Engaging in a fruitful dialogue with regulators on Social Performance and Client Protection

TIPS AND LESSONS LEARNT *(November 2014)*

1. Make sure you understand the objectives of your regulator or policy maker

The first responsibility of regulators is to ensure **financial stability and integrity**. This means setting **prudential regulations** and related **supervisory** structures, as well as **good governance** practices to guarantee that financial institutions are strong and efficient and maintain the **confidence** of the savers and investors in the country.

Most regulators however recognize the key role of **Financial Consumer Protection** in the stability of the financial sector. This led to the issuance in October 2011, of the G20-OECD High Level Principles on Financial Consumer Protection that have been endorsed by the G20 Finance Ministers and Central Bank Governors. These high-level principles are designed to assist G20 countries and other interested economies to enhance financial consumer protection. They cover 10 themes, in which you will recognize many of the Smart Campaign Principles:

- Legal, Regulatory and Supervisory Framework
- Role of Oversight Bodies
- Equitable and Fair Treatment of Consumers
- Disclosure and Transparency
- Financial Education and Awareness
- Responsible Business Conduct of Financial Services Providers and Authorised Agents
- Protection of Consumer Assets against Fraud and Misuse
- Protection of Consumer Data and Privacy
- Complaints Handling and Redress
- Competition

See Annex I of this guide for a summary document, and you can download more detailed documents related to these principles either on the G20 or OECD websites.

Some regulators also have the broader goal to improve **financial inclusion** for their citizens.

Box A: **The Maya Declaration**

The Maya Declaration is the first global and measurable set of commitments by developing and emerging country governments to unlock the economic and social potential of the 2.5 billion 'unbanked' people through greater financial inclusion. More than 90 such countries – representing more than 75 percent of the world's unbanked population – have supported the Declaration. Each country makes measurable commitments in four broad areas that have been proven to increase financial inclusion:

•Create an enabling environment to harness new technology that increases access to and lowers the costs of financial services;

•Implement a proportional framework that advances synergies in financial inclusion, integrity, and stability;

•Integrate consumer protection and empowerment as a key pillar of financial inclusion;

•Utilize data for informed policymaking and tracking results.

In order to understand how regulators look at the topic of financial inclusion in general, it is important for you to read the reference documents on that topic, and the **World Bank Financial Development Report** can be a good start. See Annex II for the main message of that report, and you can download the full report on the WorldBank website.

If the regulator of your country is a member of the Alliance for Financial Inclusion (AFI: www.afi-global.org) it is then likely that they have the objective to balance **stability, integrity and inclusion**. The regulator of your country might also have signed the AFI Maya Declaration and made specific commitments towards achieving greater financial inclusion (see box A).

AFI has also organized working groups on the topics listed below. Be sure to identify in which working group your regulator is active:

- Balancing inclusion, integrity and stability
- Consumer empowerment and market conduct
- Digital financial services
- Financial inclusion strategy
- Measuring financial inclusion
- SME finance
- Other financial inclusion policy

Poverty alleviation is usually not an objective of the financial regulator per se, but most likely is under the responsibility of a government agency/ ministry (e.g., Ministry of Social Affairs, or Economic Development, or Health and Education, etc.).

Before engaging with the regulator of your country be sure to inform yourself about its specific objectives and priorities.

2. Speak the same language as your regulator or policymaker

MFI practitioners and regulators use slightly different terms to speak about similar concepts. Actually, even among regulators, different terms for the same ideas are common. It is very important that you use the terms commonly used by your regulator rather than any MFI jargon, because you will be better understood if you adjust your presentations and interactions to use the terms that the regulator is most used to hearing. Check the actual practice in your country to determine how best to proceed. Here are a few “translations”:

Client Protection

Here are some of the terms that are used by regulators to refer to Client Protection issues: Consumer Protection, Consumer Rights, Market Conduct or Business Conduct.

Financial inclusion

When it comes to financial inclusion, regulators participating in AFI use the concepts of **Access**, **Usage** and **Quality** rather than the microfinance concepts of **outreach** and **adaptation of services**. These concepts are similar but not identical, causing regulators to use indicators that are different from the ones commonly used by MFIs.

3. Be able to demonstrate your achievements

Demonstrating your achievements to regulators means being able to provide data that they can consider relevant and reliable. To that end, simple outreach indicators such as number of active borrowers or size of portfolio outstanding will be a good start but are usually not considered sufficient. Below are some tips on how you can design your reporting to be more meaningful in your exchanges with regulators.

a. Financial Inclusion

Below is the core set of indicators defined by AFI to measure financial inclusion. SPTF recommends to networks that the data they request from their members allow each network to report on the consolidated performance of its membership for **at least** the indicators listed in the table below.

AFI core financial inclusion indicators	
Access	• Number of access points per 10,000 adults at a national level and segmented by type and by relevant administrative units • Percentage of administrative units with at least one access point • Percentage of total population living in administrative units with at least one access point
Usage	• Percentage of adults with at least one type of regulated deposit account • OR Number of deposit accounts per 10,000 adults • Percentage of adults with at least one type of regulated credit account • OR Number of loan accounts per 10,000 adults
Quality	Not yet defined by AFI

MIX has been contacted by several regulators that wanted to have a better understanding of the contribution of MFIs to financial inclusion. From these interactions with regulators, MIX has defined a data template to help MFI networks who want to report financial inclusion indicators to their regulators. The details of the indicators suggested by MIX can be found in Annex III of this document.

Even if the specific indicators on quality have not yet been defined by AFI, having independent measurements of the characteristics of the quality of the services (such as mystery shopping), or on the satisfaction of the clients, can be important in your discussion with the regulators.

Ensure that you understand the unmet demand for financial services in your country. Information on this may already be available. The MAP evaluations (Making Access Possible) by UNCDF can be a good example of a thorough review of both the supply and demand in a country. Follow the link "Publications" on the following web page: http://www.uncdf.org/en/making-access-possible

b. Social Outcomes

Regulators will be specifically interested in any indicator, survey, or research on the social outcomes of the financial services that you provide. Measuring outcomes at the microfinance sector level rather than for each institution can be relevant to regulators and can help reduce the cost of the data collection for each MFI.

Unfortunately, the measurement of social outcomes is still insufficiently developed in microfinance. The Social Performance Task Force has launched a working group on this topic for the 2014-15 year (http://www.sptf.info/sp-task-force/working-groups). Participating in this working group or consulting the documents that it produces can help you identify efficient strategies to assess and report on social outcome indicators.

4. Put yourself in the shoes of the regulator

The following statements are usually valid for regulators. These have consequences for your discussions with them on social performance.

Regulator's reality	Consequences for the discussions around social performance
Their primary concern is to avoid bank failures, guarantee the confidence and stability of the financial sector and protect depositors. The financial sustainability of the financial institutions under their supervision matters more than their social performance, social responsibility, or contribution to financial inclusion.	It is important to **demonstrate** - how social performance management can contribute to a better stability of financial institutions, or - how poor social performance practices can expose financial institutions to risks (which is especially true for client protection practices).
They are mostly interested in the institutions that are under their supervision and less so in the unregulated portion of the financial sector, unless the unregulated financial sector has reached a systemic size given the number of clients it serves.	If you are representing unregulated institutions, it might be important to partner with regulated institutions or their professional associations, or to demonstrate how your statements can be **valid for all financial institutions** rather than only for your category of institution. Showing the number of persons (in % of the total population) that are impacted by your services is key to show your systemic importance.
They have limited resources given their existing responsibilities and duties.	You need to be seen as a **resource** for regulators rather than a burden. Being a resource can include providing data, input, or research papers that are of interest for the regulator. In order for the regulator to accept the idea of dedicating resources to topics related to microfinance, you need to be able to demonstrate, with **numbers** and/or independent **research**: - that your members significantly contribute to advancing financial inclusion - that your members are committed to best practices in terms of transparency (with publication of verified data on their financial and social performance) - that your members are committed to best practices in terms of risk management and are financially sustainable, and - (if possible) that your members have had a positive impact on one or more aspects of the socio-economic situation of their clients
Because of their role to maintain the stability of the financial sector, they tend to be prudent and prefer to use solutions that have already been tested elsewhere.	It is important to gather examples of the solutions that **regulators from other countries** have found to a given issue. It will be even better if the solution is from the same region you are in and has already been tested for a while and can be considered a **proven solution**.

The word "social" might be perceived in some countries as a synonym for "charity" and therefore be seen as irrelevant.	When engaging with regulators, be sure to highlight the fact that your goal is to build a **sustainable** financial service for your target clientele, and that the social portion of your work does not mean that you will not comply with best practices in terms of risk management or governance. In some cases, you might want to use the terminology of **responsible inclusive finance** if that resonates more with your regulators.
Regulators might be under political pressure on sensitive topics such as interest rate levels	If interest rate levels are debated in your country, it is important that you provide data to inform the debate (international comparisons, data on cost of credit in absolute value rather than in %, data on net profits of client businesses after interest rates, etc.)

5. Identify the areas where the Universal Standards for Social Performance Management and the objectives of the regulators are in synergy and where potential tensions might lie

Universal Standards for SPM	*Tensions*	*Synergies*	***Potential Impact of a good dialogue with the regulator***	***Examples of such practices***
DEFINE AND MONITOR SOCIAL GOALS **ENSURE BOARD, MANAGEMENT AND EMPLOYEE COMMITMENT TO SOCIAL GOALS**	Some regulators might fear that these practices undermine the sustainability of the institutions; you need to reassure them that this is not the case.	If your regulator has defined precise financial inclusion goals, they might be interested to know that your members also have well defined social goals, among which are some that relate to increased r financial inclusion, and that your members are committed to the monitoring of financial inclusion indicators.	Standard reporting on the social performance and financial inclusion outputs for all financial institutions.	Currently being implemented in Ecuador (Balance Social). Contact Javier Vaca at Red Financiera Rural for more information (info@rfr.org.ec).

Universal Standards for SPM	*Tensions*	*Synergies*	***Potential Impact of a good dialogue with the regulator***	***Examples of such practices***
DESIGN PRODUCTS, SERVICES, DELIVERY MODELS AND CHANNELS THAT MEET CLIENTS' NEEDS AND PREFERENCES	Financial inclusion is in great tension with the integrity of the financial sector because of the "informality" of clients businesses, which for regulators means more difficulty in tracing the source of revenues or parties in a transaction and makes it harder to spot potential threats. If you think that a relaxation of KYC[1], AML/CFT[2] or branch infrastructure rules would benefit financial inclusion, you need to bear in mind these concerns of the regulator and suggest appropriate solutions.	For regulators, improving financial inclusion means finding delivery channels and services that are sustainable and adapted to all levels of the population. Regulators will be interested to know that your members have procedures to understand the needs of their specific clientele. They will also be specifically interested to review any research/ studies that you produce on these topics.	Regulation adapted to ensure that it does not create a barrier to financial inclusion: - Reasonable cost for branch opening in less dense areas - Reasonable operating costs implied by regulatory requirements (documentation, etc.) for transactions of small amounts - Permission to use agents or alternative channels (e.g. mobile or retail shops) and to - Invest in infrastructure that allows greater access (notably mobile transaction platforms) - Proper regulation defined for Responsible digital financial services	The Peruvian regulation has gradually evolved and is still evolving to address these different issues. You can refer to the presentation made by Mariela Zaldivar from the Super Intendencia de Bancos y Seguros of Peru, during the 2014 SPTF annual meeting. It can be found on the SPTF website: http://sptf.info/sp-task-force/annual-meetings

[1] Know Your Customer
[2] Anti-Money Laundering and Combatting the Financing of Terrorism

Universal Standards for SPM	*Tensions*	*Synergies*	***Potential Impact of a good dialogue with the regulator***	***Examples of such practices***
TREAT CLIENTS RESPONSIBLY	The cost of the supervision of the regulations on consumer protection is likely to be the biggest tension here. This is especially true when the financial institutions serving the low-end of the market exhibit great diversity. Some regulators might prefer not to regulate something that they are not able to properly supervise. Some form of self-regulation might be helpful for these cases.	A poor level of client protection can have consequences on the reputation of the financial sector and on the sustainability of financial institutions. Mechanisms that help to prevent such risks should be of interest for regulators. Client Protection is all the more important for segments of the population that have a lower education level, and do not have a lot of experience in using formal financial services. The components of your members' practices that tackle the (financial) literacy limitations of the clients will be of particular interest, such as any initiatives related to financial education.	- Efficient credit bureau - Clear norms on disclosure of cost and conditions of services to the clients - Standard list of acceptable and inacceptable collection practices - Clear exclusion list for aggressive sales practices - National Financial Education program and efforts	There are several examples of countries that have implemented comprehensive Financial Consumer Protection Laws and Regulations. Countries highlighted by the **Economist Intelligence Unit's 2013 Microscope** as having the best client protection regulations are the following: Armenia, Bolivia, Bosnia & Herzegovina, Peru You can find detailed examples in the WorldBank Guide ***"Good Practices for Financial Consumer Protection"*** (June 2012).
TREAT EMPLOYEES RESPONSIBLY	This topic is usually not under the jurisdiction of the financial regulator. They might be interested to know, however, that the practices on this topic found in the Universal Standards for SPM are in line with international labor standards promoted by the International Labor Organization worldwide.		- Minimum wage - Minimum labor law or rules for responsible employment in the financial sector - Minimum standards for health and safety of work environment	

Universal Standards for SPM	*Tensions*	*Synergies*	***Potential Impact of a good dialogue with the regulator***	***Examples of such practices***
BALANCE FINANCIAL AND SOCIAL PERFORMANCE	Be sure to make it clear that these practices are not a threat to the financial sustainability of the financial institutions; they can reinforce the long term financial performance by facilitating a better balance between the interests of the financial institution and the interests of its clients.	These practices promote benefits for both businesses and the consumers. They strive to keep a balance so that consumers are not taken advantage of, and they help avoid the systemic risks of uncontrolled growth. Prioritizing balanced financial and social performance focuses the institution on long-term sustainability, which requires prudent growth, and doing no harm to clients, rather than seeking short-term gains at the expense of future stability. The regulator can see this approach as a way to shelter the financial sector from undue political pressures.	- Clear rules on the disclosure of the compensation of management and board. - No interest rate caps that reduce the possibility to offer services to the lower-end of the market.	Some countries are exploring this but research for this guidance note found no best practices to highlight to date. Most countries that have tried to tackle this issue have done so with interest rate caps that are difficult to implement since they often result in negative side effects, related to either reduced outreach to the lowest segments of clientele or lower transparency of the market.

6. Adopt a gradual wooing approach to engage with regulators

The following sequence has been reported by several networks to be an efficient way to start a dialogue with regulators. You will find concrete examples of strategies or actions taken by MFI networks that are members of the SPTF in the following pages.

- Identify an element of social performance for which the interest of the regulator and your members are likely to be aligned. This will probably include one or more of the topics of consumer protection: over-indebtedness, transparency, complaints, and potentially topics related to financial inclusion.
- Investigate that issue and how the performance of institutions could be improved through a survey or research which will help to raise awareness (e.g., survey of clients on cross-indebtedness, results of focus groups on the understanding of interest rates, satisfaction survey, data gathered on the contribution to financial inclusion of your members, etc.).
- Be ready to demonstrate how your members have already actively worked on that issue (e.g. through reports, data, etc.).
- Refer to examples of regulations adopted in other countries to tackle that issue (you can notably consult the short case studies in the next section of this document, or ask SPTF to help you identify relevant examples).
- Build consensus among your members / and even beyond (among financial institutions), and ensure that the industry is as much as possible able to talk with one voice on that topic.
- Create opportunities to exchange informally with the regulators on that topic. For example, by inviting representative of the regulator to your annual conferences, or to an ad-hoc event or workshop. This allows you to convey messages on the key concerns of the industry and hear the positions of the regulator outside of a formal meeting. During that event, present the results of your research/survey and the examples from other countries.
- If you managed to create interest, you can follow up on that event by offering to organize a dedicated workshop, or provide additional data, etc. Several MFI networks reported that the request for a follow-up workshop, conference, or research paper actually came from the regulator.
- If the contact is hard to establish, go through respected "match makers" such as donors (World Bank, IFC), or relevant bi-lateral agencies.
- Once the collaboration is established on a topic, you can continue your efforts on the next item of social performance where the interests of your members and the regulator are likely to be aligned.

Also remember a few general rules:

- *The microfinance sector needs to speak with only one voice to the regulator.*
- *Regularly invite representatives of the regulators to participate in your events or activities, in order to establish a good relationship.*
- *In your communication, make sure to highlight the number of persons impacted by the services of your members, in order to draw the attention of the regulator to your activities that otherwise might look small when considering the amounts of money involved.*
- *Have all data and arguments ready to demonstrate that working on the social performance of financial institutions is a win-win situation: it reduces risks of financial instability, improves financial inclusion, and improves the understanding of clients' needs and thus the quality of the services. The case study provided by Oikocredit on the implementation of social performance management (SPM) at UGAFODE, Uganda ("Turning Client Focus into Commercial Success"), can be a good example of this.*

SHORT CASE STUDIES

Testimonies from SPTF Network members on their interactions with regulators on SPM

1. *Azerbaijan Microfinance Association (AMFA)*
2. *Association of Ethiopian Microfinance Institutions (AEMFI)*
3. *Association of Microfinance Institutions of Uganda (AMFIU)*
4. Asociación Nicaragüense de Instituciones de Microfinanzas (*ASOMIF, Nicaragua)*
5. *Microfinance Institutions Network of India (MFIN)*
6. *Tanmeyah - Jordan*
7. *Pakistan Microfinance Network (PMN)*
8. *Red Financiera Rural (RFR)*

1. *Azerbaijan Microfinance Association (AMFA)*

AMFA was created in 2001 and registered in 2004. It currently has 35 members, all of which provide microfinance services (either non-bank credit organizations specialized in micro-credit services, or downscaling banks). Members have to adhere to the values and goals of AMFA.

AMFA has implemented several initiatives in order to push for changes to the regulatory environment that would be conducive to a better protection of microcredit clients. The starting point of all these initiatives has **been close contact between AMFA and its members** and a **strong commitment from AMFA members** toward the improvement of client protection practices in particular and social performance management in general. This commitment ensures that **AMFA is a reliable bridge between the financial institutions and the regulator,** which is key to a fruitful dialogue between AMFA and the Central Bank.

Some of these initiatives are detailed below.

1 –**Initiating Dialogue**: Each year, AMFA organizes either a conference or an investor fair. Since 2010, AMFA has dedicated at least one session to CPP per year. The topic has been defined based on a survey of members. The Central Bank is invited either to attend or to make a presentation on this topic in order to start the discussion. Every year, this session has been the occasion to define a roadmap toward the improvement of practices, and notably has led to the creation of working groups on different topics. The topics covered so far have been:

- Avoiding over-indebtedness, multiple borrowing – 2010, 2012
- Responsible financing, fair treatment, and client protection in finance - 2011
- Code of Ethics for the Industry – 2012
- Financial education – 2010, 2012, 2013, 2014
- Handling client complaints – 2013, 2014

2 – **Prevention of Over-indebtedness**: In 2008, AMFA conducted a first impact study, with funding from several donors. The impact study in 2008 identified the emergence of financial risks, and the insufficient preparation of AMFA members to manage this risk. In 2010 AMFA organized a working group of its members in response to their concern regarding cross-lending and multiple-borrowing. They met every two to three months to discuss ways to prevent cross-lending and over-indebtedness. In 2011, as a result of the AMFA's efforts to lobby the Central Bank on the possibility for MFIs to report to and access information from the Centralized Credit Registry Service, the Central Bank issued a decree on the obligation for MFIs to report to the Credit Registry every month. In 2011, AMFA also conducted a financial literacy survey for the Central Bank of Azerbaijan, with funding from SECO and the World Bank. A second study on the prevention of over-indebtedness is planned to start at the end of 2014 or beginning of 2015.

3 – **Complaints mechanisms**: A roundtable discussion organized during the annual conference in 2013 revealed that international experiences in terms of complaint mechanisms were not easy to transfer in the Azerbaijani context, and that AMFA members needed more guidance on how actually to implement good complaint mechanisms. The Central Bank decided to issue a mandatory Methodological Guidance on Building Mechanisms to Handle Client Complaints, which is now in the process of being implemented by several financial institutions.

Similar approaches have been used to work on the development of a Code of Conduct for AMFA members, on the issue of privacy of client data and on the development of financial education.

2. *Association of Ethiopian Microfinance Institutions (AEMFI)*

AEMFI invited a senior representative of the National Bank (deputy governor) to take part in AEMFI's **strategic workshops on SPM**, and **trainings on CPP**, during which it shared the documentation provided by the SPTF, Smart Campaign and MISION AFRICA.

In the bi-annual microfinance conferences organized by AEMFI, SPM related topics have been presented and discussed. During these presentation, AEMFI emphasized the need for regulators to take some action. As a result of these activities, the National Bank is now working on a directive for Client Protection Principles, among other efforts.

3. *Association of Microfinance Institutions of Uganda (AMFIU)*

In Uganda, the financial sector's image was deteriorating, which was a big set-back for the central bank, government, and practitioners. This helped AMFIU to push forward the agenda of client protection, because any suggestions to improve the status quo were welcome. There was a common interest that all needed to work toward restoring the reputation of the financial sector.

Before engaging with the Central Bank and the government on this topic, AMFIU made sure to have documented evidence that the client protection norms they were suggesting were workable. In order to do so, AMFIU introduced issues of SPM and client protection to its members before opening the discussion to the wider sector. By the time the topic was introduced to other stakeholders, AMFIU members implementing client protection practices already had demonstrated that the measures could be implemented.

The dialogue with the Central Bank on Client Protection was greatly facilitated by the existence of the Microfinance Forum that is chaired by the Ministry of Finance - Microfinance Department and brings together all microfinance stakeholders, including the Central Bank, on a bi-annual basis, with sub-committees that meet more frequently. AMFIU has strategically positioned itself as the secretary of that Forum, in order to have as much influence as possible on its agenda. Based on a suggestion from AMFIU, the issues of SPM and client protection were introduced in the Forum in 2010 under the consumer affairs sub-committee that had been established in 2007 to deal with issues of financial literacy. The Central Bank adapted the input gathered through the Forum to its own constraints and issued the Consumer Protection Guidelines to all supervised Financial Institutions in 2011.

4. *Asociación Nicaragüense de Instituciones de Microfinanzas (ASOMIF), Nicaragua*

The Nicaraguan microfinance industry suffered a profound crisis from 2008 to 2010 as a result of both the international financial downturn and the domestic No Pago (No Payment) Movement. Before that crisis, the Nicaraguan microfinance sector had developed relatively fast in the framework of a weak regulation and insufficient supervision. By 2008, the sector had also grown to include institutions with and without a clear social focus.

In order to prevent the occurrence of another crisis, the government, encouraged by IMF and IDB, decided in 2011 to pass a law to regulate, supervise, and support the development of the microfinance sector, a project that had been discussed before the crisis but that had not materialized. During the discussion of the new law, ASOMIF, the association of Nicaraguan MFIs, insisted on the inclusion of the concepts of social performance in the law to help ensure that the focus on client well-being would not be lost in the pursuit of short term profitability. ASOMIF provided its feedback on the draft law, both during one-on-one meetings and in writing.

The new "Ley de Fomento y Regulación de las Microfinanzas"[3] was issued in 2011. This law also establishes a Comisión Nacional de Microfinanzas (CONAMI) as an autonomous entity in charge of the following: 1) the creation of the official registry of MFIs; 2) the supervision of the financial and social performance of MFIs; 3) the creation of a Fund for the Promotion of Microfinance (FOPROMI); and 4) the link with the Credit bureau.

The new law also includes several elements that are meant to foster a good social performance of Nicaraguan MFIs. For instance, the law requires MFIs to get registered in order to access a certain number of benefits, including these: 1) be able to set its interest rates freely, 2) have access to public funding dedicated to the development of micro-credit, 3) have access to the Credit Bureau 4) ensure that the contracts signed with their clients are fully recognized in front of a court of law, 5) receive trainings, 6) gain access to studies and research produced by CONAMI, and 7) conduct pilot projects in partnership with CONAMI to improve the level of financial inclusion. In order to access all benefits described above, registered MFIs will need to comply with a series of financial parameters, but also obtain a Social Performance Certification and demonstrate that they have mechanisms in place that guarantee the transparency of its services and, more generally, the protection of its clients.

CONAMI will notably be the entity that will set the precise criteria to be used to evaluate the performance of the MFIs in terms of outreach to low income populations, accessibility of services to women, transparency of services, and client protection. These criteria are currently being defined, with input of the Proyecto MISION and ASOMIF, and will be partly based on the Universal Standards for Social Performance Management, as well as on an evaluation that is currently underway of the existing practices of six MFIs in Nicaragua. This process, which will also include two workshops, is supported financially by IADB. The precise format of the Social Performance Audits and Certifications to be performed by CONAMI or by a third party on behalf of CONAMI will also be defined in the coming months. In the meantime, trainings are held to make sure the boards and management teams of all MFIs are sufficiently aware of all these concepts.

5. *Microfinance Institutions Network of India (MFIN)*

MFIN was established in November 2009 as the industry association for the regulated MFIs in India (NBFC-MFIs). MFIN's mission is to work toward the robust development of the microfinance sector, by promoting responsible lending, client protection, good governance, and a supportive regulatory environment. Currently, its membership consists of 48 NBFC-MFIs, which together represent a very large portion of the Indian Microfinance sector.

MFIN was created with the goal to provide a self-regulation mechanism to an industry that had grown very fast and was confronted with issues that contributed to the Karnataka and Andhra Pradesh crises (multiple borrowing, over indebtedness, aggressive lending). MFIN started working on a Code of Conduct for its members in 2009, which it actively advocated from 2011 onwards. This Code of Conduct notably includes a section on client protection, but also covers subjects such as governance and human resources.

MFIN plays this self-regulation role notably through: 1) the enforcement of the Code of Conduct and Central Bank regulations among its members; 2) on-site and off-site surveillance on the Code of Conduct and

[3] Law for the Development and Regulation of Microfinance

regulatory compliances; 3) the promotion of the adoption of responsible finance practices by members; 4) efforts made to foster market transparency; 5) the creation of a forum to solve disputes between members; and 6) the establishment of an independent grievance redress mechanism for microfinance clients. In addition to these initiatives, MFIN chapters for each Indian State provide a common forum for MFIs to resolve State and District level operational issues.

Since June 2014, MFIN is recognized by the Reserve Bank of India (RBI) as a Self-Regulating Organization (SRO) for NBFC-MFIs. Key elements of SPM are embedded in the regulatory framework of the RBI, notably in the Fair Practices Code and in the industry Code of Conduct. Under the guidelines issued by the RBI for the SROs, MFIN is notably required to perform the following functions:

- Exercise surveillance over the industry to ensure compliance with RBI's regulatory prescriptions and the industry Code of Conduct;
- Establish an Enforcement Committee;
- Manage a mechanism to redress grievances and a to resolve disputes, primarily focused on MFI clients;
- Conduct investigations into areas of concern as identified by the RBI;
- Provide information and data to the RBI periodically or as requested
- Perform developmental functions through training and awareness programs as also conduct research for the microfinance sector

MFIN's vision of promoting financial inclusion is central to its efforts of engaging with the regulator. At a broad-brush level, financial exclusion is an extremely large national challenge. It needs all stakeholders to come together and work collectively to address the core issues and move forward the 'inclusion agenda'. In this context, MFIN's approach has been to build an engagement model which allows for a sustained and deep dialogue with the Central Bank (RBI) and the Government of India. This in turn translates into policy measures which support the endeavors of NBFC-MFIs, more particularly their thrust towards covering clients which are un-served or under-served by the mainstream financial institutions and banks.

Since its inception, MFIN has maintained a close connection with the regulator. The fact that key MFIN staff, including the CEO, have had previous work experience with the RBI or the government has helped in the development of high confidence levels and a continued deepening of the relationship. As the principal representative (and voice) of the microfinance industry, MFIN is now consulted on all industry issues and also invited for the periodic pre-Monetary Policy Consultative meetings hosted by the RBI Governor. Because MFIN represents over 90% of the industry, the RBI feels that MFIN is able to credibly speak for the industry.

MFIN employs several different strategies to make sure it remains informed of the activities and concerns of the microfinance sector in India. For example, MFIN regularly engages with various stakeholders so as to hear from all points of view and get a broader perspective on financial inclusion related issues. MFIN also regularly organizes various roundtables and discussion forums to facilitate constructive dialogue. Additionally, MFIN collaborates and partners with various stakeholders to leverage sharing of knowledge and competencies. MFIN makes all possible efforts to increase the availability of information and knowledge to its members, with a focus on information on clients' needs. To ensure a closer engagement with the wide variety of stakeholders who influence the financial inclusion dialogue, MFIN has created a new membership class called "Associates." Practically all players who are connected, directly or indirectly, with the overall national agenda of financial inclusion (technical and financial partners of MFIs, credit bureaus or rating agencies, etc.) are eligible to join MFIN as an Associate. This has made MFIN more inclusive and deepened its connection with all stakeholders.

MFIN strongly advocates that members maintain a balance between financial and social objectives. As the industry SRO, it is working toward making SPM an intrinsic component of business principles of MFIs.

6. *Tanmeyah - Jordan*

In Jordan, the government has long been supportive of the microfinance sector. A national microfinance strategy was adopted in 2005 which was updated in 2011 to bring a more comprehensive approach toward financial inclusion. In mid-2013, the Central Bank of Jordan (CBJ) made the decision to regulate and supervise the microfinance sector in accordance with the best international practices.

"Tanmeyah," the National Microfinance Association of Jordan, created in 2007, played an active role in the public consultation process that led to the definition of the new microfinance regulation, which it saw as a positive and necessary evolution. One of Tanmeyah's goals in this consultation was to make sure that the social mission of MFIs would be recognized and valued in the regulation. This goal had been discussed and agreed upon among the MFI members of Tanmeyah before the beginning of the consultation process. The absence of regulation indeed had allowed the entrance into the market of commercial players with a pure financial focus, and Jordanian MFIs felt this was posing a risk for the reputation of all MFIs.

Given that the microfinance institutions were not under its supervision, the Central Bank had little knowledge of the way MFIs operate, and Tanmeyah invited the Central Bank for a field visit of the members MFIs, which allowed the regulator to see that MFIs had developed systems that were on par with banks in many aspects (e.g., MIS, risk management, customer service). In order to gain credibility vis-à-vis the Central Bank, Tanmeyah also collects data from its members on different performance indicators as well as on outreach indicators at the governorate level. Thanks to these data, Tanmeyah is able to show the additional access to financial services provided by MFIs. Tanmeyah also sends its quarterly reports to the Central Bank, to keep them informed of the performance of the sector.

In all of its discussions with the Central Bank, "Tanmeyah" was able to rely on the standards developed at the sector (Smart Campaign Principles, Universal Standards for Social Performance Management), and was also able to show that the MFIs already had a good level of implementation of these principles. Indeed, most MFIs in Jordan regularly go through Microfinance Institutional Ratings or Social Ratings, and also report to the MixMarket on their social indicators. The Central Bank was notably interested in seeing that the Smart Campaign Principles are very much in line with the general recommendations issued by AFI, and that on those aspects, MFIs are more advanced than many banks. The issues of transparency and prevention of over-indebtedness, as well as financial education, were the ones that most caught the attention of the Central Bank.

All participants in the consultation process agreed on a draft microfinance regulation that is expected to be approved during 2015. This draft regulation gives importance to rules covering disclosure, transparency and consumer protection in general. As part of this regulation, MFIs will have to report on some social indicators to the Central Bank, and the national microfinance association "Tanmeyah" will have the responsibility to gather some of these data. The creation of a Supervisory Unit for MFIs within the Central Bank, as well as the use of ratings, is under discussion.

7. *Pakistan Microfinance Network (PMN)*

PMN's goal is to support retail microfinance providers by strengthening them institutionally, and work toward ensuring an enabling environment for microfinance in the country. More information on PMN at *www.pmn.org.pk*

Based on PMN's experience, the crucial elements for a constructive dialogue with regulators include:

a. **Have an existing working relationship with the regulator** where they have recognized the contribution of the organization in sector development and positive dialogue on issues.
b. **Do your homework first** and potentially do a policy/position paper that outlines the key issues/risks and recommendations to be considered. Evidence based advocacy works well.
c. **Understand the views of the regulator on the issue**: If the regulator has not expressed its view on the topic, it can be good to organize an event where you include the regulators as panelists to get their views out in the open and start a discussion.
d. **Be clear about your goals**. What are you asking for? Is it a change in the regulation? And which change exactly? Is it the establishment of a sector level mechanisms (for example for grievance redress)? Is it incorporation of some indicators in the Supervisors' inspection frameworks?
e. **Build your allies**: On issues such as client protection, it is easy to find allies and support from other institutions that have influence on regulators. Advocating with them simultaneously helps make the case to regulators. In countries like Pakistan these can be donors like The World Bank and DFID, both of which work closely with the central bank on financial inclusion issues.
f. **Use consultative forums** that create the space for debate. For example, at State Bank of Pakistan there is a Microfinance Consultative Group (MFCG) comprised of practitioners, the network, funders, and the central bank. Bringing up issues at this forum is useful, because a one-on-one with regulators may not be conducive to debate.
g. **Have a multi-pronged approach**: You need to build momentum around an issue, and use the different tools at your disposal to advocate for policy changes.

PMN put these general guidelines in practices in the case of Disaster Risk Insurance:

- The 2010 floods, which affected more than 20 million of the country's 180 million inhabitants, caused significant damage to microfinance branch infrastructure and led to considerable loan losses.
- PMN decided to contribute to the general effort led by authorities to improve the resilience of the Pakistani microfinance sector to natural disasters, which are likely to continue to affect the country.
- PMN wrote a paper to document the responses of its members to this dramatic situation. The paper suggested policy recommendations to improve the sector's ability to deal with natural disaster in the future.
- The paper was published and shared with the central bank.
- Based on this, PMN requested that the topic of disaster risk management be included as an agenda item on the next MFCG meeting
- PMN was then asked by the central bank to prepare a presentation for the Group.
- As a result of the meeting, a sub-committee of the MFCG was formed to come up with recommendations on what solutions exist to address this challenge for the sector.
- PMN was asked to draft the terms of reference of the sub-committee that is now working on advancing this topic of the establishment of a Disaster Risk Insurance fund for the sector.

8. *Red Financiera Rural (RFR)*

In 2012, Ecuador created a specific set of rules, regulation, and supervision for the "Economia Social y Popular". This sector notably includes a sub-sector called the "Sector Financiero Popular y Solidario," which includes the Savings and Loans Cooperatives or Bancos Comunales, among others.

The law requires financial institutions of the "Economia Social y Popular" to publish a "Balance Social," in which they will report on their compliance with their social mission and goals, as well as on their social, cultural and environmental impact. RFR is participating in the definition of the template of the Balance Social.

For the purpose of defining the template of the Balance Social, RFR was able leverage the tools developed at the sector level to measure the social performance management practices of MFIs. Nonetheless, RFR faced one obstacle during this process, which was the insufficiency of reliable data. Indeed, many of the MFIs in Ecuador are not yet fully able to ensure the reliability of the data they collect on their social indicators. Additionally, these social indicators are usually not externally verified. This data gap had created a challenge at the time of deciding which indicators to introduce in a supervision scheme. Before pushing for a full integration of social performance in regulation, RFR would like to raise to the attention of other networks the importance of a full integration of SPM practices within each MFI, and the need for testing and agreement upon an externally verified set of social indicators.

Annex 1: G20-OECD High Level Principles on Financial Consumer Protection

1. Legal, Regulatory and Supervisory Framework

Financial consumer protection should be an integral part of the legal, regulatory and supervisory framework, and should reflect the diversity of national circumstances and global market and regulatory developments within the financial sector.

Regulation should reflect and be proportionate to the characteristics, type, and variety of the financial products and consumers, their rights and responsibilities and be responsive to new products, designs, technologies and delivery mechanisms.[4] Strong and effective legal and judicial or supervisory mechanisms should exist to protect consumers from and sanction against financial frauds, abuses and errors.

Financial services providers and authorised agents[5] should be appropriately regulated and/or supervised, with account taken of relevant service and sector specific approaches.

Relevant non-governmental stakeholders – including industry and consumer organisations, professional bodies and research communities – should be consulted when policies related to financial consumer protection and education are developed. Access of relevant stakeholders and in particular consumer organisations to such processes should be facilitated and enhanced.

2. Role of Oversight Bodies

There should be oversight bodies (dedicated or not) explicitly responsible for financial consumer protection, with the necessary authority to fulfil their mandates. They require clear and objectively defined responsibilities and appropriate governance; operational independence; accountability for their activities; adequate powers; resources and capabilities; defined and transparent enforcement framework and clear and consistent regulatory processes. Oversight bodies should observe high professional standards, including appropriate standards of confidentiality of consumer and proprietary information and the avoidance of conflicts of interest.

Co-operation with other financial services oversight authorities and between authorities or departments in charge of sectoral issues should be promoted. A level playing field across financial services should be encouraged as appropriate. International co-operation between oversight bodies should also be encouraged, while specific attention should be considered for consumer protection issues arising from international transactions and cross-border marketing and sales.

[4] Where relevant, appropriate mechanisms should be developed to address new delivery channels for financial services, including through mobile, electronic and branchless distribution of financial services, while preserving their potential benefits for consumers.

[5] Authorized agents are understood to mean third parties acting for the financial services provider or in an independent capacity. They include any agents (tied and independent agents) brokers, advisors and intermediaries, etc.

3. Equitable and Fair Treatment of Consumers

All financial consumers should be treated equitably, honestly and fairly at all stages of their relationship with financial service providers. Treating consumers fairly should be an integral part of the good governance and corporate culture of all financial services providers and authorised agents. Special attention should be dedicated to the needs of vulnerable groups.

4. Disclosure and Transparency

Financial services providers and authorised agents should provide consumers with key information that informs the consumer of the fundamental benefits, risks and terms of the product. They should also provide information on conflicts of interest associated with the authorised agent through which the product is sold.[6]

In particular, information should be provided on material aspects of the financial product. Appropriate information should be provided at all stages of the relationship with the customer. All financial promotional material should be accurate, honest, understandable and not misleading. Standardised pre-contractual disclosure practices (e.g. forms) should be adopted where applicable and possible to allow comparisons between products and services of the same nature. Specific disclosure mechanisms, including possible warnings, should be developed to provide information commensurate with complex and risky products and services. Where possible consumer research should be conducted to help determine and improve the effectiveness of disclosure requirements.

The provision of advice should be as objective as possible and should in general be based on the consumer's profile considering the complexity of the product, the risks associated with it as well as the customer's financial objectives, knowledge, capabilities and experience.

Consumers should be made aware of the importance of providing financial services providers with relevant, accurate and available information.

5. Financial Education and Awareness

Financial education and awareness should be promoted by all relevant stakeholders and clear information on consumer protection, rights and responsibilities should be easily accessible by consumers. Appropriate mechanisms should be developed to help existing and future consumers develop the knowledge, skills and confidence to appropriately understand risks, including financial risks and opportunities, make informed choices, know where to go for assistance, and take effective action to improve their own financial well-being.

The provision of broad based financial education and information to deepen consumer financial knowledge and capability should be promoted, especially for vulnerable groups.

Taking into account national circumstances, financial education and awareness should be encouraged as part of a wider financial consumer protection and education strategy, be delivered through diverse and appropriate

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[6] Financial services providers and authorised agents should provide clear, concise, accurate, reliable, comparable, easily accessible, and timely written and oral information on the financial products and services being offered, particularly on key features of the products and (where relevant) on possible alternative services or products, including simpler ones, they provide. In principle, information should include prices, costs, penalties, surrender charges, risks and termination modalities.

channels, and should begin at an early age and be accessible for all life stages. Specific programmes and approaches related to financial education should be targeted for vulnerable groups of financial consumers.

All relevant stakeholders should be encouraged to implement the international principles and guidelines on financial education developed by the OECD International Network on Financial Education (INFE). Further national and international comparable information on financial education and awareness should be compiled by national institutions and relevant international organisations in order to assess and enhance the effectiveness of approaches to financial education.

6. Responsible Business Conduct of Financial Services Providers and Authorised Agents

Financial services providers and authorised agents should have as an objective, to work in the best interest of their customers and be responsible for upholding financial consumer protection. Financial services providers should also be responsible and accountable for the actions of their authorised agents.

Depending on the nature of the transaction and based on information primarily provided by customers financial services providers should assess the related financial capabilities, situation and needs of their customers before agreeing to provide them with a product, advice or service. Staff (especially those who interact directly with customers) should be properly trained and qualified. Where the potential for conflicts of interest arise, financial services providers and authorised agents should endeavour to avoid such conflicts. When such conflicts cannot be avoided, financial services providers and authorized agents should ensure proper disclosure, have in place internal mechanisms to manage such conflicts, or decline to provide the product, advice or service.

The remuneration structure for staff of both financial services providers and authorized agents should be designed to encourage responsible business conduct, fair treatment of consumers and to avoid conflicts of interest. The remuneration structure should be disclosed to customers where appropriate, such as when potential conflicts of interest cannot be managed or avoided.

7. Protection of Consumer Assets against Fraud and Misuse

Relevant information, control and protection mechanisms should appropriately and with a high degree of certainty protect consumers' deposits, savings, and other similar financial assets, including against fraud, misappropriation or other misuses.

8. Protection of Consumer Data and Privacy

Consumers' financial and personal information should be protected through appropriate control and protection mechanisms. These mechanisms should define the purposes for which the data may be collected, processed, held, used and disclosed (especially to third parties). The mechanisms should also acknowledge the rights of consumers to be informed about data-sharing, to access data and to obtain the prompt correction and/or deletion of inaccurate, or unlawfully collected or processed data.

9. Complaints Handling and Redress

Jurisdictions should ensure that consumers have access to adequate complaints handling and redress mechanisms that are accessible, affordable, independent, fair, accountable, timely and efficient. Such mechanisms should not impose unreasonable cost, delays or burdens on consumers. In accordance with the above, financial services providers and authorized agents should have in place mechanisms for complaint handling and redress. Recourse to an independent redress process should be available to address complaints that are not efficiently resolved via the financial services providers and authorized agents internal dispute resolution mechanisms. At a minimum, aggregate information with respect to complaints and their resolutions should be made public.

10. Competition

Nationally and internationally competitive markets should be promoted in order to provide consumers with greater choice amongst financial services and create competitive pressure on providers to offer competitive products, enhance innovation and maintain high service quality. Consumers should be able to search, compare and, where appropriate, switch between products and providers easily and at reasonable and disclosed costs.

Annex II: Global Financial Development Report, World Bank[7]

Main Messages

The level of financial inclusion varies widely around the world. Globally, about 50 percent of adults have a bank account, while the rest remain unbanked, meaning they do not have an account with a formal financial institution. Not all the 2.5 billion unbanked need financial services, but barriers such as cost, travel distance, and documentation requirements are critical. For example, 20 percent of the unbanked report distance as a key reason they do not have an account. The poor, women, youth, and rural residents tend to face greater barriers to access. Among firms, the younger and smaller ones are confronted by more binding constraints. For instance, in developing economies, 35 percent of small firms report that access to finance is a major obstacle to their operations, compared with 25 percent of large firms in developing economies and 8 percent of large firms in developed economies.

Financial inclusion is important for development and poverty reduction. Considerable evidence indicates that the poor benefit enormously from basic payments, savings, and insurance services. For firms, particularly the small and young ones that are subject to greater constraints, access to finance is associated with innovation, job creation, and growth. But dozens of microcredit experiments paint a mixed picture about the development benefits of microfinance projects targeted at particular groups in the population.

Financial inclusion does not mean finance for all at all costs. Some individuals and firms have no material demand or business need for financial services. Efforts to subsidize these services are counterproductive and, in the case of credit, can lead to overindebtedness and financial instability. However, in many cases, the use of financial services is constrained by regulatory impediments or malfunctioning markets that prevent people from accessing beneficial financial services.

The focus of public policy should be on addressing market failures. In many cases, the use of financial services is constrained by market failures that cause the costs of these services to become prohibitively high or that cause the services to become unavailable due to regulatory barriers, legal hurdles, or an assortment of market and cultural phenomena. Evidence points to a function for government in dealing with these failures by creating the associated legal and regulatory framework (for example, protecting creditor rights, regulating business conduct, and overseeing recourse mechanisms to protect consumers), supporting the information environment (for instance, setting standards for disclosure and transparency and promoting credit information—sharing systems and collateral registries), and educating and protecting consumers. An important part of consumer protection is represented by competition policy because healthy competition among providers rewards better performers and increases the power that consumers can exert in the marketplace. Policies to expand account penetration—such as requiring banks to offer basic or low-fee accounts, granting exemptions from onerous documentation requirements, allowing correspondent banking, and using electronic payments into bank accounts for government payments—are especially effective among those people who are often excluded: the poor, women, youth, and rural residents. Other direct government interventions—such as directed credit, debt relief, and lending through state-owned banks—tend to be politicized and less successful, particularly in weak institutional environments.

[7] World Bank. 2014. *Global Financial Development Report 2014: Financial Inclusion*. Washington, DC: World Bank. doi:10.1596/978-0-8213-9985-9. License: Creative Commons Attribution CC BY 3.0

New technologies hold promise for expanding financial inclusion. Innovations in technology—such as mobile payments, mobile banking, and borrower identification using biometric data (fingerprinting, iris scans, and so on)—make it easier and less expensive for people to use financial services, while increasing financial security. The impact of new technologies can be amplified by the private sector's adoption of business models that complement technology platforms (as is the case with banking correspondents). To harness the promise of new technologies, regulators need to allow competing financial service providers and consumers to take advantage of technological innovations.

Product designs that address market failures, meet consumer needs, and overcome behavioral problems can foster the widespread use of financial services. Innovative financial products, such as index-based insurance, can mitigate weather-related risks in agricultural production and help promote investment and productivity in agricultural firms. Improvements in lending to micro and small firms can be achieved by leveraging existing relationships. For example, novel mechanisms have broadened financial inclusion by delivering credit through retail chains or large suppliers, relying on payment histories in making loan decisions, and lowering costs by using existing distribution networks.

It is possible to enhance financial capability—financial knowledge, skills, attitudes, and behaviors— through well-designed, targeted interventions. Financial education has a measurable impact if it reaches people during teachable moments, for instance, when they are starting a job or purchasing a major financial product. Financial education is especially beneficial for individuals with limited financial skills. Leveraging social networks (for example, involving both parents and children) tends to enhance the impact of financial education. Delivery mode matters, too; thus, engaging delivery channels—such as entertainment education—shows promise. In microenterprises, business training programs have been found to lead to improvements in knowledge, but have a relatively small impact on business practices and performance and depend on context and gender, with mixed results. The content of training also matters: simple rule-of-thumb training is more effective than standard training in business and accounting

Annex III: Mix Market data template

	Data requirements
1	Data should be reported at the branch level for all financial institutions
2	Data must be geo-tagged with location information in 3 fields: State/Province (Admin 1), County/District (Admin 2), Municipality/Sector (Admin 3) OR with Latitude/Longitude coordinates
3	Admin1, Admin2, & Admin 3 values must match political boundaries on http://www.gadm.org/country, or shapefile must be provided
4	Institutions must be classified by institution type
5	At minimum 1 metric must be reported (i.e. # locations for each branch)
	Definition of Metrics
# Locations	Number of retail outlets where financial services are provided
# Loan Borrowers	Number of borrowers who had a loan during designated time period
RF Loans	Amount in local currency lent to personal borrowers
RF Savings	Number of persons who had an active savings account during designated time period
# Depositors	Amount in local currency deposited in Bank
# Savings Accounts Average Balance<$100	Number of savings account with an average daily balance <$100US
# Savings Accounts Average Balance Between $100-$500	Number of savings account with an average daily balance between $100 to $500 US
# Savings Accounts Average Balance Between $500-$1000	Number of savings account with an average daily balance between $500 to $1000 US
# Savings Accounts Average Balance Between $1000-$5000	Number of savings account with an average daily balance between $1000 to $5000 US
# Savings Accounts Average Balance Between $5000-$10000	Number of savings account with an average daily balance between $5000 to $10000 US
# Savings Accounts Average Balance Between <$10000	Number of savings account with an average daily balance> $10000 US
# Loans Outstanding Balance <$100	Number of loans with an average outstanding balance <$100US
# Loans Outstanding Balance Between $100-$500	Number of loans with an average outstanding balance between $100 to $500 US
# Loans Outstanding Balance Between $500-$1000	Number of loans with an average outstanding balance between $500 to $1000 US
# Loans Outstanding Balance Between	Number of loans with an average outstanding balance between $1000 to

$1000-$5000	$5000 US
# Loans Outstanding Balance Between $5000-$10000	Number of loans with an average outstanding balance between $5000 to $10000 US
# Loans Outstanding Balance Between <$10000	Number of loans with an average outstanding balance> $10000 US