

Responsible Inclusive Finance Working Group, Convening #16
Hosted via WebEx
July 22 2015, 9 a.m. – 11 a.m.

Participants

- Heather Clark, Independent Consultant
- Bridget Dougherty, Microfinance CEO Working Group
- Cara Forster, SPTF
- Anne Hastings, Microfinance CEO Working Group
- Katie Hoffmann, SPTF
- Laura Foose, SPTF
- Kate McKee, CGAP
- Tomi Nummela, PIIF
- Alex Rizzi, Smart Campaign
- Tom Shaw, CRS
- Tony Sheldon, SPTF

I. Meeting Overview

The 16th convening of the Responsible Inclusive Finance (RIF) Working Group focused on coordination on regulation. The RIF Working Group will meet next in September 2015. The recording for the meeting can be found here: <https://sptf.webex.com/sptf/ldr.php?RCID=8bc441a79fca5c432f11031102bda865>.

II. Next Steps

- Heather Clark will work with identified members of the RIF Working Group to develop a framework for categorizing countries by regulatory issues. The group will review this framework on its next call.

III. Summary of Dialogue on Agenda Items

i. Updates on efforts on regulation

- Cara Forster explained the Norma, a new regulatory document in Nicaragua that includes the Universal Standards for Social Performance Management and spells out the requirements for a social audit. It was written by Tomás Rodríguez, the social performance consultant for REDCAMIF and longtime member of SPTF.
 - The Norma:
 - Details the requirements for the audit firm, as well the verification aspects the auditor will look at.
 - Uses the vast majority of Essential Practices from the USSPM. It modifies a few EPs to make them verifiable, and it replaces Dimension 6 with internal audit requirements. It also has a section on quantitative outcome indicators.
 - Has an anticorruption section, which spells out what it means to be independent and objective. For example, the firm can't be bankrupt, can't be clients of the MFI and can't have more than 25% of their income coming from the MFI they audit,
 - Specifies requirements from an MFI to facilitate a successful assessment.

- States that the regulator will be one of the approved auditors, and MFIs can buy an audit from the open market or from regulator.
 - Cara said the Norma has been presented to CONAMI, and it is in their hands. Even after it is finalized, it will take a while for audit firms to become officially registered with CONAMI.
 - Cara noted that the document could serve as template for countries that want to take a step in that direction. It is only available in Spanish.
 - Kate McKee noted that it would be helpful to have a one-page summary in English and to know the context of how this was developed, as well as any generalizable points that can be taken from it.
 - Cara said the regulators were largely motivated by the crisis, which can't be replicated. However, she noted that there are productive and unproductive ways of getting the government involved. REDCAMIF and ASOMIF, the national network in Nicaragua, have been very involved in advocacy for the regulation. For example, REDCAMIF paid for the regulators to attend their annual SP forum.
 - Cara noted that the regulators were taken along on the journey of the SPI4 development, and kept apprised of the progress.
 - Tomi Nummela asked what the market impact is expected to be, and whether there was something that will serve as a proxy for that.
 - Cara said that CONAMI will offer preferential access to government funding for MFIs that get a certain score on the social audit. Other benefits may be identified in the future, at the discretion of the regulator.
 - The MFIs will have to publish the results of the social audit. Any international investor or funder would have access to the results.
 - Cara trained the national network in Nicaragua on the SPI4 training and how to give trainings on USSPM and SPI4. They, in turn, are training the staff of the network and regulators.
- Update from Anne Hastings on MCWG's efforts on regulation:
 - MCWG and Good Return hosted a dinner with the regulators from Cambodia and Laos at the SPTF Annual Meeting. MCWG is now partnering with Good Return to help Cambodia develop own national strategy for client protection. They are putting together a team to work on this, which will include Isabelle Barres and Beth Rhyne.
 - Kate said her colleague, Eric DuFlos, has done a lot of work in Cambodia and might have helpful advice. Cambodia is working on e-money regulation and is thinking about how consumer protection rules would apply in the digital context.
 - The group received feedback that the phrase "model law" sounds like it is the only model law that can be enacted. The MCWG is changing the phrase to "model legal framework," which reflects the fact that it has to be adapted to the context of each country.
 - Anne also said the group should refer to the model legal framework as a partnership between MCWG and the Smart Campaign, as well as with DLA Piper.
 - MCWG is planning several trainings and sessions at conferences to discuss the model legal framework:
 - MCWG is planning a training in Malaysia with AFI's Consumer Empowerment and Market Conduct Working Group.
 - ASBA has offered three different workshops where MCWG can discuss the model legal framework with its members. First one could be in October in Mexico.
 - Going to be speaking at the Pacific Microfinance Week conference.
 - The framework might be discussed at the Responsible Finance forum. Kate said Isabelle Barres will be on the agenda to discuss Codes of Conduct and regulation.

- The Spanish translation of the framework is finished and reviewed. The framework has been translated into French, Russian and Khmer but are still being reviewed.
- Kate McKee provided updates to CGAP's efforts on regulation, noting that it continues to focus on consumer protection in digital finance. It has particularly focused on mainstream commercial players in responsible digital finance and has a new focus note on regulation, which could be interesting in terms of problems customers report in their use of mobile money.
- Alex Rizzi provided updates for Smart Campaign's efforts on regulation.
 - **India.** Smart Campaign mapped grievance redressal mechanisms for MFIN members and developed a framework for supervision. They plan to roll out the framework through a series of workshops in the fall in different regions of the country. Additionally, Sa Dhan was approved as an SRO, and Smart is having early conversations with them.
 - **Peru.** SBS did an in-depth mapping of certification standards and its supervisory scheme, which showed a lot of overlap. The recommendation is to have supervisory visits have an extra module that covers gaps between the supervisory scheme and certification.
 - **Philippines.** Smart continues to talk with the Central Bank about its recognition of certification. This would require widening the pool of licensed certifiers, as well as the types of institutions Smart works with us in Philippines (e.g. rural banks).
 - **Kyrgyzstan.** Smart is meeting next week in Kyrgyzstan with the World Bank, IMF and regulators to talk about certification and to give them an introduction to the model legal framework. Three of the big players (covering 30% of MF clients) are already certified.
- Anne said these updates show regulators' willingness to engage. Things are moving rapidly.
 - Kate noted that uptake and interest is particularly strong on consumer protection aspects. Beside Nicaragua, are other regulators considering the SP framework more broadly?
 - Tom Shaw noted that the BCEAO recently mapped their regulation with the USSPM. Recently, they decided to do a more detailed mapping at the Essential Practice level. Tom noted that, even though some aspects of USSPM are included in the regulation, there is no compliance mechanism. The mapping is only available in French.
 - Laura noted that SPTF has also been approached by regulators in Jordan and Morocco.
 - Bolivia requires social ratings. This is also being negotiated in Ecuador.

ii. **Categorizing countries by regulation**

- On last call, group decided to create categorization for different aspects of regulation, such as regulatory body and type of regulation. This will help initiatives better understand which countries to engage with and how to do so. Since that call, Katie Hoffmann and Laura Foose talked with Heather Clark about hiring her to create this categorization. She is tentatively interested and joined this call to discuss next steps.
- Next steps include the following questions?
 - What is the best way to develop this?
 - What categories should we use?
 - What are existing documents/resources that can be used?
 - What are the priority countries that we should start with?
 - How can we make this a living document?
- Tom noted that the group needs to determine how to engage with regulators and how regulation can apply beyond microfinance.
 - Laura agreed, noting that the Cambodian regulators said they would help initiate discussions in other departments. The advocacy does not have to come from the outside.

- Anne noted that Cambodia doesn't have a comprehensive law about microfinance. Rather, the professional association of bankers in Cambodia has developed best practices, and the NBC is going to see how the banks comply with the guidelines. For microfinance, they have to develop their own strategy because they have a mandate for doing so. Every country will be different in terms of how you move beyond the microfinance sector.
- Anne asked Laura to explain SPTF's plan to only engage with countries that come to SPTF. How does that fit with this sense that we should be prioritizing countries?
 - Laura said that her initial assumption is that regulators will take the first step in consumer protection. That's something that AFI, CGAP and Smart Campaign focus on, so SPTF is not going to have much added value. However, when policymakers come to SPTF, then SPTF will engage. Prioritization should come from level of interest of regulators.
 - On that note, Laura noted this grid should not be exhaustive. Should start where we're seeing interest. Katie noted that, given the RIF Regulation Mapping, there is most interest in the following countries:
 - LAC: Ecuador, Bolivia, Nicaragua, Peru
 - ECA: Armenia, Kazakhstan, Kyrgyzstan, Uzbekistan
 - Pacific Islands
 - Philippines
 - BCEAO
 - Cambodia
 - Philippines
 - India
 - Laura said we could develop chart and mapping for those countries and maybe a few more (20-25 total). What do the laws currently cover? Also, it is important to note how mobile network operators are regulated. That's going to be increasingly important going forward.
- There are several resources that the group noted already exist:
 - Anne noted that the lawyers at DLA Piper conducted a mapping for 9 countries, which is not yet public. They went into overview of 9 questions and then did a 5-page summary of each country. The categories:
 - Maturity/size of mfi industry
 - Who covers the microfinance industry?
 - Is there specific legislation pertaining to microfinance? When was it adopted?
 - Country approach to client protection generally? (Is there a separate client protection scheme apart from financial regulations?)
 - Any special circumstances relevant to understanding the MFI legal/regulatory scheme?
 - Client Protection Principles (Summarize applicable laws/regulations for each principle.)
 - Alex said SEEP just released a client protection diagnostic tool for market level that includes some mapping of client protection regulations and self-regulation in a given market.
 - Laura said that the Responsible Finance Forum is looking more in depth at digital financial services. They could have compiled analysis on the MNOs.
- Anne said the problem is these issues continually change. How can we make sure it's current?
 - Alex suggested that networks could be trigger points that regulation has changed, and then the group would investigate further.

- Tony noted that the group needs to determine what kind of detail it wants to have in the research.
 - Anne said she thinks a broad brush is a waste of time. The laws are complicated, and once you get into the law, you don't want to have to get back in.
 - Heather noted that it is vital to have a clear framework before starting. Even if you have to add or delete things because they're not working right, it is good to have the framework as detailed as possible to begin with. Then you have a map for the research.
- Anne suggested having Heather develop a framework that we could review on the next RIF Working Group call in late September.
 - Heather agreed, and said the best way would be to conduct interviews with RIF initiatives.
 - Tony suggested that there should be a subcommittee to work together on this. People suggested Kate McKee, Cara Forster, Alex Rizzi, Tom Shaw and Aldo Moauro.
 - Katie will talk with Heather and then send email to subgroup to discuss next steps.