNATIONAL**

**Post By: Beth Rhyne**

I think that's an excellent suggestion.

---

---

**RE: DAY TWO: NEW THREAD: CONNECTION TO CONSUMER INTERNATIONAL**

**Post By: Patrick McAllister**

SEEP's Consumer Protection Working Group held a conference last spring in South Africa bringing together Microfinance Associations, regulators and consumer advocates from East and Southern Africa. We attempted to engage Consumers International and indeed had one of the local affiliates represent the regional office. However, CI in general does not focus on financial services (although their Asia region is beginning to do more). The interest level was as you describe, limited. However, the local consumer advocacy organizations in many countries already deal with complaints about financial services and have in some cases been able to successfully negotiate solutions to consumer complaints. They want to know more, so I think there is a lot of scope for engaging at the local level and I think MFAs should explore those relationships that can be win-win. One note of caution, though, some consumer advocacy organizations are government agencies, with all their attendant difficulties.

**DAY TWO: NEW THREAD : WHAT ARE APPROPRIATE COLLECTION POLICIES?**

**Post By: Beth Rhyne**

There is always a lot of discussion on pricing transparency when the consumer protection topic comes up. Overindebtedness is also discussed. But I have never seen anything actually detailing appropriate collection policies. Does anyone have a description that they use? Are there international principles with local culture variations? How do legal issues come in here?

---

**RE: DAY TWO: NEW THREAD: WHAT ARE APPROPRIATE COLLECTION POLICIES?**

**Post By: Kate McKee**

This is another crucial area for exploration, and I believe is addressed (or will be) in the South African credit law. I also think it was a factor in the Andhra Pradesh dust-up -- i.e., that overzealous/inappropriate collections efforts were being used to ensure high repayment. The extent to which public shaming is acceptable (and its potential consequences ranging all the way to borrower suicide) would seem to vary from one culture to another, for example. Having complaint and dispute resolution procedures is a related aspect of appropriate collections policies in a broader sense, I think. It would be good to hear other experience on this. In Uganda, for example, does the Code specify what behavior is permissible vs. what is pro-client vs. what is beyond the pale?

Kate

---

**RE: DAY TWO: NEW THREAD: WHAT ARE APPROPRIATE COLLECTION POLICIES?**

**Post By: Anita Campion**

One thing I have also seen, but have never overtly discussed is agism - in which clients are deselected due to their age. Has anyone ever seen this issue discussed overtly? Can having life insurance applied to all loan balances help to overcome this concern MFIs can have?

---

**RE: DAY TWO: NEW THREAD: WHAT ARE APPROPRIATE COLLECTION POLICIES?**

**Post By: David Cracknell**

In South Africa aside from the provisions of the new credit act which were in part discussed previously some predatory practices have been legislated on for example, lenders are prohibited from retaining bank cards, PIN codes and ID books as security for payment.

David

**RE: DAY TWO: NEW THREAD: WHAT ARE APPROPRIATE COLLECTION POLICIES?**

**Post By: Patrick McAllister**

David, wasn't this prohibition in place before, but never complied with?

---

## DAY THREE: ETHICAL AND LEGAL ISSUES

Post By: Kate Mckee

Hi, I'm Kate McKee. Many of you know me from my USAID days but I've been at CGAP since last month, working on a variety of special projects focused on poverty outreach and poverty. What you may not know about me is that I spent twelve years as an "alternative lender" in the US, trying to meet the financial services needs of unbanked and underbanked consumers in the US. I also had the opportunity to serve on the committee that advises the US Central Bank on consumer protection and community development matters. So this issue of consumer protection is one that is near and dear to my heart – and I also am well-aware that aspects of it can be scary for MFIs and other lenders!

What I'm hoping we can do on this final day of the discussion is first, to resolve all the issues we still disagree on (!!) or at least clarify the moral from the business from the practical arguments, and second, to see where there are some clear "next steps" for practitioners, networks, national associations, donors/investors, and policy makers. Let's hear your views on how the microfinance industry can ensure that it is occupying the moral high ground as issues of excessive interest rates, predatory lending practices, etc. are raised more and more in policy debates around the world? How can MFIs distinguish themselves as ethical actors, especially in competitive markets? It would be great if you could share with this worldwide virtual community **which aspect of the consumer protection agenda you think will be the hardest for your institution to tackle – and what you see as the key incentives (both carrots and sticks) to do so.**

---

## RE: DAY THREE: ETHICAL AND LEGAL ISSUES

Post By: Amy Davis Kruize

Dear Colleagues,

FYI--there are some very interesting developments in Andhra Pradesh which have surfaced on the Microfinance Practice listserv (Yahoo) that you may want to consider during this discussion. The contribution are quite lengthy, but here is an excerpt:

### ICICI Settles with Indian State Government

ICICI bank has reached an agreement with the provincial government of Andhra Pradesh, India to cap interest rates at 15% and charge a diminishing interest rate on the loans disbursed through microfinance institutions (MFIs) in the Krishna district of the state. The revised interest rates will be charged retrospectively from April 2006. The state government, in turn, has lifted the ban on MFIs loan collections at the agreed upon interest rates. The government specifically charged the following MFIs – Spandana, Asmita, Umduma Poddu Pedatha and Share

Microfin of extortionate practices and subsequently, the Krishna district administration enforced temporary closure of 50 branches of these MFIs, seizure and destruction of loan records and encouraged non-payment of loans. The Krishna district case is significant given the players involved. ICICI bank is the second largest bank in India based on asset size. In 2005, it reported a net income of about \$500 million, operated over 600 branches and has retail assets of \$21.4 billion. Through about 100 rural partnerships, its portfolio of microfinance investments stood at \$227 million and 1.2 million clients at the end of year 2005. The bank had

recently announced plans to add 200-250 new MFIs to its partner base. Two of the MFIs involved, Share Microfin and Spandana, are the largest MFIs in India.

MicroCapital newsletter, October 2006

<http://www.microcapital.org/downloads/newsletters/MicroCapitalMonitor.October06.Issue4.pdf>

Thanks for an interesting discussion to date!

Amy

---

## RE: DAY THREE: ETHICAL AND LEGAL ISSUES

**Post By: Patrick McAllister**

I agree, Amy, interest rates seems to be making a comeback. Uganda has also pledged to cap rates for some categories of lenders. This is no surprise as capping rates is a relatively easy way for governments to claim they are protecting customers. It is, however, a very blunt instrument with many unintended side effects. These caps illustrate why the industry needs to be proactive, not just individual MFIs.

---

## RE: DAY THREE: ETHICAL AND LEGAL ISSUES

**Post By: Getaneh Gobezie**

Dear Colleagues,

The Ethiopian microfinance outreach is growing very rapidly, reaching about one and half million microcredit clients, and many other 'voluntary' savers in just one decade period. Working under very poor rural infrastructure, where there is little BDS support, marketing network, working culture, etc, etc, this is a good achievement, though there are still millions poor unreached people, particularly poor women.

Government is very much supportive of this dynamic and promising sector as a key anti-poverty strategy, and has established MF regulations to that end. In Ethiopia, unlike in many other cases, MFIs can mobilize public saving, with supervision by the central bank. The interest rate ceiling on credit that has been in place for some time has already been removed. And MFIs can charge an interest that can cover costs of working in remote rural areas.

There are, however, still controversies and misunderstanding on interest rate on credit – and this, not from microfinance clients, but from other development agencies, including line sectors, NGOs, some donor agencies, etc. Many are used to delivering only 'relief' in the form of safety net, and don't believe that the poor

can ever be engaged in 'self-employment' and be able to 'pay' any credit. For some, delivering safety net is their only profession, and are afraid of losing their 'clients', and don't like to growth of the credit culture. Etc, etc.

Indeed, there seems to be a big task for MFIs, donors, government, associations, etc, establishing transparency on the operation of the MF industry, and creating the knowledge on the micro-sector in general.

Ideas in this regard are very welcome.

Regards,

Getaneh Gobezie  
Tell: 251-911-092033  
Bahir-Dar  
ETHIOPIA

---

## **RE: DAY THREE: ETHICAL AND LEGAL ISSUES**

**Post By: Nancy Natilson**

Dear all, I'm entering this discussion a bit late as a participant, but have read with great interest your input. I'm so pleased to learn of the extent that this topic has been of concern among important constituents in the MFI community. My most direct and recent encounter with MFI customer rights was in a board training for several MFIs in Ghana in July. It became clear in our discussion on SEEP's Trust through Transparency paper that, as many have already mentioned, good intentions and buy-in are present at the board level and at the country network level, but the challenge is to operationalize and enforce consumer protection policies. With that in mind, I have several random thoughts/questions to contribute and look forward to hearing your reactions/responses:

1. Can we learn/have we learned anything from the US experience with the Truth in Lending Act?
2. And as Beth Rhyne suggested, are there any international consumer advocate groups with whom we can work? I think that is a brilliant strategy.
3. Can external auditors play a role in disclosing irregularities once consumer protection standards are set?
4. Do we need to approach this issue differently with regulated and unregulated MFIs?
5. Are there any lessons to learn from cooperatives, whose members and directors are also borrowers, and where perhaps institutional sustainability and client sustainability are more closely aligned?

6. Finally, perhaps we (MFIs and donors, specifically) need to listen more closely to activist groups who represent borrowers. Although not as well organized as the MFI industry, we need to seek them out, be more proactive, and when presented with an opportunity to act, view it not as a threat, but as a real opportunity to better meet our clients' needs.

I hope those of you who are going to the upcoming Microcredit Summit in Halifax (I'm unfortunately unable to attend.) will continue this discussion there in a BIG way. It is too important not to become more visible. Thanks to all for your work on this issue of client rights!

All the best, Nancy

Nancy Natilson, Independent Consultant

---

## **RE: DAY THREE: ETHICAL AND LEGAL ISSUES**

**Post By: Getaneh Gobezie**

Interesting discussions are going on this listserv.

In term of sanctions, what we are thinking of as an international NGOs intervening in Microfinance through partnership is to make sure that our partners MFIs/Network have a kind of customer protection policy or code in place before entering into a partnership with them. If not, we will give them some time to come up with one, explaining to them the importance, and even supporting them to develop one and to implement it.

Our staff will also be trained on the subject and will closely monitor the implementation of the code/policy. If we feel at any point that the practices of the MFIs/Network are different from the ones stated in the code/policy, after some warning, we will simply withdraw our support to the MFIs/Network.

We are also preparing ourselves to take on some advocacy role in order to mainstream good practices in term of customer protection at all levels.

The idea of partnering with activist groups who represent borrower's interest is an excellent one. We just need to make sure those groups understand pretty well microfinance practices.

Laté LAWSON, CARE USA

---

## **DAY THREE: NEW THREAD: APR-TYPE DISCLOSURES**

I want to come back to Patrick's concern voiced yesterday about APR-type disclosure -- i.e., that microfinance will look so bad next to other products because the rates are so much higher for smaller, shorter-term loans. I think the way to approach this is to use a standard methodology for measuring the rate (rather than having

one technique for MF and another for other products, which doesn't seem very transparent), but to have the disclosure done by product types. That would help to make sure that consumers could compare apples to apples. What do folks think of this approach?

Kate

---

---

**RE: DAY THREE: NEW THREAD: APR-TYPE DISCLOSURES**

**Post By: Paul Rippey**

Let the chips fall where they may. If micro-credit is terribly expensive compared to bank credit, what is the problem of saying so? People regularly sign contracts in South Africa saying that the APR is 300 and some percent. But, at least in part because of this, the rates are indeed coming down.

Also, though, rates don't need to be so high. Al Amana in Morocco has at least thought of (I don't know if this is officially part of their strategy) actually getting their rates down to the same level as the banks. They are certainly moving in that direction.

I think one of the articles of microfinance faith that we should re-examine is the automatic assumption that small loans have to be a lot more expensive than large ones. While, of course, there are factors that push the cost of micro-loans UP compared to larger loans, there are also actors that push them DOWN. I can think of lower HR costs, more reliance on free social capital, various ways of grouping customers for greater efficiency, less onerous and expensive regulatory and reporting requirements - I'm certain there are others. Maximize the advantages, minimize the disadvantages, and we might all be surprised.

In whose interest is it to keep saying that small loans have to be more expensive? Can we change that conversation?

Paul

---

---

**RE: DAY THREE: NEW THREAD: APR-TYPE DISCLOSURES**

**Post By: Kate McKee**

Amen!!!

Kate

---

---

**RE: DAY THREE: NEW THREAD: APR-TYPE DISCLOSURES**

**Post By: Beth Porter**

Bringing costs down and then translating those lower costs into lower interest rates is already happening in competitive markets. But it is not necessarily happening where there is less competition (vis Compartamos in Mexico). There are other less desirable forces at work in terms of downward pressure on interest rates that we have noted elsewhere: actual interest rate caps for example in UMOA countries in francophone West Africa and threatened caps in Uganda as cited below by Patrick and under discussion in Bolivia as well. In Bolivia, a number of MFIs are proactively and preemptively reducing their interest rates, so as to discourage government from feeling the need to intervene--and if they do indeed intervene, to be ahead of such caps.

Paul's enjoiner to look at the factors that should be contributing to lower costs at MFIs rather than focusing on the factors that contribute to higher costs is an appropriate one. Whether the costs can be lowered sufficiently to offer services at the same rates as commercial banks (remembering that they still are not offering services to the very poor, or to those in more rural areas) is doubtful. In the meantime, there will be strong reaction to the APRs charged on microfinance products. How many times have each of us explained why small loans to the poor have such high interest rates? This does not mean that we should not be moving towards full disclosure, but that we should not be so naive as to assume that this can be done without education--for consumers, governments, and the general public. Part of this may include Kate's suggested approach to make disclosure by product types, as she suggests using standard methodology for measuring rates (since we are, after all, trying to move towards greater transparency not less).

Beth Porter, VP Program Services, Freedom from Hunger

---

**RE: DAY THREE: NEW THREAD: APR-TYPE DISCLOSURES**

**Post By: Patrick McAllister**

The chips may fall in ways that do not ultimately benefit those we are trying to serve. Interest rate caps, closing branches, minimum capital requirements out of proportion to risk...all things some governments may do to institutions whose APR is 300% - and won't the moneylenders be smiling? Or are we too sophisticated to believe that moneylenders can be nefarious?

---

**DAY THREE: NEW THREAD: POSTING FROM SYED HASHEMI**

**Post By: Kate McKee on behalf of Syed Hashemi**

Hashemi has been following the discussion with interest and asked that I post this comment on his behalf. It speaks to the AP situation but also the core issues under discussions in the conference.

Kate

From: Syed M Hashemi  
CGAP

I'm sorry for coming in late to the discussion but I have been following up with interest; especially the discussions around Andhra.

CGAP has been monitoring the Andhra events carefully and a couple of months ago Jeanette Thomas (CGAP communications manager) and I spent a week there. Some of my observations from the trip, from spending an extended period of time with the government program and from talking to many of the stakeholders in India:

1. Our immediate reaction to the events was an "us" versus "them" perspective -- good MFIs versus bad governments. Many a donor, global network, and investor wrote to CGAP to stop "bad government" from hurting mf in Andhra. We seldom think in terms of grey areas. This prevents any attempts at reaching across the table and have a productive conversation based on the premise of what is good for clients (or the poor). So in the case of Andhra what transpired was a series of parallel monologues, never a dialogue. In fact the mf sector in India

(including the large networks) identified themselves more as a trade union out to defend one of their own rather than a leader; a champion of the poor who could rein in any MFI transgressions. This would have made their stand against forced government closure of branches far more credible.

2. As an industry we have pushed very strongly for financial transparency but not on transparency to clients or transparency of governance structures. (I know many of you have voiced this. ) At the end of the day we have to be asking whether client conditions are improving. The focus on institutions leads us to value disbursements and repayments and not whether client conditions are improving. In Andhra the government (and many others) claimed that MFIs were pushing disbursement and then over zealously seeking repayments leading to over indebtedness. In a context where many debt ridden people commit suicide, this is a serious charge. I am not suggesting any MFI client committed succeed (it's a dubious claim) but I do see how focusing on disbursements and recoveries can easily lead to a mission drift away from clients.

3. I have spoken strongly against the government closure of bank branches in Andhra (in Krishna district). The government however claims that they were merely doing their duty according to the laws of the land. Many women had complained to them about MFIs seizing assets. There were many demonstrations of women against MFIs (which were incidentally touted as examples of women's empowerment). While I realize much of this was orchestrated, most people I talked to vouch for the integrity of the District Collectorate (the person who ordered the closures). Many civil society organizations were against the MFI position. I think we need to think carefully about the interface with the government and how we communicate with civil society. "Stop government" is not a solution.

4. The Andhra issue also made me think of our message of zero tolerance to delinquency. Sure I swear by it, but what does it mean in practice? Were the MFI staff right to be coercive in recovering loans? How far does

one go? Do you seize assets? Do you stand in front of their house and shame them till they pay back? I don't have answers but we need to get a handle on this. There's got to be a balance between sound financial practices and looking after the welfare of clients.

I'm writing this really to get to the core issue; we need to integrate a social performance bottom line to the one we have on financial performance. We need strong sustainable financial institutions. But for many of us this is fundamentally so that we may provide poor people with better choices and better services that they can then use to take greater control over their lives and improve their conditions. It is time we focused on this more strongly.

Syed M Hashemi  
CGAP  
c/o The World Bank  
1818 H Street NW Room P3-143  
Washington DC 20433  
Tel: (202)473-4899 Fax: (202)522-3744

---

**RE: DAY THREE: NEW THREAD: POSTING FROM SYED HASHEMI**  
**Post By: Patrick McAllister**

Thanks for your perspective, Hashemi. I agree that the industry needs to develop that dialogue with government and prove its credibility with the authorities. I also totally support your call for a double bottom line. One aspect to the Andrah situation that I have heard discussed a lot is that the AP authorities have traditionally been hostile to MFIs who they perceive as stealing good clients from their own SHGs. When the government starts shutting down MFIs, therefore, it looks self-serving. The point is that we have to be realistic and acknowledge that the authorities have their own interests they are trying to defend which may run counter to the industry's interests. I don't want to set up an 'us vs. them' scenario, but recognize that in general industry and government do have competing priorities. Effective industry associations organize themselves to have the dialogue but still stand against government intervention in the industry.

---

**DAY THREE: NEW THREAD: PRO-CONSUMER PRINCIPLES AND CORPORATE CULTURES**

**Post By: Masami Hayashi**

I agree that it is so crucial to establish adequate corporate culture at the management level, and develop internal communication strategies to transmit efficiently this culture to all the staff including (and probably most importantly to) loan officers. I think Compartamos from Mexico is a successful example in this area: at each possible occasion and space the management communicate with staff regarding values, mission, goals, etc. Each employee needs to pass exam on code of conduct as well.

The ideal ways to ensure consumer protection are by laws (both regulations on MFIs and a legal system where consumers can submit complaints) and consumer groups. However, in absence of those, alternatively MFIs can develop a list of questions that their clients should ask the loan officers before engaging themselves.

I've just found this one, and I thought it can be used at MFIs as well if the management wants to ensure that the front-line staff is working ethically:

<http://www.sec.gov/investor/pubs/askquestions.htm>

It is easier for the supervisors to check if the clients received this list of questions, than to supervise if the loan officers are treating the customers in a proper way.

Masami Hayashi  
MFN Director

---

## DAY THREE CONCLUSION

**Post By: Kate McKee**

Dear E-Conference Participants,

This third and final day of the virtual conference had rich and far-ranging discussions. We weighed the ethical, business and practical arguments for (and challenges of) integrating consumer protection or the broader concept of a pro-client agenda more completely into microfinance strategies and operations. Among the key areas of discussion were the following:

1) The process of developing codes of conduct. Building off practical examples from the field, participants discussed key issues including:

- What are the pros and cons of this being done at the MFI vs. national vs. international (e.g., SEEP, MFN, MF networks like CARE or FINCA) levels?
- To what extent do they need to be tailored to local cultural, economic, market client characteristics?
- Should they cover interest rates? We had some discussion of the use of a standard APR – I think it's fair to say that we did not have complete consensus on this!
- Scope – all products? Ageism and other forms of discrimination? Include issues such as abusive practices, reckless lending, complaints procedures and other forms of redress.

2) Incentives and other factors that might contribute to increasing uptake and interest on consumer protection/pro-client agenda among microfinance stakeholders:

- The case where national associations facilitate industry-wide agreement on a code of conduct (e.g., AMFIU-guided process in Uganda) – the actual use of the code could be encouraged through accreditation/certification (the sticker on the window of the branch), disclosure of those who have committed to complying, and/or the threat of government action (including the idea that the association would report chronic non-compliers to the relevant governing body).
- International networks expect MFI partners to adopt and comply with a code of conduct that meets minimum standards, and provide assistance in developing/implementing such if necessary (CARE, ACCION examples) – possibility of disaffiliation in case of serious non-compliance. CARE rep spoke about seeking to mainstream consumer protection at all levels of its network and partners.
- International MFI network develops broad principles and encourages members to adopt more specific and operational code of conduct (Microfinance Network example).
- Donors and investors begin to expect recipients of their financial and technical support to have and use a code of conduct.
- Government prohibits certain practices and plays the watchdog role (there was a lot of ambivalence about this but it has some advantages that should be further discussed, such as helping to distinguish the “good” players in the market from the bad actors).
- Local (or international?) consumer groups and other activists interact with MFIs and their associations to urge fair treatment of clients and explore the right type of client rights and protections in that context.

- In general, there was more comfort with “light-touch” and voluntary approaches and the desire to minimize the extent to which government has to be involved in formulating standards prohibited practices, enforcement of non-compliance, etc.

3) Ideas on developing the right “corporate culture,” especially getting front-line staff to apply the code in their interactions with clients:

- Clear policy guidance from management/board – communicating early and often that this is important, e.g., Compartamos (frequent communication from leadership levels, training, staff exams, etc.)
- Tools, e.g., requiring loan officers to give clients the “questions I should ask my loan officer” sheet and supervisors monitoring that staff are doing this
- Build review of consumer protection and pro-client policies, procedures, and treatment into internal auditing briefs/procedures
- How to create incentives for staff to treat clients well that can compete favorably with their other incentives (loan production, repayment, productivity, etc.)?

4) Where should complaints go and compliance be monitored/enforced – MFI-level vs. national association vs. government vs. independent

5) How does this work relate to social performance management? This (i.e., the extent to which an MFI exhibits ethical behavior by adopting and enforcing a code of conduct and/or appropriately pro-client policies and practices) could be an element of SPM. But we should not wait on the uptake of comprehensive SPM to move forward on advancing the consumer protection agenda within the microfinance sector. If consumer protection or pro-client policies/practices became an accepted core element of SPM for microfinance, this would help encourage uptake (and vice versa?)

6) An undercurrent of the discussion over the past three days is that many if not all of these measures will be meaningless if not accompanied by appropriate client education. Earlier there was some discussion of different roles in consumer education – individual financial institutions vs. networks and associations vs. government or independent bodies.

One question that we did not wrap up on is: Who should play the role of collecting and disseminating emerging practice in this field, offering a resource center to stakeholders that want to take action, etc.?

-Kate McKee

---

## LIST OF CONTRIBUTORS WITH AFFILIATIONS

### MODERATORS:

Beth Porter (DAY 1)  
Vice President of Program Services  
Freedom From Hunger  
[bporter@freefromhunger.org](mailto:bporter@freefromhunger.org)

David Baguma (DAY 2)  
Executive Director  
Association of Micro Finance Institutions of Uganda (AMFIU)  
[dbaguma@amfiu.org.ug](mailto:dbaguma@amfiu.org.ug)

Katharine (Kate) McKee (DAY 3)  
Senior Advisor on Policy, Poverty  
Outreach and Aid Effectiveness  
Consultative Group to Assist the Poor (CGAP)  
[kmckee@worldbank.org](mailto:kmckee@worldbank.org)

---

### OTHER CONTRIBUTORS:

Anita Campion  
Chemonics International  
[acampion@chemonics.com](mailto:acampion@chemonics.com)

David Cracknell  
MicroSave  
[david@microsave.org](mailto:david@microsave.org)

Getaneh Gobeze  
Amhara Credit and Savings Institution (ACSI)  
[getanehg2002@yahoo.com](mailto:getanehg2002@yahoo.com)

Syed Hashemi  
CGAP  
[shashemi@worldbank.org](mailto:shashemi@worldbank.org)

Kelly Hattel  
Independent Microfinance Advisor  
[khattel@mfnetwork.org](mailto:khattel@mfnetwork.org)

Masami Hayashi  
MicroFinance Network  
[mhayashi@mfnetwork.org](mailto:mhayashi@mfnetwork.org)

Dana de Kanter  
The SEEP Network  
[dekanter@seepnetwork.org](mailto:dekanter@seepnetwork.org)

Amy Davis Kruise  
Independent Consultant  
[adaviskruise@cox.net](mailto:adaviskruise@cox.net)

Laté Lawson  
CARE  
[llawson@care.org](mailto:llawson@care.org)

Teresa Maru-Munlo  
Chemonics International / Deepening Malawi's  
Microfinance Sector (DMS Project Malawi)  
[TMaru@DMSproject.net](mailto:TMaru@DMSproject.net)

Patrick McAllister  
The SEEP Network  
[pm.mcallister@gmail.com](mailto:pm.mcallister@gmail.com)

Nancy Natilson  
Independent Consultant  
[nnatilson@cs.com](mailto:nnatilson@cs.com)

Chandni Ohri  
Grameen Foundation  
[COhri@grameenfoundation.org](mailto:COhri@grameenfoundation.org)

Rossana Ramírez  
Freedom From Hunger  
[rramirez@freefromhunger.org](mailto:rramirez@freefromhunger.org)

Paul Rippey  
Financial Sector Deepening Uganda  
[paul@fsdu.or.ug](mailto:paul@fsdu.or.ug)

Beth Rhyne  
ACCION  
[erhyne@accion.org](mailto:erhyne@accion.org)