THE SMART CAMPAIGN is a global effort to unite microfinance leaders around a common goal: to keep clients as the driving force of the industry. The Smart Campaign consists of microfinance leaders from around the world who believe that protecting clients is not only the right thing to do but the smart thing to do. By providing microfinance institutions with the tools and resources they need to deliver transparent, respectful, and prudent financial services to all clients, the Smart Campaign is helping the industry maintain a dual focus on improving clients’ lives while attaining financial sustainability. The Campaign is headquartered at the Center for Financial Inclusion at Accion.

www.smartcampaign.org

Financial Inclusion 2020 auspiciado por:

Study of Client Protection Practices in Latin America and the Caribbean
Study of Client Protection Practices in Latin America and the Caribbean

Sergio Guzmán

September 2013

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Executive Summary

This report presents the performance of a sample of financial institutions (FIs) in Latin America and the Caribbean (LAC) against the Smart Campaign’s Client Protection Principles. The findings and analysis in this report, which is organized by principle, are meant to help stakeholders reflect on the current state of practice in LAC and on how gaps in performance can be addressed.

The project examined different types of organizations including non-governmental organizations (NGOs), banks, and credit unions in a range of countries. At a high level, this report finds that institutions perform well in the principles Preventing Over-Indebtedness, Responsible Pricing, and Ethical Staff Behavior and have gaps in the principles Transparency, Appropriate Collections, and Mechanisms for Complaint Resolution (See Figure 1).

Figure 1. Average Assessment Scores in LAC by Client Protection Principle

A common gap across the principles is the lack of formalization of practices. We found that FIs do not always have written policies to address client protection issues in operational areas such as collections. In addition, in some cases where policies do exist, there are no practices to enforce the policies, such as staff training, monitoring, and sanctions. For example, in FIs with a code of ethics, managers were not designated to monitor if and how staff are following the code of ethics. Organizations that supplement existing practices with written policies tend to perform significantly better on most principles.

The Smart Campaign believes that achieving adequate levels of practice across all seven principles is possible for most organizations, but it will take time and effort. The authors hope that FIs will use this report to identify and address gaps or weaknesses in practice, as well as build off of existing strengths and examples from other FIs in the region.
Prologue

The Smart Campaign was launched in 2009 to assist the microfinance industry in implementing the seven Client Protection Principles (CPPs). As of September 2013, The Campaign has over 3,815 endorsers from 130 countries, including 1,325 microfinance institutions. The Campaign was formed to bring people together across the microfinance industry to implement a common code of conduct that governs how clients should be treated and to embed client protection into the operations of financial service providers.

The Smart Campaign has an active presence in LAC, an engagement that began at the inception of the Campaign. In LAC, the Smart Campaign has been endorsed by 333 FIs, 34 networks, 34 supporting organizations, and 10 investors. To date, 29 FIs have had an in-depth assessment of their client protection practices using the Smart Campaign Assessment tool (Smart Assessments). Historically, the Campaign has partnered with a number of national and regional level associations in the region to conduct assessments, trainings, and assist FIs in the implementation of the Client Protection Principles (CPPs).

In 2011, the Smart Campaign presented its first global State of Practice Report, based on self reported and externally assessed data of over 300 FIs. This report presents a deep dive into the client protection practices in the region and examines trends in institutional performance, as well as actions that have taken place to improve client protection practices. The report is an output of a project funded by the Multilateral Investment Fund, a member of the IDB group, to gauge and improve the level of client protection practices in LAC. Data for this report was gathered from Campaign partnerships with a number of local associations and the resultant 12 Smart Assessments they conducted, namely the Caribbean Microfinance Alliance (CMFA) from the Carribean, Consorcio de Organizaciones Privadas de Promoción al Desarrollo de la Pequeña y Microempresa (COPEME) from Peru, Cooperativa Emprender from Colombia, Asociación de instituciones financieras de desarrollo FINRURAL from Bolivia, Red Centroamericana de Microfinanzas (REDCAMIF) from Central América, Red Financiera Rural (RFR) from Ecuador, and Red Paraguaya de Microfinanzas from Paraguay. In addition to the Smart Assessments, the report also weaves in data from the piloting of the Client Protection Certifications at 10 institutions. The certification missions were carried out by three out of the four organizations licensed as certifiers by the Smart Campaign: MicroRate from the United States, MicroFinanza Ratings from Italy, and Planet Rating from France, all of which have a local presence in LAC.

As this report demonstrates, there is broad engagement with the CPPs in the region and FIs are making progress in CPP implementation. However, there is still significant room for improvement in certain areas, namely transparency, collections practices, and mechanisms for complaint resolution. In addition to the concrete steps that can be taken by FIs to improve their client protection practices, local microfinance associations, donors, investors, regulators, and clients of FIs themselves have a role to play to improve the state of client protection. Implementing the necessary changes may take time, but with the collaborative actions of all of these actors, an improved state of client protection is feasible in the short term in the region.

The Smart Campaign and the Multilateral Investment Fund, a member of the IDB Group, believe that client protection is a critical issue in the development of the inclusive finance sector in the region, and are committed to working with their partners to improve practices.

Isabelle Barrès Director, Smart Campaign

Tomás Miller Head of Access to Finance Unit, FOMIN

1. See the “Campaign by Numbers” for a more detailed breakdown and country-level endorsements here.
2. The data from the Global State of Practice report was obtained from microfinance-focused investors, rating agencies, self-reported data from FIs and results of some Smart Assessments. You can find a copy of the report online here.
Acknowledgements

This report would not have been possible without the organizations that have shared their data and their experiences with assessing client protection practices and implementing needed change: ASDIR (Guatemala), Banco Delta (Panama), Contactar (Colombia), FONDESURCO (Peru), FODEMI (Ecuador), FUBODE (Bolivia), Fundacion Dominicana de Desarrollo (Dominican Republic), INSOTEC (Ecuador), La Inmaculada Credit Union (Belize), Microempresas de Colombia (Colombia), National Development Foundation of Dominica (Dominica), and Vision Banco (Paraguay).³

In addition to participating in Smart Assessments, five institutions shared and documented improvements to their practices that followed the assessments, referred to in this report as “Upgrading Projects.” Special thanks goes out to their key staff who worked on the project: César López from ASDIR, Marina Claire Nash from Banco Delta, Laura Molander from Contactar, Wilman Páez from FODEMI, and Rosa Cárdenas from FUBODE.

A special thanks also goes out to the local associations who partnered with the Smart Campaign for this project: CMFA, COPEME, Emprender, FINRURAL, REDCAMIF, Red Financiera Rural, and Red Paraguaya. These organizations have been working to advocate client protection amongst their member organizations and constituencies in their countries even before this project began.

MicroRate, MicroFinanza Ratings, and Planet Rating played a crucial role not only in conducting the certification missions but also contributed to develop the certification methodology from the start. Our gratitude goes out to them.

The individuals who conducted the assessments played a critical role in the project and we would like to thank them for their hard work and dedication: Aracely Castillo, Alexandra Annes da Silva, Ever Egúsquiza, Jessica Herrera, José Llamas, July Ardila, Laura Lesme, Michell Scott, Nahuel Pérez, Paulina Guevara, Tomás Rodríguez, and Sherryl White-McDowell.

This report was prepared by the Smart Campaign staff at the Center for Financial Inclusion at Accion. Sergio Guzmán was the lead analyst and author, with assistance from Laura Galindo, whose support was crucial to take the project to completion. Substantial input was also received from Isabelle Barrès, Sergio Navajas, Paola Pedroza, Alexandra Rizzi, Elisabeth Rhyne, and Eric Zuehlke.

The Smart Campaign would like to recognize the contributions of its sponsors – Accion and the Multilateral Investment Fund, a member of the IDB Group, who have made it possible for the Smart Campaign to carry out the activities contained within this report.

³ For confidentiality reasons, organizations that underwent certification pilot missions cannot be listed by name in this report but our gratitude goes out to them for being part of this important pilot.
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Part I. Introduction

The microfinance industry in LAC has thrived and grown, providing products beyond credit, utilizing new delivery channels, and entering new markets.\(^4\) According to the MIF, LAC has a total of 600 FIs, a combined portfolio of USD $12 billion that serves 10 million low income clients.\(^5\) Given the size of the microfinance industry in the LAC region, in terms of both number of clients and portfolio, the consequences of not addressing client protection issues proactively are significant.

This growth has brought new complexities and the realization from FIs and regulators that client protection is an issue that merits attention. This has become even more evident as failures in client protection have contributed to global financial crises broadly and to microfinance crises in particular (i.e., Nicaragua in 2009, India in 2010, and Bosnia and Herzegovina in 2011). Today, most FIs serving low income persons now realize that they must not only provide financial services, but do so with quality. These services should be offered in a manner that is convenient and respects the dignity of clients.

Table 1. Campaign's Global Reach and Regional Representation

<table>
<thead>
<tr>
<th></th>
<th>Africa</th>
<th>East Asia – the Pacific</th>
<th>Eastern Europe – Central Asia</th>
<th>Latin America – the Caribbean</th>
<th>Middle East - North Africa</th>
<th>South Asia</th>
<th>U.S. and Canada</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>MFIs</td>
<td>452</td>
<td>102</td>
<td>147</td>
<td>371</td>
<td>49</td>
<td>209</td>
<td>37</td>
<td>1367</td>
</tr>
<tr>
<td>Networks</td>
<td>56</td>
<td>187</td>
<td>34</td>
<td>42</td>
<td>4</td>
<td>22</td>
<td>19</td>
<td>364</td>
</tr>
<tr>
<td>Supporting Organizations</td>
<td>67</td>
<td>13</td>
<td>48</td>
<td>42</td>
<td>7</td>
<td>48</td>
<td>56</td>
<td>281</td>
</tr>
<tr>
<td>Investors</td>
<td>12</td>
<td>4</td>
<td>86</td>
<td>10</td>
<td>2</td>
<td>13</td>
<td>41</td>
<td>168</td>
</tr>
<tr>
<td>Clients Reached</td>
<td>~4,969,221</td>
<td>~3,708,476</td>
<td>~1,380,354</td>
<td>~32,963,575</td>
<td>~1,745,216</td>
<td>~20,337,139</td>
<td>~65,103,981</td>
<td></td>
</tr>
</tbody>
</table>

The Smart Campaign

The Smart Campaign is a global campaign committed to embedding client protection practices into the institutional culture and operations of the financial services industry. It seeks to unite leaders around a common goal: to keep clients as the driving force of the industry.

The Campaign’s work is organized around seven Client Protection Principles (CPPs). The CPPs were distilled from the path-breaking work by providers, international networks, and national microfinance associations to develop pro-client codes of conduct and practices.\(^6\) The CPPs hold FIs responsible for not causing their clients harm (intentionally or unintentionally). There is consensus within the microfinance industry that providers of financial services should adhere to these core principles, which are:

1. **Appropriate product design and delivery.** Providers will take adequate care to design products and delivery channels in such a way that they do not cause clients harm. Products and delivery channels will

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\(5\) For the FOMIN’s webpage on Microfinance in Latin America and the Caribbean, go [here](#).

\(6\) More information about the Genesis of the Smart Campaign can be found in a report titled “Beyond Codes: The Foundation for Client Protection in Microfinance” available [here](#).
be designed with client characteristics taken into account.

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

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

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

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

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

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

When FIs incorporate the CPPs into their operations, they build strong, lasting relationships with clients, increase client retention, and reduce financial risk. By incorporating client protection into all aspects of business operations, FIs can proactively and collectively strengthen microfinance and position the industry as a leader in responsible financial services. Similarly, by incorporating CPPs into their investment criteria and due diligence, investors can build a healthier, more client focused industry that will foster a stronger portfolio.

In addition to the FI’s responsibility, the Smart Campaign believes that responsible finance requires the active engagement of other major stakeholders including:

1. **Regulators and supervisors** are responsible for leveling the playing field and ensuring that all FIs abide by the same rules, and preventing clients from being served from FIs that do not.\(^7\)

In LAC, some countries have advanced financial consumer protection laws that focus on transparency (Bolivia, Colombia, Peru, Mexico), some have increased efforts to prevent over-indebtedness through the consolidation of credit bureaus (Nicaragua), and others have strengthened the mechanisms for redress of grievances through a centralized complaints resources (Mexico, Colombia).

2. **Clients** have rights, but also responsibilities. They are responsible for providing accurate information to their financial service provider, and for holding FIs accountable.\(^8\)

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7. CGAP has recently published “Implementing Consumer Protection in Emerging Markets and Developing Economies: A Technical Guide for Bank Supervisors,” available [here](#). It highlights key areas of opportunity for bank supervisors to improve consumer protection by leveraging their existing supervisory procedures and resources, statutory mandates, power, and policy goals, such as financial inclusion and stability.

8. A working paper from the OECD “Financial Education in Latin America and the Caribbean: Rationale, Overview, and Way Forward” describe the efforts from government and policymakers to promote financial education in the region. Find it online [here](#).
Part II. Arriving at a Study of Practices

This report is the first compendium of market-level client protection practices in LAC. It aims to enrich understanding of how FIs put the principles into practice in different contexts and extract strengths, weaknesses, and other trends.

The two objectives of this report are:

1. To present a view on the current state of client protection practices, as identified through 12 in-depth client protection assessments as well as 10 certification pilots.
2. To report on improvements and opportunities for improvement in client protection practices, through upgrading CPP projects as well as the use of tools.9

The observations described in this report are based on a multi-faceted capacity building project conducted by the Smart Campaign over the course of two years, beginning in November 2011. The project, funded by the Multilateral Investment Fund, a member of the IDB group, aimed to embed the seven (formerly six) CPPs into the institutional culture and practices of the microfinance industry in LAC.

The project funded direct work with 12 institutions through Smart Assessments, of which five subsequently conducted upgrading projects, as well as with an additional 10 institutions through certification missions. While the sample size of institutions is too small to be considered representative of the entire LAC region, the data gathered sheds insights on practices and trends in the region. Observations reported and discussed in this report are drawn from three project activities geared at:

1. **Assessing** client protection performance (Smart Assessments)
2. **Improving** client protection performance (Upgrading Projects)
3. **Recognizing** client protection performance (Client Protection Certification Missions)

Many of these activities have been driven by regional organizations that have endorsed CPPs, in particular the local microfinance associations. By leveraging the power of local associations and other partners, the Smart Campaign has been able to reach out to a significant number of FIs in LAC, not only to endorse the Campaign, but to move several steps further such as self-diagnostics of the CPPs, third-party assessments, and finally certification missions

Assessing Client Protection Performance

Smart Assessments are an in-depth diagnostic of performance against the client protection principles that includes a thorough desk review, at least one week of field work as well as report writing and discussion (see Annex 6 for a more in-depth description of assessments). Smart Assessments assist FIs in identifying areas of strengths and weaknesses and the level of effort required to close gaps in performance. FIs can use Smart Assessments as a roadmap for the improvement of their practices and ideally, a path toward Client Protection Certification.

In the assessments conducted for this project, institutions’ client protection practices were evaluated according to Table 2.10

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9. Through upgrading projects, tools can help FIs improve practice. The Smart Campaign has a wealth of free resources available online [here](#). In addition, Annex 5 of this report list the tools that were translated specifically for this project.
10. In the summer of 2013 the scoring scale for assessments changed to align better with the scoring scale of the Client Protection Certification methodology. Now organizations are scored on whether they meet, partially meet, or do not meet the indicator. This revision in scoring was enacted to mitigate against any ambiguities in the interpretation of institutional performance by the assessor.
Table 2. Scoring Methodology

<table>
<thead>
<tr>
<th>Weak Practice - 1</th>
<th>Less than Adequate - 2</th>
<th>Adequate - 3</th>
<th>More than Adequate - 4</th>
<th>Good Practice - 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Practices are absent or very weak</td>
<td>Does not fully meet all parts of the indicator</td>
<td>Meets all parts of the indicator</td>
<td>Exceeds the Indicator</td>
<td>An example for others to follow</td>
</tr>
</tbody>
</table>

Assessment results are confidential between the FIs and the Smart Campaign unless otherwise specified. The organizations assessed for this project were chosen by the Campaign and the local networks from among a pool of FIs who volunteered to participate. This selection process took into account criteria such as institutional size, geography, international network participation, and regulatory status in order to reach a diverse group of organizations.

The institutions that participated in the assessments agreed to allow the Campaign to share their results in order to contribute to the industry’s learning agenda. However, there is no direct attribution of strong or weak practices to individual institutions in this report, per the confidentiality of assessment results.

The Smart Campaign, along with accredited staff of local microfinance associations, conducted the 12 assessments represented in this report. Together the institutions assessed serve a total of 287,000 clients. The average number of clients served by the institutions is 23,000. The largest institution assessed has a total of 109,000 and the smallest serves approximately 1,500 clients.

Assessments described in this report use a methodology that evaluates six CPPs, not seven. This difference is due to revisions in the client protection principles to address multiple financial products and the concept of ‘non-discrimination.’ Although the sections in this report are slightly different from the revised principles, the content and substance of the analysis remain similar. The report therefore focuses on the key concepts that translate between the original and the revised principles.

Figure 2. Smart-Assessed Institutions and Countries

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Smart-Assessed Institutions

<table>
<thead>
<tr>
<th>Financial Institution</th>
<th>Number of Clients</th>
<th>Type</th>
<th>Organization</th>
<th>Country</th>
<th>Region</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASDIR</td>
<td>7,299</td>
<td>NGO</td>
<td>Guatemala</td>
<td>Central America</td>
<td></td>
</tr>
<tr>
<td>Banco Delta</td>
<td>15,626</td>
<td>Bank</td>
<td>Panamá</td>
<td>Central America</td>
<td></td>
</tr>
<tr>
<td>Contactar</td>
<td>45,441</td>
<td>NGO</td>
<td>Colombia</td>
<td>South America</td>
<td></td>
</tr>
<tr>
<td>Fondesurco</td>
<td>10,975</td>
<td>EDPYME</td>
<td>Perú</td>
<td>South America</td>
<td></td>
</tr>
<tr>
<td>Fodemi</td>
<td>35,787</td>
<td>NGO</td>
<td>Ecuador</td>
<td>South America</td>
<td></td>
</tr>
<tr>
<td>Fubode</td>
<td>23,039</td>
<td>NGO</td>
<td>Bolivia</td>
<td>South America</td>
<td></td>
</tr>
<tr>
<td>FDD</td>
<td>13,929</td>
<td>NGO</td>
<td>Dominican Republic</td>
<td>Caribbean</td>
<td></td>
</tr>
<tr>
<td>Insotec</td>
<td>9,749</td>
<td>NGO</td>
<td>Ecuador</td>
<td>South America</td>
<td></td>
</tr>
<tr>
<td>LICU</td>
<td>4,559</td>
<td>Credit Union</td>
<td>Belize</td>
<td>Central America</td>
<td></td>
</tr>
<tr>
<td>Microempresas de Colombia</td>
<td>10,227</td>
<td>Credit Union</td>
<td>Colombia</td>
<td>South America</td>
<td></td>
</tr>
<tr>
<td>NDFFD</td>
<td>1,581</td>
<td>NGO</td>
<td>Dominica</td>
<td>Caribbean</td>
<td></td>
</tr>
<tr>
<td>Vision Banco</td>
<td>109,029</td>
<td>Bank</td>
<td>Paraguay</td>
<td>South America</td>
<td></td>
</tr>
</tbody>
</table>
Improving Client Protection Performance

After receiving assessment results, many of the FIs made improvements or upgrades to their policies and practices. To understand the process and challenges of improvements, the Smart Campaign conducted “Upgrade Monitoring” with five of the 12 assessed institutions. No two upgrade projects were the same given that each institution’s weaknesses were different. Examples from institutions that volunteered to share their upgrading experiences with the Campaign are placed throughout this report in the sections that correspond to the relevant principle.

Recognizing Client Protection Performance

This project incorporates findings from 10 supported Client Protection Certification pilots. Client Protection Certification is an independent, third-party evaluation to publicly recognize FIs that fully meet the standards of care developed by the industry. The program was launched over the course of this project and the pilots in Latin America contributed to the finalization of the certification program itself.

Similar to Smart Assessments, certification missions involve a thorough review of provider’s policies, procedures, training, marketing, and operations against standards derived from the CPPs. Unlike a Smart Assessment, however, certification is a binary verification of performance, not a grade. The certification process consists of offsite and onsite verification by trained, third-party certifiers. Organizations that fully implement the client protection standards and pass certification will be able to hold themselves out publicly as Client Protection Certified. This is a clear signal to all stakeholders – clients, investors, regulators, peers and others – that certified institutions treat clients with all the care implied by the CPPs. Organizations that do not pass certification will remain confidential, and their performance is woven in without attribution in this report.

How This Report Is Organized

This report is divided into sections for each of the seven client protection principles. Each section contains an explanation of the principle itself alongside the Latin LAC context where applicable, comments on overall regional performance followed by analysis of strong and weak practices. The report does not discuss FIs’ performances per principle indicator-by-indicator, but rather presents trends and noteworthy findings. Where applicable, observations from upgrading projects are incorporated to demonstrate how weaknesses can be addressed.

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11. As of July 2013, the standards for Client Protection Certification and Smart Assessments are completely aligned.
12. For more information on the Client Protection Certification Process and Standards, please visit our website at [www.smartcampaign.org/certification](http://www.smartcampaign.org/certification).
Part III. The Client Protection Principles

Prevention of Over-Indebtedness

Over-Indebtedness is defined as clients’ inability to handle debt service payments without sacrificing their basic quality of life. Regulators and other stakeholders have taken note in LAC as certain markets have become increasingly saturated by consumer lenders and easily available credit, increasing the risks of client overindebtedness. According to the Association of Supervisors of Banks of the Americas (ASBA) and sources consulted during Smart Assessments, regulatory authorities in Colombia, Ecuador, and Bolivia are looking to expand their clout to oversee more organizations, including NGOs. In light of weak regulatory or enabling environments that do not mandate MFIs report to credit bureaus, some national-level associations such as ProDesarrollo in Mexico have made it easier for their members to report and consult their clients, by signing agreements with credit bureaus that give their members a discount for data they consult.

In order to prevent over-indebtedness, the Smart Campaign requires institutions to go beyond conventional wisdom that on-time payment is a proxy for low debt stress. Research on over-indebtedness in Ghana challenged this notion by demonstrating that even clients who pay on-time can experience levels of debt-stress that are unacceptable. To assess institutions, the Smart Campaign examines key aspects of the credit process, including how the FI verifies client payment capacity, how staff incentives balance portfolio growth with quality, and how the FI sets debt thresholds, among others. The principle also covers the appropriateness of the product design and delivery process and whether client needs are taken into account. Overall these standards are aimed at protecting the institution from default and the clients from the stress and negative consequences of over-indebtedness.

Figure 3. Preventing Over-Indebtedness: Assessment Scores

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13. Sergio Navajas from the IDB and Rafe Mazer from CGAP explain why growing household indebtedness have raised concern in Latin America in the past few years [here](#).
14. Source: ProDesarrollo
On average, FIs included in this project demonstrated adequate client protection practices to prevent over-indebtedness, with a mean of 3.3. out of a five-point scale. For LAC, the score on this principle did not appear to depend on regulatory status, but rather forces within a given market (Figure 4). Scores in this principle range from a 4.1 high to a low of 2.1. Only two organizations did not perform adequately for this principle.

**Figure 4. Regulatory Differences in Over-Indebtedness**

![Graph showing regulatory differences in over-indebtedness.](image)

**Strong Practices**

Institutions that perform adequately on this principle have robust systems in place to determine a borrower’s payment capacity. These systems include components such as:

- Training programs for loan officers and staff where participants learn to construct client cash flows from formally and informally sourced data.
- Calculation of loan repayment capacity based solely on clients’ current and expected income and not their capacity to procure collateral or a guarantor.
- Digitization of paper data into the core banking system to assist loan officers in computing cash flows. For example, one of the organizations visited had a core banking system that does not allow loans to be processed or approved until all the relevant data has been inputted for analysis and verification that the household disposable income to loan installment ratio meets the FI’s policies.

When analyzing a client’s repayment capacity, credit bureau data is an important – though often not sufficient – source that allows a FI to understand borrowers’ total debt obligations. While some countries in the region, such as Colombia, Ecuador, Peru, and Bolivia have multiple, functional credit bureaus, they are absent in other countries like Belize and Dominica. In Guatemala, credit bureaus exist but do not produce accurate, timely data. When credit bureau data is not available or is of poor quality, FIs try to compensate by obtaining information directly from other creditors (formally or informally). In our sample, both La Inmaculada Credit Union and the National Development Foundation of Dominica, operating in a context without a credit bureau, asked clients to bring a signed statement of accounts from local banks and other FIs to establish their credit history and current level of debt, as a requirement to obtain a loan.

**Figure 5. Regional Differences in Over-Indebtedness**

![Graph showing regional differences in over-indebtedness.](image)
Although most institutions in this report performed well on this principle, there are still several areas of improvement. In addition to examining individual’s repayment capacity, FIs should also look to market-level trends for evidence of saturation and monitor high-risk markets/sub-markets. Defining a high-risk market should incorporate analysis of market saturation, credit availability, and consumer lender influence as well as market liquidity, inflation, and exchange rate risk.

FIs in LAC could further prevent the risk of over-indebtedness by establishing more precise parameters around debt thresholds. In particular, a small number of FIs from this sample were unclear about the maximum percentage of a borrower’s available income that could be used to service a loan. In addition, one FI had unclear guidelines about the maximum acceptable debt from other sources.

Additionally, FIs in LAC would benefit by integrating a demand-side approach, such as gaining a better understanding about whether clients are undergoing unacceptable sacrifices in order to meet their loan payments on time.

The Main Idea:
Financial institutions that want to align their efforts on the prevention of over-indebtedness with the Smart Campaign should keep the following in mind:

- Conduct appropriate client repayment capacity before disbursement.
- Incentivize quality loans.
- Use credit bureaus and/or competitor data as feasible in the local context.
- Raise awareness of the risks of over-indebtedness at the management level
- Ensure internal audit departments monitor policy compliance.
- Avoids dangerous commercial practices such as restricting loan use, not having prudent limits on loan renewal and have guidelines for rescheduling.

Transparent Pricing

Transparent pricing requires lenders to communicate clear, complete, and timely information in a manner and language that clients can understand. Institutions should be mindful that their product terms and conditions are clear and match the letter of the law but also include elements that strengthen their clients’ capability to understand and make informed decisions.

In LAC, many regulators have already created and implemented laws on transparent pricing, though there is wide variation in quality and relevance across countries. As the “Best Practices and Recommendations on Financial Consumer Protection”\textsuperscript{16} document by ASBA and the MIF describe, while some countries have advanced in their frameworks, there is still significant room for improvement. The efforts for promoting transparent pricing are centered on a client’s ability to compare the different interest rates providers offer. The Banking Regulators in countries like Peru, Mexico, El Salvador, and Paraguay are mandating that institutions report their prices and those prices need to be published in the public domain, such as the Superintendency Website or the institution’s own information outlets such as branches and websites.

In gauging the performance of FIs against this principle, evaluators look at how the institution communicates its prices and products to its consumers at different stages as well as the materials provided to clients such as contracts, summary pages, and/or financial education booklets. Disclosure prior to disbursement is integral to strong performance, including how clearly a provider presents interest rates, fees, and commissions; required purchases (such as insurance); minimum savings balances; other factors that affect the economic value of a loan or other product; and to what extent the resulting pricing can be compared across different lenders (i.e APR or EIR).

Overall, the assessment and certification results point to room for improvement for the region in transparent pricing (Figure 6). In this principle, the assessment scores range from a low of 1.6 to a high of 3.7 with an average of 2.78.

An additional macro-level factor that influences performance on transparency is the degree of competition in a given market. Some of the FIs assessed contested their low scores on transparency by claiming that full price disclosure would pose a competitive disadvantage since other players in their market are not transparent.

Regional differences, as outlined in Figure 8, appear in part because countries in Central America and South America have focused on regulatory approaches based on transparency. Bolivia and Peru in particular tend to have very strict regulations. Notably, these countries mandate that price charts are displayed at every branch, contract language is clear and simple, and interest rates include all cost information and are calculated in an APR fashion.

In countries like Colombia and Ecuador, interest rate caps influence how providers communicate their total costs. These caps may even have adverse effects on transparency by prompting MFIs to exclude some

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Figure 6. Transparent Pricing: Assessment Scores

![Graph showing assessment scores for financial institutions](image)

Mean = 2.78

Figure 7. Regulatory Differences in Transparency

![Bar chart comparing regulated and non-regulated financial institutions](image)

Figure 8. Regional Differences in Transparency

![Bar chart comparing regions](image)
costs from their interest rate cap calculation, as has been mentioned by some observers.  

**Strengths**

To perform well on transparent pricing, FIs should present a written interest rate to the clients. Seven out of the 12 assessed FIs presented their interest rates to clients in verbal and written form. Others presented the interest rates only in verbal form during the promotional stage. However, all institutions assessed presented clients with written interest rates at the time of contract signature. One high-scoring institution directed loan officers to read the contract to the clients aloud and verbally interpret the contract on-the-spot in the borrower’s native language.

**Areas for Improvement**

While some institutions scored well in the diversity of channels (e.g. verbally and written) used to disclose pricing, there were some gaps in exactly what pricing was communicated. The microfinance industry has debated how to present prices to clients, with the Smart Campaign and other actors like MFTransparency encouraging an Annual Percentage Rate (APR) and with some providers pushing for a monthly installment amount or monthly rate. Practices that do not meet the client protection standards including presenting interest rates as:

- Monthly installment amounts.
- Monthly nominal rates.
- Presentation of a mix of currency cost and percentage of total cost of the loan of fees or services, including VAT and other financial costs associated with the product.
- Flat interest rates.

In some market contexts with interest rate caps, providers scramble to find ways to meet their costs by adding hidden fees or additional non-optional services to their loans. These added costs or “hidden costs” include items such as financial education classes, insurance premiums, or other fees that ultimately affect the total cost of a loan. However, since these items are not strictly considered “interest on principal lent” they are not presented as interest rates to the clients. There is also a lack of standard definition for APR across countries (i.e., not including vs. including insurance costs).

These practices could add to client confusion regarding the total costs of the loan. Providers have an important role to play in making product pricing meaningful and comparable for clients, regardless of their financial capability. Regulators also have an important role to play in not providing disincentives to transparent pricing through inappropriate pricing regulations.

Some additional, common gaps included clients not receiving a copy of their loan contract, promissory notes, or other documentation that contained the terms and conditions of their signed agreement. Further, a troubling but common practice in the region is what appears to be a blank “terms section” of a promissory note. In countries such as Colombia and Peru clients must agree to sign a blank promissory note as a condition to receive the loan. This practice should be revised in light of the potential confusion or harm it could cause clients.

**The Main Idea:**

Financial institutions that want to become fully transparent in their pricing to their customers should:

- Disclose cost and non-cost information in its entirety.
- Communicates proactively with clients in a way that clients can easily understand.
- Use a variety of disclosure mechanisms.
- Leave adequate time for client review and discloses at multiple times.
- Provide accurate and timely account information.

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17. Alexandra Fiorillo, former COO of MFTransparency, mentioned specific measures that could be taken in Colombia to include additional costs, such as commissions, compulsory savings, and loan-linked member contributions. For the full set of recommendations, click [here](#).

18. For an excellent discussion on a Randomized Control Trial (RCT) on price sensitivity please refer to Richard Rosenberg and Rafe Mazer’s blog post, “How sensitive are Microfinance Clients to Interest Rates?” available [here](#). For the full study, “The Quality of Financial Services: Evidence from an Audit Study in Mexico” please click [here](#).
Box 1 - Fostering Transparency at Banco Delta

Banco Delta, a leading institution in Panama, used an active complaint resolution mechanism to improve its transparency practices, an area of improvement identified during a Smart Assessment conducted in October 2012.

After the assessment, Banco Delta conducted an analysis of incoming clients complaints received during a six-month period. The results show that clients were confused about key loan related details that were already included in their contracts. “In Panama, clients do not bother to read a document if it exceeds two pages,” reports Yarisbeth López, a promotion and sales officer at Banco Delta’s headquarters.

Banco Delta leveraged its complaints data to develop an easy-to-understand “rights and responsibilities” brochure (see below), which contains the 11 most pertinent facts related to loans. The first batch of 1,000 brochures was rolled out during May 2013 and distributed to the Bank’s eight branches across Panama. Today, these brochures are given to every client at the point of sale. Yarisbeth explained, “The brochure grabs the client’s attention; not only because it is handed out on top of the pile of documents but also because the format and length differs greatly from the rest of the documents. It might be the only document clients actually read.”

Providing a written document that summarizes key information in a clear and sufficient way has benefited both clients and staff. Understanding key information empowers client and equips them to take responsibility for their own financial decision-making. Yarisbeth affirms that “the brochure has been a way to foster an atmosphere of open and transparent communication, clients now ask more questions, and this interaction strengthens the relationship between the bank and clients, they realize that we are there to help them.”

**INFORMACION IMPORTANTE SOBRE SU CONTRATO**

1. A la firma de su contrato de préstamo, usted deberá recibir copia de la siguiente documentación relacionada con dicha operación:
   a. Copia del contrato firmado.
   b. Copia del Pagaré.
   c. Hoja que contiene el Plan de Pagos de su préstamo.

2. Junto a la documentación antes descrita, usted recibirá una tarjeta indicando la fecha de pago de su

3. Recuerde que usted es responsable de pagar los gastos de reparaciones del bien o bienes dados en arriendo, incluyendo los permisos, licencias periódicas, contribuciones municipales y nacionales. Además, debe mantenerse al día en las renovaciones de su póliza.

4. Usted incurre en mora de su obligación de pago desde el momento que deje de abonar un (1) pago de los pactados en su contrato.

5. EL BANCO tendrá derecho a declarar vencida la totalidad de la obligación si usted deja de abonar un (1) pago de los pactados en la fecha de su vencimiento.

**Responsible Pricing**

When considering responsible pricing, the Smart Campaign looks at loan affordability, product value to clients, and institutional sustainability. Sustainability allows the continued operation of an FI and the ongoing provision of services to clients.

Microfinance is unique in that it pairs small loan sizes with deep interaction with clients, leading to relatively high operating costs that are often covered through interest rates and fees. This combination has made the microfinance sector an easy target for politicians and the media. Loan pricing in LAC has been a source of controversy and politicization. The recent crisis in Nicaragua as well as previous crises in Bolivia, Ecuador, and Colombia, have compelled governments to either impose or seriously consider interest rate caps. Arguably, countries that promote interest rate caps create a market distortion that prevents institutions from freely pricing their products. ASBA is clear in its support for organizations to freely establish their prices as a fundamental freedom that “promotes sound and vigorous competition among financial institutions.”

Some research suggests that markets with pricing competition tend to have lower interest rates. A key component of competition is for providers to have flexibility for pricing their products. This has

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19. This quotation comes from the Smart Campaign’s State of Practice report. To download copy of the document, click [here](#).

been the case in Bolivia where prices have been decreasing since 1992, starting at an average of 60 percent and now oscillating at around 20 percent.\textsuperscript{21}

In operationalizing this principle, the Smart Campaign has taken a practice-based approach on measuring responsible pricing in the context of client protection. Given the complexity of pricing determinants, the variety in provider structure and product offerings, as well as country context, it is impossible to draw fixed ceilings for responsible pricing that are applicable in practice. A market-based approach is more feasible because good data on prices exists in most countries, allowing for apples-to-apples comparisons. \textbf{Transparent pricing is a precondition for responsible pricing, because prices must be comparable to other market options.}

As per Figure 9, LAC has an average of 3.32 on this principle, with scores ranging from a low of 2.0 to a high of 4. The assessments conducted showed that all institutions but one are financially sustainable. The organizations in the study have as few as 1,000 clients and upwards of 100,000.\textsuperscript{22} FIs with a larger client base tended to be both more sustainable and more profitable than their smaller counterparts. This again could have a regional undertone (Figure 11) as organizations evaluated in the Caribbean tended to be significantly smaller than organizations from other regions. We identified little difference between regulated and non-regulated institutions in the implementation of this principle (Figure 10).

\textbf{Figure 9. Responsible Pricing: Assessment Scores}

\textbf{Figure 10. Regulatory Differences in Responsible Pricing}


\textsuperscript{22} See Annex 6 for detailed information on client numbers.
Figure 11. Regional Differences in Responsible Pricing

Strengths

It was identified that many institutions in LAC reinvest their profits into their operations. We found that all institutions assessed had plans for investing in additional products or services, expanding into previously unserved areas, hiring more specialized managerial staff or upgrading their systems and practices.

Areas for Improvement

For many of the FIs assessed, profitability was not an end in and of itself, but a means of fulfilling their mission objectives.

In isolated cases, we saw that some of the assessed institutions did not have profitability targets set to become operationally self-sufficient. In particular, one institution had a difficult time reaching its break-even point as a result of economic stagnation in the country where it operates and depended on subsidized sources of funding provided by the national government.

One challenging area is for deposit-taking institutions to offer real value or returns on deposits. Currently many of the organizations offer market-based deposit interest rates; unfortunately these gains can easily be trumped by inflation. The IMF projects inflation in LAC to average 6 percent in 2013.\(^\text{23}\) It is important for all stakeholders involved to begin thinking about the role that savings plays in financial inclusion and how providers can make savings both a valuable product for clients and good business.

Appropriate Collections Practices

The principle of Appropriate Collections Practices recognizes the reality that FIs must maintain healthy portfolios in part through the collection of loans in arrears.\(^\text{24}\) However, the principle stresses that organizations must always treat clients with dignity even when they fail to fulfill their obligations and must not deprive them of the ability to earn their livelihood. The collections process is a key point of vulnerability for client protection as many abusive practices occur between FI staff and clients. This principle examines points of tension along the collections process including institutional policies/practices (and how staff are trained), use of third-party collections agents, use of collateral, and rescheduling policies.

In LAC, National Codes of Conduct such as Guatemala’s address collections practices generally, but stop short of defining what constitute appropriate and inappropriate practices. Regulation in certain countries, such as Colombia, has drawn some red lines on issues such as appropriate times for calling and visiting clients and other aspects behind collections processes.\(^\text{25}\)

\(^{23}\) IMF projections 2011-2018 available online [here](#).

\(^{24}\) Appropriate collections practices, analyzed separately in this report, is now one of the underlying points of analysis for our new Principle Fair and Respectful Treatment of Clients as demonstrated in Annex 5.

\(^{25}\) For the Superintendency’s norms on collection click [here](#).
In LAC, this is the principle in which FIs consistently performed the lowest, namely due to a lack of written policies and staff guidelines. Scores for this principle ranged from a low of 1.5 to a high of 3.5. Only 3 out of the 12 institutions performed adequately on this principle and none excelled. We notice that practices are poor, regardless of the regulatory status of an organization or the region where it is located (Figures 13 and 14).

**Figure 13. Regulatory Differences in Appropriate Collections Practices**

**Strengths**

For the few FIs that performed adequately on this principle, all had standard collections procedures documented in a staff handbook or manual. One institution for example, required that staff sign an MOU acknowledging the collections manual, committing to practices that were aligned with the institutional values framework. Some well-designed collections manuals included the following items:

- Collection agents should have a proactive attitude and willingness to negotiate.
- Agents should not discuss the defaulting status with anyone other than the owner of the account.
- Abusive or rude language should never be used.

**Box 2 – MFIs Should List Explicitly Prohibited Behaviors**

FIs should explicitly prohibit the following behaviors:

- use of abusive language; use of physical force;
- limiting physical freedom of clients; shouting at the client; entering the client’s home uninvited; publicly humiliating the client; violating the client’s right to privacy;
- discriminating based on ethnicity, gender, sexual orientation, religious belief, political opinions, or disability;
- participation in corruption, kickbacks, or theft; and participation in sexual or moral harassment.

An example available to other FIs on how policies and practices can change to reflect these norms can be found available online [here](#).
While most institutions performed poorly overall on this principle, a consistently strong practice in the region was the presence of rescheduling policies and procedures that prevent automatic debt extension. Most institutions consistently applied these rescheduling policies and allowed clients that had the will but not the capacity to repay to work out a schedule that worked for all parties.

**Areas for Improvement**

Given the potential for collections to lead to abusive practices, it is important for FIs to clearly lay out what practices are acceptable and unacceptable for staff. Surprisingly, very few FIs in the region had created such policies. Institutions argued that written policies are not important because their staff is trustworthy. Yet the assessments found that since there are no policies, staff at the FIs were rarely aware of the penalties for mistreating clients. Furthermore, in 50 percent of the institutions assessed, interviewed staff admitted that they received little classroom training about appropriate and inappropriate collections practices before they were sent out to the field. Instead, staff learned about collections practices through trial and error. In these FIs, there were no institutional limits to what staff could and could not do and FIs could not sanction bad behavior systematically. A large number of FIs were clustered on the lower end of the scoring spectrum for these particular weaknesses.

Another widespread gap was the lack of control exerted over third-party collections agencies, where they were used. Third parties were often not contractually obligated to operate under the same norms as FI staff, opening the potential for abusive practices. When FIs use third-party collection agents, they should have clear procedures to ensure that agents comply with the FI’s standards for responsible treatment of clients.

A final weakness was a lack of specificity in defining acceptable and unacceptable pledges of collateral. The Smart Campaign requires that institutions have a policy defining acceptable collateral while not accepting collateral that would deprive a borrower of his/her basic survival capacity. In countries with specific regulation such as Ecuador and Bolivia, loan officers and the organization’s agents understand what constitutes adequate and inadequate collateral (See Box 3 for good examples).

### Box 3 – Good Regulatory Practices from France

As observed in the report, many countries do not have mandates on what are the collateral items that should in no event be subject to collection. An example from a country that has very clear guidelines on this subject is France.

Article 39 of Decree No. 92-755 of 31 July 1992 establishing what are the items that cannot be confiscated when retaining a client's assets as a form of payment to a past due obligation: Clothing; Bedding; Linen; Objects and products necessary for personal care and housekeeping; Foodstuffs; The household objects necessary for the conservation, preparation and consumption of food; Necessary appliances for heating; The table and chairs to have meals in common; A cabinet to house the linen and clothes and furniture for storing household goods; A washing machine; Books and other necessary for the pursuit of studies or vocational training objects; Objects of children; Memories to personal or family; Household pets or guard; Animals for subsistence of the debtor, as well as food for their livestock; The instruments of work needed for the personal exercise of professional activity. A telephone set for access to the fixed telephone service.

### The Main Idea:

Financial institutions should implement the following measures in order to make sure their collection practices are fair and consistent:

- Foster a culture that raises awareness and concern about fair and responsible treatment of clients.
- Definitions in specific detail what it considers to be appropriate debt collection practices.
- Ensure in-house and third-party collections staff follow the same practices as the FI staff.
Box 4 - Defining and Monitoring Collection Practices at FODEMI

FODEMI, a microfinance institution (MFI) based in the North Andean region of Ecuador, believed that enhanced collaboration amongst collections staff would improve the likelihood that clients were being treated with dignity and respect during collections. FODEMI’s management had become aware of institutional gaps through a Smart Assessment conducted in February 2013. The resultant effort to bridge the gaps involved collaboration across departments including Human Resources, Social Performance, Internal Audit, Operations, and the Credit Department.

The team agreed that improving performance should include the creation of specific and standardized guidelines for staff (and third-party agencies) on collections and monitoring of behavior. Specifically, FODEMI did the following:

1. **Improve Institutional Policy.** In order to lay out a foundation for appropriate behavior, FODEMI edited their Code of Conduct. The Code now specifies that delinquent clients should “receive a respectful treatment and high quality services to recover the loan but also to solidify their loyalty.” The edited Code also lists specific guidelines for treating clients with dignity during the loan collection process. It identifies unacceptable collection practices such as times of the day where client contact is inappropriate (e.g. late at night), and forbids against abusive or offensive language, physical harassment, and humiliation. Additionally, it mandates that assets that deprive borrowers of their basic survival capacity cannot be seized. The Code also specifies that staff cannot enter the client’s house without previous permission and reaffirms a commitment to non-discrimination on the basis of race, ethnicity, gender, political affiliation, disability, or religious orientation.

2. **Monitor Behavior.** In order to bring their new code of conduct policy off the page, FODEMI is creating a monitoring system for loan officers. Before conducting sample field visits, auditors must now check for complaints associated with the loan officer whose clients they are going to visit regarding abusive collection practices. New Internal Audit standards monitor the appropriateness of collection practices to verify compliance of staff with the Code of Conduct. Auditors are also responsible for assessing client satisfaction and whether loan officers have been respectful to clients, particularly during collections.

3. **Align Third Party and Institutional Standards.** Third-party collections agencies contracted by FODEMI must now abide by the same institutional practices expected of FODEMI staff. Specifically, collection agencies must commit to treating the clients with dignity. In signing the document, third party staff pledge to follow FODEMI’s practices on “Fair and Respectful Treatment of Clients” as well as FODEMI’s mission, vision, and values.

Improving collections practices is not simple. It requires an effort to articulate written procedures that specify inappropriate collections behaviors in a staff handbook. While outsourcing collections is not necessarily a bad practice, FIs should make sure that third-party agents are held accountable to the behavioral standards expected from internal staff. And, to ensure internal staff compliance, internal audit should play a key role to ensure practices throughout the organization are consistently verified with clients themselves.

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**Ethical Staff Behavior**

The principle of Ethical Staff Behavior pushes for a corporate culture that goes beyond a list of values in a rule-book and is a living, active part of day-to-day operations. Successful incorporation of this principle involves not only management and senior staff but all levels of personnel. An FI’s performance on this principle will hinge on policies, such as a section in their employee handbook/staff rulebook that spells out a list of prohibited actions, as well as appropriate staff (dis)incentives such as sanctions or inclusion in performance reviews. This ensures that field staff will have a common understanding of how they should behave toward clients, and avoid situations where they must rely on their own interpretation of appropriate behavior.

It is also important that mechanisms are in place to monitor/verify staff behavior, such as channels for fielding customer complaints (see Mechanisms for Complaint Resolution, page 24), internal auditors who are empowered to assess staff behavior, as well as strong whistleblower protections that encourage staff to speak up when they see inappropriate behavior.
While the mean performance of FIs in LAC on this principle is close to adequate at 2.93, only 5 institutions out of the 12 assessed scored at or above adequate on this principle (Figure 15). With a range from a high of 4.1 and a low of 1.8, and the majority of organizations scoring below adequate, there are gaps to be remedied.

Ethical staff behavior is a principle where smaller, mission-driven NGOs and larger, more commercial and likely regulated institutions tend to perform differently. Regulated organizations comply with the local employment laws, which often lack requirements on ethical staff behavior or internal human resources, but are not prescriptive on other behavioral norms affecting the client-staff relationship (Figure 16). Regional differences were less relevant for this principle (Figure 17).

**Strengths**

The results of the assessments show mixed performance, where roughly half of the institutions performed adequately or above, and half scored poorly on the overall principle. When broken up by specific practices however, the majority of FIs had a code of conduct that defined organizational values and standards of professional behavior. A written document is only a starting point however, and does not translate into good practice. FIs that performed adequately on this principle demonstrated a constant involvement from the leadership and senior staff in translating the code from paper into practice. Strong ethical practices were the result of a board-approved code that included ethical behavior in staff performance reviews and frequent staff trainings. These steps take a code of ethics into a “living” part of the ethical institutional culture.
In the few cases where FIs excelled on this principle, Human Resources played a key role. To identify candidates with values that would match the institution’s ethical standards, one FI conducted role-playing activities, psychotechnic tests, and hypothetical conflict situations during the initial round of the candidate’s interviews. Once the person was hired, they were trained on the code of ethics and on ethical dilemmas they would likely encounter.

Additionally, the few institutions that performed more than adequately had regular monitoring of staff behavior. For example, one institution assigned a high percentage of the overall performance review score to ethical behavior and therefore, the rewards package for staff who met the standards was generous: professional development stipends, internal promotions, and an incentive package which included extra vacation days, a minimum wage salary to be used as an academic scholarship, as well as an institutional trip for staff. It is important for institutions to ensure that staff is aware that compensations and rewards are aligned with ethical standards and responsible behavior.

**Areas for Improvement**

Two areas of improvements stood out in the analysis: a lack of formal staff training on resolving ethical dilemmas and a dearth of institutions that included staff ethics in employee performance reviews.

Very few institutions included ethical staff behavior in initial orientation for employees. Even fewer conducted refresher trainings in ethics. Organizations that scored poorly argued that staff can read and internalize codes of ethics on their own time without training, a practice the Smart Campaign does not consider adequate. It is important that organizations constantly review and remind their staff of their values in a practical way that is aligned with the credit process. These trainings should explain to staff how an organization’s values apply to their specific position and emphasize the consequences and sanctions of violations.

A second gap was a dearth of institutions that aligned ethical staff behavior with employee incentives. People will act according to the incentives they receive, so if proper ethical staff behavior is not included in the professional review process, individuals will not feel compelled to change their behavior. Organizations that performed less than adequately did not integrate their values into the performance review process, which was in many instances informal. For example, low-scoring institutions argued that their Human Resource department conducted screenings to identify employee’s values ex ante, but there was no policy or clear way to verify this claim. FIs should make staff ethics and values an important component of hiring, performance review, and promotion process.

**The Main Idea:**

Ethical staff behavior not only depends on hiring the right staff, but also making sure the financial institution has:

- A culture that raises awareness and concern about fair and responsible treatment of clients.
- Human Resources policies that are aligned around fair and responsible treatment of clients that promote ethics and prevent fraud.
- Non-discrimination policies to prevent inappropriate bias against certain categories of clients.
- Consistent information to clients about their rights.
- Ensures that readjustments in this principle reverberate and contribute to a course redirection if necessary.
Smart Assessments measure adherence to the Client Protection Principles through examining practices by talking to staff and triangulating that evidence with an institution’s policies. ASDIR, a Guatemalan NGO, learned from its Smart Assessment that while staff practices adhered to the standards, they needed to document those practices for more uniformity and risk mitigation, namely through a Code of Ethics and Social Corporate Responsibility. The management believed that the code is a way to formalize processes at the institution as a legacy for the organization to solidify the organizational mission not only looking at present practice but also the institution’s future. The CEO and the Board of Directors empowered ASDIR’s Human Resources manager and the Social Corporate Responsibility Manager to work together and come up with a text acceptable to the organization and its staff.

The Managers jointly researched code of ethics from other microfinance organizations and networks using the resources made available by the Smart Campaign (click here for access to more than 30 different codes from organizations around the world). It took them approximately one month to come up with a joint draft that focused on a number of important client protection issues including:

- Guidelines for managers and the board of directors.
- Articles on the institution responsibility to competitors, the community, and clients.
- Professional conduct guidelines.
- Practical aspects on institutional values.
- Non-discrimination.
- Confidentiality of client data.

The draft code was presented to ASDIR’s branch managers in order to get feedback and buy-in to the new policies that put on paper much of what the institution already practiced. When interviewed, branch managers in Pologua and Totonicapán (provinces of western Guatemala) believed that the code gave more clarity in areas, such as acceptable and unacceptable staff conduct that were previously unclear. These branch managers believed the code would help them “orient clients to their true north” and “become more effective managers to their staff.” ASDIR has begun to publish key aspects of the code inside its branches to raise client awareness about their rights. Additionally the posters also provide information to clients about their right to lodge a complaint or suggestion.
Mechanisms for Complaints Resolution

Giving clients a voice and an effective, non-intimidating interface with a FI is an important way to understand what customers think about the quality of service they are receiving. An effective mechanism for complaint management and resolution allows the FI to obtain feedback from clients, and can result in a wide range of valuable outcomes, from product improvements to identification of abuse or fraud from employees.

The effectiveness of a complaints resolution system relies on much more than simply having a physical ‘place’ for clients people to voice their concerns. As a rule of thumb, while a suggestion box may in some cases be a sufficient mechanism, it often is not enough. A proper mechanism requires the availability of human and financial resources backed by clear policies and procedures to deal and resolve clients’ complaints effectively. The complaints channel should handle communication confidentially, efficiently, and in a timely manner. The institution should monitor received information as a source of valuable feedback for future service improvements.

This principle showed some of the weakest results in LAC with an average of 2.73 and (Figure 18) a wide range. On the one hand several FIs scored more than adequate with a high of 4.2 and while others were far below adequate FIs with scores as low as 1.2 which represent weak or even non-existent practices. We noted that regulated institutions perform better in this principle than non-regulated institutions (Figure 19). This could be partially explained by advances in countries like Paraguay, Panama, Peru, and Colombia where third-party dispute mechanisms and ombudsman offices have been established by law.

Strengths

Assessment results illustrate that in general, institutions performed poorly on the overall principle. However, in the few cases where institutions performed more than adequately (see figure 18), FIs assigned both financial and human resources to handle client’s feedback and the complaints system was robust and regularly used by clients.

In the limited instances where institutions’ performance excelled, having multiple client-accessible channels was key. These institutions had suggestion boxes in every branch as well as a toll-

Figure 18. Mechanisms for Complaints Resolution: Assessment Scores
free number. One institution went above and beyond by establishing an internal conflict resolution channel for clients to use when they required a personalized response. This was also coupled with a binding agreement between the FI and the national mediation center and national chamber of commerce to provide clients the option of having a neutral third-party mediator and arbitrator.

A written policy that designated human resources specifically for handling the complete lifecycle process of client’s feedback was also key for an institution to score more than adequate in this principle.

Additionally, the few institutions that scored highly made a noticeable effort to invest in the establishment of an effective complaint management mechanisms. These management tools allowed FIs to track, report, analyze, and handle complaints in an easy and timely manner. In these cases, the complaints mechanism system was actively used. For example, one institution conducted a six-month analysis using the complaint management system and found out that from January to July 2012, 38,294 complaints were received. Assuming that every complaint was submitted by a different client, the analysis showed that 36 percent of clients used the channels. Unless there is abundant evidence that the overall mechanism is actively used, the existence of numerous channels does not translate to an adequate practice.

**Figure 19. Regulatory Differences in Mechanisms for Complaint Resolution**

Secondly, it is important to highlight that the few FIs that scored well on the principle were in countries with a regulatory mandate that addressed the handling of complaints. The regulation potentially positively influenced the content of FIs’ written policies since it was mandated that manuals contain key elements such as complaints procedure, staff responsible for responding, timeframe for response and recourse for clients who are not satisfied with the institutional response. Moreover, senior managers periodically received reports on the complaints obtained from clients for follow-up in regulated FIs.

**Areas for Improvement**

Evidence from assessments showed that 7 of the 12 institutions did not have any form of written complaints policy in place. If verbal or written complaints were ever received, there were no guidelines to compel the recipient to take the complaint seriously, or to investigate or resolve the complaint in a timely manner.

In low-scoring FIs, the staff generally did not know the process for resolving complaints (e.g., different levels of scrutiny a complaint should go through) or a timeframe for response. Additionally, there was little information provided to clients that conveyed that their complaint would be resolved or that complaining would not adversely affect their business relationship with the FI.

**Box 6 – Example Policies from Peru**

FONDESURCO’s manual carefully describes the complaints process and who is responsible for each piece. Additionally it contains two flow charts detailing the process for complaints and suggestions, copies of forms provided to clients, and staff directed at lodging complaints and their respective follow-up, as well as copies of brochures given to clients at offices to inform them about the complaints process. The manual can be found online [here](#).

Institutions that performed poorly tended to support the use of a suggestion box as the sole mechanism for lodging complaints. These suggestion boxes were usually placed inside the branch main waiting area where front-line staff could identify which clients complained, a recognition that could intimidate clients. This could explain why staff in these institutions said that clients simply did not complain. A range of client-accessible channels, in addition to a suggestion box, should be available for clients. The handling process for each channel should be backed up by clear policies to ensure that the feedback is analyzed, resolved, and that key aspects like confidentiality of the information are addressed.
In addition, in poor-performing institutions, clients often complained informally, usually to the loan officer or branch managers who either ignored or addressed their complaint. Clearly, none of the complaints that were received informally were ever logged or escalated to management. When FIs do not categorize and analyze the complaints received, they miss the opportunity to get a better grasp of the issues on which clients are concerned.

A final gap was the absence of follow-up with clients who had complained to verify that their inquiries were satisfactorily resolved. This responsibility should be within the purview of the internal auditor. The project identified instances where the information contained in complaints was not used to correct mistakes, omissions, and activities that may at some point have been harmful to clients. FIs must be more proactive about acting upon the complaints they receive to prevent them from happening again.

The Main Idea:
When designing mechanisms for complaint resolution a Financial Institution should ensure that:

- Clients are aware of how to submit complaints.
- Staff is trained to handle complaints.
- Complaints resolution system is active and effective.
- They use client feedback to improve practices and products.
Box 7 - The Full Feedback Cycle at Contactar, Colombia

After experiencing a period of rapid growth, Contactar realized it needed to be more aware of the needs and concerns of its ever-expanding client base. In January 2013, Contactar decided to upgrade its overall strategy to listen to client complaints and concerns after realizing that their suggestion box – the only client-accessible complaints channel that was being used – was clearly not enough. Clients were not using it regularly, and it was often even mistaken for a trash bin! Contactar tasked Customer Service Specialist Fernando Viteri and Marketing Coordinator Eliana Belalcazar with transforming the organization’s Complaints Handling Mechanism and developing an action plan to answer Questions, Complaints, Grievances, and Suggestions (PQRS is the Spanish acronym) which included the following three key steps:

1. **Design and Implementation of a Smile-o-Meter.** Contactar’s cashiers provided a sample of 30 percent of the clients with new loans a feedback form containing happy, indifferent, and sad faces. Customers were asked to describe the way they felt about how they were treated by staff. It also provides a space in case they would like to include additional comments. After implementing this mechanism, written feedback from clients has not only increased, the overall content of the feedback is also much richer than the few received previously using their already established channel. As a result, the institution decided to phase out its suggestion box entirely. **Cost:** One week staff time to develop new form, approximately 1,000 smile-o-meter forms (three forms per page) to 32 offices.

2. **Establish a Toll-Free Number.** One of the recommendations of the Smart Campaign assessment was the need to install a toll-free number as an additional channel to its complaints system. Setting up the number was easy and the institution staffed and managed a direct line. The person staffing the line is blind and has successfully memorized the institution’s sales pitch and is inquisitive of client’s reasons for calling. The person writes down reports and submits it to Loan officers and management for follow-up. Through this channel, the institution has generated 193 loan applications, 51 of which have been accepted generating more than $40,000 in new loans. **Cost:** $25 per minute per call to the toll free number (around $1,000/month) and the salary of entry-level person staffing the line.

3. **Advance Client Focus Groups.** Contactar also implemented focus groups to better address their clients’ needs with internal resources. Understanding that the results would not be wholly representative of their client-base, they decided to hold meetings at each of their 23 offices with six or eight clients. These meetings have shed light on the fact that clients were unaware of the existence of home improvement, educational, consumption, or environmental loans. The institution since has developed a product marketing spreadsheet to assist its loan officers in their sales pitch to clients about services available. **Cost:** One day per focus group from Marketing Manager, one month effort by Marketing Manager to develop focus group methodology. Transportation, client gifts, and refreshments approximately $15,000.

**Total Cost:** Approximately $16,850. **Total Staff Time:** Approximately 160 Staff days. **Total Business generated:** $40,000 in new loans.

**Privacy of Client Data**

Privacy of Client Data has received renewed attention against the backdrop of rapid advancements in technology. It is nearly universally acknowledged that a person’s data (financial, biographical) is their individual’s property and they must provide consent for it to be used or shared with third parties. In the context of financial services, this would include self-reported as well as third-party records (e.g. credit bureau) to ascertain an individual’s credit worthiness. Evaluating institutional performance against this principle examines whether lenders protect data in accordance with their country’s requirements, as well as whether client consent is approached in a clear and understandable way.26

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On average, the FIs in this project scored slightly below adequate practice for this principle (Figure 21). Roughly half the institutions scored adequate or above on this principle; with scores ranging from 1.6 to 3.7. The other half of the MFIs performed below adequate and one institution needed significant improvements. The differences in performance between regulated and non-regulated FIs for this principle were seemingly insignificant as were inter-regional differences (Figures 22 and 23).

**Figure 22. Regulatory Differences in Privacy of Client Data**

**Strengths**

FIs performed well in explaining to customers how their data would be used, particularly in countries with credit bureaus. Institutions in these countries told clients their data would be reported and consulted with a credit bureau before loan approval and disbursement. In countries with laws governing privacy, clients’ consent was required for consulting and reporting information to the credit bureau.

**Figure 23. Regional Differences in Privacy of Client Data**

**Areas for Improvement**

Many of the weaknesses in this principle were due to a lack of written policies. The creation of written policies is not overly onerous for institutions and must be complemented by solid implementation. It is crucial for FIs to have a written and board-approved privacy policy that governs the gathering, processing, use, and distribution of client information. The contracts and documents that clients sign must contain a plain-language privacy clause to be read aloud to clients before they enter into commitments.
The existing policies at FIs in this project tended to be very specific for digital access to computers and core banking systems but relatively scarce for paper documents and client files. According to the standards, an ideal policy would combine both elements and be communicated to staff. FIs often have vague statements in their staff book of rules referring to “bank secrecy” and confidentiality without any specific or detailed description of what those statements mean in practice.

The implementation of this principle becomes more of a challenge if MFI clients perceive this issue is not important to their customers. Interestingly, clients interviewed as part of this project did not place great importance on how the institution would use their information. Clients were often willing to sign on the dotted line without reading or consenting to the privacy clauses. Further, clients interviewed demonstrated little interest on how their data would be used and handled. Drawing from these observations, FIs should explain to clients why it is important to maintain data confidentiality and mitigate the very real risks of identity theft or taking a loan on behalf of someone else with bad credit.

The Main Idea:
Privacy of client data incorporates two important components FIs should ensure:

- Having a privacy policy and appropriate technology systems to safeguard client data.
- Informing clients about when and how their data is shared and gets their consent.

Box 8 - Ensuring the Security of Client Information at FUBODE
Many low-income households in Bolivia, including microfinance clients, live in homes at times located on lots with precarious legal status and in vulnerable areas to natural disasters. According to a case study developed by FUBODE, over 60 percent of low-income dwellings lack property titles, 57 percent do not meet basic living conditions, and 75 percent are in need of extensions or renovations. FUBODE, a Cochabamba-based MFI is well aware of these trends and how they can affect clients. More than 50 percent of FUBODE’s clients decide to voluntarily turn in original sale and purchase agreements as part of their loan guarantee but also because they trust the organization will keep the documents safe. “Our clients, particularly the ones in rural areas see the institution as the best place to store hard-to-replace documents,” says Alex Huarachi, FUBODE’s operations manager.

While FUBODE already had basic security measures in some of its branches at the time the Smart Assessment was conducted, the results revealed the need to implement these in all of its agencies. As of today, all 18 branches – seven of which are located in urban areas and 11 in rural zones – have a specific room assigned within each branch to store clients’ physical documents. Currently, every archive room in the 18 offices has placed smoke detectors, professional cameras, motion sensors, and fire resistant lateral cabinets to store clients’ physical documents. The room restricts access to only one staff member per branch. Additionally, a robust security system was installed in all branches to secure client’s digital information by adding surveillance cameras and a panic button for each cashier as well as an alarm system monitored by a third party central-office. FUBODE has invested an average of USD $3,500 per branch to implement this comprehensive system.

FUBODE’s changes complement the archive policy which establishes the basic principle that client data should be kept secure. The policy currently specifies the levels of access to IT systems, storage procedures, archiving details and overall security measures that each staff member should follow. However, the institution is well aware that implementing the security system in branches is only the first step. FUBODE’s objective is to update its policy and educate the rest of their staff about the new system which should be in line with the national regulatory requirements. Rosa Cárdenas, FUBODE’s Social Performance officer recalls, “We see this as an ongoing and time-consuming process but investing in a high-quality security system is worth it. It is an additional customer service pillar because it allows the institution to ensure the integrity of our client’s documents.”
Conclusions

Client protection practices in LAC are constantly improving. This effort has been promoted both by providers, who are improving their practices in the face of growing competitive pressures, and regulators who are tasked with safeguarding the interests of clients as well as maintaining financial stability.

By examining practices in LAC, the Smart Campaign identified areas of strengths as well as areas that warrant improvements, at times significant. Practices where the majority of the institutions assessed are strong include the prevention of over-indebtedness, responsible pricing, and ethical staff behavior. The assessments also found several key areas such as transparency, appropriate collections, and mechanisms for complaint resolution that are in need of important changes. Inadequate practices within these principles stemmed from multiple factors which included market as well as regulatory shortcomings.

This report also conveys that some institutions are committed to not only diagnosing their state of practice, but improving and upgrading it. In the cases of FUBODE, FODEMI, Contactar, Banco Delta, and ASDIR, institutions can improve their practice if they focus on specific actions they want to work on and are willing to spend the staff time and resources to achieve a level of adequacy. The Smart Campaign believes that most of the weaknesses identified in this report are manageable and can be remedied by FIs. Filling the gaps can take time and conscientious work on behalf of the FI and its staff but such efforts will ultimately lead to better protection for clients. Not all of the improvements made by the institutions were recorded in this report. Instead, a sample from upgrading projects among the different client protection principles were extracted in order to give institutions ideas of where to begin. 27 FIs are not alone in this effort to improve and we are cognizant given the mixed performance and there will be mixed solutions to these challenges.

On the whole, organizations can address weaknesses by delegating control and oversight functions to managers who can develop policies and procedures to prevent abusive behaviors from taking place. The campaign’s website contains over 60 free technical tools that provide examples and guidance to the implementation of the CPPs. All tools can be found online at www.smartcampaign.org/tools-a-resources.

Regardless of the current state of practice at an individual FI, action must be taken in order to understand the client protection gaps and identify a course of action for improvement. FIs should not necessarily wait until they have received results from an external assessment or a certification mission to get started in their improvements.

The Smart Campaign has learned that there is variance among organizations; some excel at some principles and do poorly on others. All FIs have some adequate practices and some practices that need improvements; it depends on the particulars of the institution. Achieving the certification standards is possible for most organizations, but, it will take time and effort to reach an adequate level of practice on all indicators.

We wholeheartedly believe that improvements will help FIs provide their services in a manner that is convenient, transparent, and preserves the dignity of clients.

27. Many more examples of good practice can be found at the Smart Campaign as Smart Notes. All of them are available here.
Annex 1 – Microfinance Institutions That Participated in Assessments

Asociación ASDIR

FONDESURCO
Estamos Contigo

Banco Delta
Creciendo Contigo

FODemi
Fondo de Desarrollo Microempresarial

fubode
Fundación Boliviana para el Desarrollo

insotec
Crédito para el Desarrollo
Annex 2 – Partner Microfinance Associations
Annex 3 – Licensed Certifiers

[MicroFinanza Rating logo]

[MicroRate logo]

[Planet Rating logo]
Annex 4 – List of Tools Translated into Spanish and Portuguese

The Smart Campaign has created and compiled over 60 tools for financial institutions to improve their practices. For institutions in Latin America and the Caribbean that are committed to improving their practices, the Smart Campaign staff has translated and disseminated tools at industry events and through webinars and its website. The Smart Campaign’s website in Spanish is [www.smartcampaign.org/portada](http://www.smartcampaign.org/portada) A list of the tools translated as a result of this project can be found below:

<table>
<thead>
<tr>
<th>Tools Translated into Portuguese</th>
</tr>
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<tbody>
<tr>
<td>1 Complaints-Analysis Spreadsheet (Fundacion Delamujer)</td>
</tr>
<tr>
<td>2 Banco Solidario: Loan Officer Training Manual</td>
</tr>
<tr>
<td>3 Certification Standards Translation Page (English, French, Spanish)</td>
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<tr>
<td>5 Fonkoze: Guide for Credit Agents — Evaluating Clients for Fonkoze’s Post-Disaster Recovery Program</td>
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<tr>
<td>6 Loan Contract Summary Handout (Mibanco)</td>
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<tr>
<td>7 Microfund for Women: Client Business Evaluation Toolkit</td>
</tr>
<tr>
<td>8 Over-indebtedness of Microborrowers in Ghana</td>
</tr>
<tr>
<td>9 Putting Transparency into Practice: Communicating About Pricing</td>
</tr>
<tr>
<td>10 Smart Lending: Client Protection in the Individual Loan Process</td>
</tr>
<tr>
<td>11 Smart Microinsurance: An Overview for Microfinance Institutions on Incorporating Client Protection Practices into Microinsurance</td>
</tr>
<tr>
<td>12 Smart Note: Collections with Dignity at FinComún</td>
</tr>
<tr>
<td>13 Smart Note: Customized IT at Caja Morelia Safeguards Client Data</td>
</tr>
<tr>
<td>14 Smart Note: Ethical Staff Behavior at Alalay Sa Kaunlaran, Inc. (ASKI)</td>
</tr>
<tr>
<td>15 Smart Note: Facing Over-indebtedness at Partner Microcredit Foundation</td>
</tr>
<tr>
<td>16 Smart Note: Hiring Staff with Disabilities at AccessBank, Azerbaijan</td>
</tr>
<tr>
<td>17 Smart Note: Responding to a Crisis at FUNDESER</td>
</tr>
<tr>
<td>18 Smart Note: Supporting Members to Adopt Client Protection at Azerbaijan Microfinance Association (AMFA)</td>
</tr>
<tr>
<td>19 Smart Note: Treating Clients with Respect at Fundación Mundo Mujer Popayán</td>
</tr>
<tr>
<td>20 Smart Savings: Client Protection in the Savings Process</td>
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<tr>
<td>21 Transparency in Promotions and Sales: A Checklist for Financial Service Providers;</td>
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</table>
Annex 5 – Client Protection Principles Changes

<table>
<thead>
<tr>
<th>Revised CPPs</th>
<th>Original CPPs</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Appropriate Product Design and Delivery</td>
<td></td>
</tr>
<tr>
<td>• Slight wording change</td>
<td>• In the original, product design and over-indebtedness were combined. They are now separated to ensure independent focus on both over-indebtedness and product design.</td>
</tr>
<tr>
<td>3. Transparency</td>
<td>2. Transparent and Responsible Pricing</td>
</tr>
<tr>
<td></td>
<td>• Separated to highlight the importance of transparent communications as a broad principle while retaining the focus on responsible pricing.</td>
</tr>
<tr>
<td>4. Responsible Pricing</td>
<td></td>
</tr>
<tr>
<td>5. Fair and Respectful Treatment of Clients</td>
<td>3. Appropriate Collections Practices</td>
</tr>
<tr>
<td>• Collections practices and ethical behavior are incorporated here</td>
<td>• This is credit-focused and so has been incorporated into a more inclusive item.</td>
</tr>
<tr>
<td>• New item here: non-discrimination</td>
<td></td>
</tr>
<tr>
<td>6. Privacy of Client Data</td>
<td>4. Ethical Staff Behavior</td>
</tr>
<tr>
<td>• Last two items are reversed in order. Resolution of complaints is a more suitable way to end the listing.</td>
<td>• See fair and respectful treatment principle</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>6. Privacy of Client Data</td>
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</table>
Annex 6 – Smart Assessment Methodology

A Smart Assessment provides an exhaustive, independent view of a FI’s client protection practices. Conducted by two assessors (one who is necessarily an accredited Smart Lead Assessor), an external assessment generates a full narrative report on the strengths and areas of improvement of the FI, accompanied by recommendations and a tailored action plan for improvement. An external assessment is a genuine capacity building tool that can help prepare for certification, guide management decisions or be used to identify funding opportunities. It results in an in-depth, extended analysis of client protection practices.

The assessment team visits the institution on-site to examine how the FI implements the Client Protection Principles at three broad levels: 1) market and regulatory context, 2) FI policies, procedures, and systems, and 3) organizational culture and how policies are reflected in staff behavior. The Smart Assessment will review the FI’s documentation and hold interviews with leadership, management, key line staff, and (to the extent possible) clients. The assessment team will also observe staff-customer interaction at the branch level.

The Smart Assessment report (final output for the FI’s) is organized into two sections. Part 1 reviews some key contextual elements relevant to client protection in the country. Part 2 presents a principle by principle analysis of key strengths and areas of improvement, followed by recommendations.

<table>
<thead>
<tr>
<th>Step 1: 1 week after assessment</th>
<th>Step 2: 2-3 weeks after assessment</th>
<th>Step 3: 4 weeks after assessment</th>
<th>Step 4: 5-6 weeks after assessment</th>
</tr>
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<tbody>
<tr>
<td>- Assessors write up their notes from the field work and interviews and share with other assessors.</td>
<td>- Circulate draft copy of the report among assessors for revision and comments. If other assessors have comments to add, do so in track changes. - Incorporate everyone’s revisions and ensure that the report format is correct. - Let the Smart Campaign know when to expect the final draft of the report. - If the report is written by an accredited lead assessor, this step may not be necessary.</td>
<td>- Finalize the assessment scores and graphs. - Send the report to the Smart Campaign for revision. - After incorporating the Campaign’s revisions, send the draft to the financial institution and allow 1-2 weeks for comments.</td>
<td>- If the financial institution sends any revisions, analyze and incorporate any relevant revisions and submit the final version of the report to the financial institution and to the Smart Campaign.</td>
</tr>
</tbody>
</table>

The Smart Assessment can be followed by specific “upgrading” projects that aim at improving one or several Client Protection Practices. For the purpose of this report, an individually tailored upgrading process was designed for each institution and a follow-up visit was conducted in order to record advances, improvements, lessons and results from the implementation experience of each FI.
About the Multilateral Investment Fund

The Multilateral Investment Fund (MIF), a member of the IDB Group, supports economic growth and poverty reduction in Latin America and the Caribbean through encouraging increased private investment and advancing private sector development. It works with the private sector to develop, finance, and execute innovative business models that benefit entrepreneurs and poor and low-income households; partners with a wide variety of institutions from the private, public, and nonprofit sectors; evaluates results; and shares lessons learned.

www.iadb.org/mif/

About the Smart Campaign

The Smart Campaign is a global campaign consisting of microfinance leaders from around the world who believe that protecting clients is not only the right thing to do but the smart thing to do. To date, over 3,000 microfinance and other financial institutions, microfinance support organizations, investors, donors, and individual industry professionals have pledged adherence to the Smart Campaign’s core Client Protection Principles. By providing microfinance institutions with the tools and resources they need to deliver transparent, respectful, and prudent financial services to all clients, the Smart Campaign is helping the industry maintain a dual focus on improving clients’ lives while attaining financial sustainability. The Campaign is headquartered at the Center for Financial Inclusion (CFI) at Accion and is governed by a Steering Committee representing a broad cross-section of the industry.

www.smartcampaign.org

About the Center for Financial Inclusion

The Center for Financial Inclusion at Accion (CFI) helps bring about the conditions to achieve full financial inclusion around the world. Constructing a financial inclusion sector that reaches everyone with quality services will require the combined efforts of many actors. CFI contributes to full inclusion by collaborating with sector participants to tackle challenges beyond the scope of any one actor, moving from thought leadership to action.

www.centerforfinancialinclusion.org
THE SMART CAMPAIGN is a global effort to unite microfinance leaders around a common goal: to keep clients as the driving force of the industry. The Smart Campaign consists of microfinance leaders from around the world who believe that protecting clients is not only the right thing to do but the smart thing to do. By providing microfinance institutions with the tools and resources they need to deliver transparent, respectful, and prudent financial services to all clients, the Smart Campaign is helping the industry maintain a dual focus on improving clients’ lives while attaining financial sustainability. The Campaign is headquartered at the Center for Financial Inclusion at Accion.

www.smartcampaign.org