

Progress in Responsible Financial Inclusion

Global Mapping Report and Selected Case Studies



Kingdom of the Netherlands

BMZ



Federal Ministry
for Economic Cooperation
and Development

in Cooperation with

giz Deutsche Gesellschaft
für Internationale
Zusammenarbeit (GIZ) GmbH



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Foreword

With more than 2.5 billion people and over 200 million businesses still lacking access to basic financial services in much of the developing world, increasing access to finance remains an enormous challenge. The financial sector, and microfinance in particular, have seen tremendous growth, but intense competition in some markets has provoked over-indebtedness and resulted in crises in countries such as Bosnia and Herzegovina, India, and Nicaragua, while signs of overheating are emerging in other markets. The recurrence of financial crises, the most recent one in 2008, has underscored the importance of accountability and transparency for a more stable and resilient financial services sector.

In recent years, responsible finance has emerged as a cornerstone to refocus on the needs of end-clients to ensure sustainable growth across the financial sector. Through a set of operational practices that have the end-client needs at the core, responsible finance encompasses such concepts as disclosure, fairness of pricing, dignified treatment of customers, as well as ensuring product and services quality.

There is now broad recognition in the development community that private sector led growth contributes significantly to poverty alleviation. By embedding the principles of responsible finance into the core delivery of financial services, financial institutions can provide low-income households broader access to essential goods and services, and contribute toward wider economic growth. Efforts in the fields of financial consumer protection regulation, self-regulation by financial institutions, and financial education have shown great successes, but huge challenges remain.

IFC's Responsible Finance Program and BMZ—the German Federal Ministry for Economic Cooperation and Development, play a global convening role, bringing together participants from the financial sector, bilateral and multilateral donors, and the broader international community through the Global Partnership for Financial Inclusion of the G-20. As founding members of the sectorwide Responsible Finance Forum in 2010, both IFC and BMZ are committed to continue working with the international development finance community to expand responsible access to financial services globally.

Sincerely,



Susanne Dorasil
Head, Economic Policy, Financial Sector
BMZ



Peer Stein
Director, Access to Finance
IFC Advisory Services



A Community of Practice

The Responsible Finance Forum (RFF) is an interinstitutional Community of Practice for knowledge exchange and consensus building on responsible finance. Founded by the German Federal Ministry for Economic Cooperation and Development (BMZ), the Consultative Group to Assist the Poor (CGAP), and the International Finance Corporation (IFC), RFF is the first joint platform to support the efforts of participating institutions in the development community and provide space to:

- Share knowledge and information on ongoing initiatives and potential collaborations;
- Build on the responsible finance frameworks developed to date, foster a broad-based dialogue on this concept among stakeholders, and facilitate convergence of views;
- Gather and disseminate insights on current practices and topics in responsible finance, and;
- Support coordinated action in the longer term.

Since 2009 four RFFs have been convened. The first was held in January 2010 in Berlin, followed by RFF II in The Hague in January 2011, RFF III in Washington D.C., in April 2012, and the most recent, RFF IV in Berlin in June

2013. The Community of Practice includes a growing number of bilateral and multilateral donors, development finance institutions, implementing agencies and service providers, and financial sector stakeholders. The main supporters of the RFF are the Dutch Ministry of Foreign Affairs, BMZ, CGAP, and IFC.

In keeping with the vision of the community of practice, in advance of each RFF, a thorough stocktaking and report was prepared. In January 2011, RFF II produced the second stocktaking report, *Advancing Responsible Finance for Greater Development Impact*.

This report, *Progress in Responsible Financial Inclusion*, the third stocktaking report, is a joint effort of the community of practice. It provides a deeper look at the implementation of responsible finance principles across the three pillars: highlighting emerging trends in consumer protection regulation, financial institutions' self-regulation, and financial education through case studies selected on the basis of initial results and potential for scalability, with some early results. Additional areas of emerging innovation and focus are addressed.

Acronyms

A2ii	Access to Insurance Initiative
AFD	Agence Française de Développement (French Development Agency)
AFI	Alliance for Financial Inclusion
BMZ	Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung (The German Federal Ministry for Economic Cooperation and Development)
BNM	Bank Negara Malaysia
BSP	Bangko Sentral ng Pilipinas (Central Bank of the Philippines)
CEMC	Consumer Empowerment and Market Conduct
CFI	Center for Financial Inclusion
CGAP	Consultative Group to Assist the Poor
CNBV	Comisión Nacional Bancaria y de Valores (Mexico) Mexico's National Banking and Securities Commission
CONDUSEF	Comision Nacional para la Proteccion y Defensa de los Usuarios de Servicios Financieros (Mexico) Mexico's National Commission for the Defense and Protection of Financial Consumers
CPP	Client Protection Principles
CSRC	China Securities Regulatory Commission
DFID	Department for International Development (United Kingdom)
FCP	Financial Consumer Protection
FI	Financial Institution
FMO	Netherlands Development Finance Company
FSP	Financial Services Provider
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH
GPFI	G-20 Global Partnership for Financial Inclusion
G-20	Group of Twenty Finance Ministers and Central Bank Governors
IAIS	International Association of Insurance Supervisors
ICPs	Insurance Core Principles
IFC	International Finance Corporation
ILO	International Labour Organisation
INFE	International Network on Financial Education
KfW	KfW Bankengruppe



MFA	Microfinance Association
MFI	Microfinance institution
MFO	Microfinance Opportunities
MFP	Microfinance providers
MFT	Microfinance Transparency
MNO	Mobile network operator
NGO	Nongovernmental organization
OECD	Organisation for Economic Co-operation and Development
PIIF	Principles for Investors in Inclusive Finance
PRI	Principles for Responsible Investment
PMN	Pakistan Microfinance Network
RFF	Responsible Finance Forum
SAIA	South African Insurance Association
SEEP	SEEP Network
SPTF	Social Performance Task Force
SSB	Standard Setting Body
USSPM	Universal Standards for Social Performance Management

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We also thank our peer reviewers who provided more nuanced comments throughout the report, namely: Eliko Boletawa, Alliance for Financial Inclusion (AFI); Kate McKee, Consultative Group to Assist the Poor (CGAP); Monique Cohen, Microfinance Opportunities; Florian Henrich, GIZ; and Gilles Jacques Galludec and Martin Holtmann, IFC.

About this Report

This report aims to stimulate discussion on the ongoing industry debate, challenges and the growing benefits of financial sector stakeholders working together to serve clients responsibly¹. It updates global responsible finance initiatives and builds on previous stocktaking reports² to take a deeper look at implementation of responsible finance principles across the three pillars, highlighting emerging trends in consumer protection regulation, financial institutions' self-regulation, and client financial education.

This report is based on the global mapping methodology and reflects responses received from a survey of the community of practice. The following organizations, industry associations, investors and donors, and global support networks responded to the survey.

Appui au Développement Autonome (ADA), Alliance for Financial Inclusion (AFI), Allianz SE, Agence Française de Développement (AFD), Azerbaijan Micro-Finance Association, Bamboo Finance, Comité d'Echanges de Réflexion et d'Information sur les Systèmes d'Épargne-crédit (CERISE), CGAP, Chemonics International, Citibank Foundation, Cordaid, Development International Desjardins, Dutch Ministry of Foreign Affairs, FinMark Trust, GIZ, Grassroots Capital Management, IFC, KfW Entwicklungsbank, MasterCard Foundation, MCC MIKROFIN (Bosnia and Herzegovina), MCF EKI (Bosnia and Herzegovina), MI-BOSPO (Bosnia and Herzegovina), MicroCred S.A, Microcredit Foundation LIDER (Sarajevo), Microcredit Summit Campaign, MicroEnsure, Munich Re Foundation, the Organisation for Economic Co-operation and Development (OECD), Opportunity International, Rural Bankers' Association of the Philippines, Microenterprise Access to Banking Services for the Phillipines (MABS), Savings Banks Foundation for International Cooperation, Social Performance Task Force, Principles for Responsible Investment, the SEEP Network, and the World Bank.

Survey participants were asked to describe their responsible finance initiatives, and nominate innovative cases across the three pillars that could be featured in the report. Case studies were selected from the responses to the global mapping survey. The criteria for case selection for this report included: (1) initial implementation results; (2) emerging evidence and lessons learned; (3) potential for scale and replicability; and (4) a balance of initiatives across the three pillars. Case study contributors were interviewed to provide insights, challenges, and key lessons learned. The report also includes case studies from the global mapping and other sources that illustrate topics discussed. The global mapping exercise showed several encouraging trends across the three pillars of responsible finance that respond to challenges identified during Responsible Finance Forum III.³

Introduction



Responsible Finance refers to “coordinated public and private sector interventions that encourage and assist financial services providers and their clients in improving their understanding and approaches, practices, and behaviors to create more transparent, inclusive, and equitable financial markets balanced in favor of all income groups.”⁴ Responsible Finance brings the focus back to the needs of the end-beneficiary clients by operationalizing practices that promote a more transparent, inclusive, client-centric, and equitable delivery of financial products and services. Responsible finance is advanced through actions across three pillars.

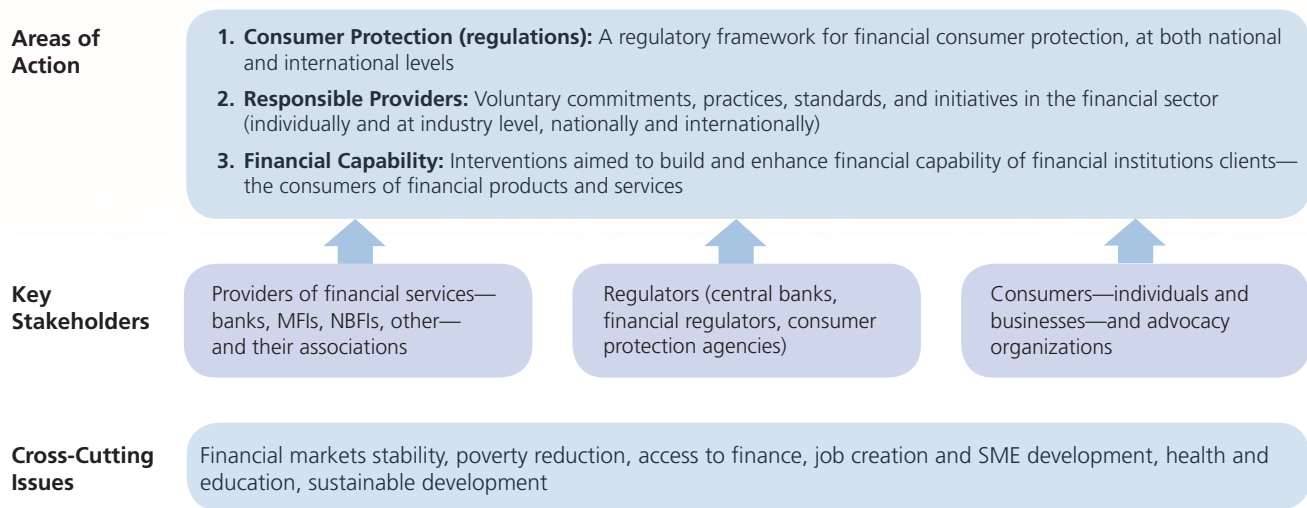
- 1. Consumer Protection Regulation:** designing and implementing industrywide customer protection regulation around principles of transparency; responsible pricing; fair and respectful treatment of clients; privacy of client data and mechanisms for complaint resolution.
- 2. Financial Institutions’ Self-Regulation:** embedding responsible finance practices into business functions

across strategy and governance, customer acquisition and relationship management, product design and delivery channels, processes and risk management, and financial education.

- 3. Financial Education:** the process by which financial consumers and investors improve their understanding of financial products and of concepts and risks; and, through information, instruction and/or objective advice, develop the skills and confidence to become more aware of financial risks and opportunities to make informed choices, know where to go for help, and take other effective actions to improve their financial well-being.⁵ Financial education covers financial awareness and financial capability.

The “**three-pillar framework**,” is more likely to result in success when combining multiple initiatives rather than relying on one action by a single stakeholder (Figure 1).⁶

Figure 1: Responsible Finance: A Multistakeholder (Three-Pillar) Approach



Source: IFC, CGAP, and BMZ 2011; Stein, Randhawa, and Bilandzic 2011, 30; CGAP 2011, 2-3.

Emerging Trends



Building on prior years, the emerging trends over the past year include a move toward explicit articulation and implementation of responsible finance principles into practice. The main tenet of financial inclusion is expanded access and use of financial services. Well-designed and customer-centric products can deliver benefits, often on a very large scale, without users having to increase their financial capability. However, stakeholders are discovering that financial inclusion, when delivered in combination with financial education, has greater customer uptake. Increasingly stakeholders are aware of the need to define and provide quality services and address consumer awareness and financial capability, despite the challenges. Recent research⁷ explores these approaches, and some Responsible Finance Forum (RFF) survey respondents⁸ noted that although financial inclusion without financial education may increase the number of clients, many of them may not have basic literacy levels or financial skills to make informed choices.⁹ Full information on a product is often not provided — raising the issue of how well the interface functions between financial service providers' (FSP) front-line staff and clients.¹⁰ Chapter 2 discusses global initiatives, trends, and challenges associated with each responsible finance pillar (see Figure 1) with a focus on the last 18 months. These trends are reflected in country case studies in Chapter 3. Chapter 4 focuses on an emerging area of work, microinsurance. Chapter 5 presents the way forward and identifies areas that require ongoing efforts. Two Annexes provide resources, guidelines, and toolkits, along with a compendium of institutions working actively on responsible finance initiatives (the list of institutions is limited to those that provided information).

Consumer Protection Regulation

Emerging trends related to the regulatory environment for financial consumer protection, the first pillar, are described below.

- **National financial sector regulatory regimes for consumer protection are being strengthened, sometimes with mutually reinforcing industry self-regulation approaches.** This year, the trend continues to broaden to include more countries that have made commitments under the Maya Declaration and address explicit measures to improve financial consumer protection¹¹. Over 40 Alliance for Financial Inclusion (AFI) member countries have committed to 4 principles that cover (1) creating an enabling environment for new technology, (2) establishing proportionate regulatory frameworks, (3) conducting consumer protection and education, and (4) collecting data. (See Chapter 2.) Results of the upcoming World Bank - FinCoNet Global Survey for Financial Consumer Protection will give more insights on the status of implementation of consumer protection regulation.¹²
- **International support is growing for strengthening consumer protection regulatory environments and establishing global regulatory regimes.** This support includes formulation of the “G-20 High Level Principles on Financial Consumer Protection”; formalization of the network of market conduct supervisors (FinCoNet); guidance from global financial standard setting bodies (SSBs) such as the International Association of Insurance Supervisors (IAIS); practical application of core principles for inclusive finance (CPIs); and related work under the umbrella of the Global Partnership for Financial Inclusion (GPFI) of the G-20. This trend is also evident in the attention to consumer protection in Maya Declaration commitments (beginning in 2011), and in the development of frameworks and tools (for examples,

see the treatment of consumer protection regulation in the World Bank's *Financial Inclusion Strategies Reference Framework*¹³ and regulatory and supervision tools from CGAP¹⁴). The engagement with the financial standard-setting bodies, including on responsible finance and financial consumer protection,¹⁵ and following the G-20 Principles for Financial Inclusion (2010),¹⁶ are other examples of growing support. **Regulators are looking more closely at ways to make disclosure regimes more effective.** The agenda examines the extent to which disclosure can improve outcomes, including reforms that enable users of financial services to receive clearer, simpler, and more transparent information on which to base good decisions. An **underlying concern is that consumers are not able to take full advantage of past disclosure efforts** either because of poorly designed efforts or because of clients' low literacy rates and/or low financial capacity. There is greater recognition that disclosure measures can only go so far: they are more likely to be effective when reinforced by well-designed consumer research and financial education initiatives as well as by incentives to make financial institutions more transparent.

- **Multiple stakeholder consultation processes became more common, within and among all pillars, but especially in consumer protection regulation.** Recognition is growing that stakeholder consultation is *essential to successful implementation of policy and regulatory reforms*. Examples include loan disclosure sheet reforms in the Philippines and consultative processes for regulatory frameworks for mobile financial services (MFS) in Kenya, Latin America, and the Pacific Islands.¹⁷

Financial Institutions' Self-Regulation

Increasingly there is a stronger demand, predominantly in the microfinance sector, for accountability and uniformity in quality and delivery of financial services *to ensure responsible finance principles* are reflected in practice. Initiatives under the second pillar include:

- Efforts are being made to consolidate and bring consistency to principles and frameworks, one of the key issues discussed at the Responsible Finance Forum III (RFFIII), hosted by the International Finance Corporation (IFC) in April 2012. Global initiatives include the Smart Campaign's launch of the Client Protection Principles (CPPs) certification program (to complement its assessment and implementation toolkits for practitioners, associations, and funders), the UN "Principles for Investors in Inclusive Finance (PIIF)" endorse the "Principles for Responsible Investment (PRI)," as well as the "Universal Standards for Social Performance Management (USSPM)" released by the Social Performance Task Force (SPTF) in June 2012. Adoption of industry-led client protection initiatives in microfinance has grown significantly at the global and national levels. National initiatives also show a trend toward a unified set of principles; for example, the Pakistan Microfinance Network (PMN) seeks to shape a responsible finance vision for Pakistan's microfinance industry, and India's two national microfinance industry associations, Microfinance Institutions Network (MFIN) and Sa-Dhan, agreed to adhere to a harmonized code of conduct for all microfinance institutions (MFIs) in India. (See case study in Chapter 3.)
- **The industry expects more rigor and accountability to ensure that practice reflects principles.** The development and use of tools, tool kits, and capacity-building programs support these efforts. Initiatives include the Microinsurance Networks' newly released "Social Performance Indicators for Microinsurance" and tools based on the USSPM (which fully incorporate the CPPs and other industry standards.¹⁸ (See Chapter 2.)
- **On the investor side, positive initiatives match principles and practice.** Initiatives use deliberate actions to demand more accountability and are aided by tools, such as CGAP's investor guide¹⁹ and investors' tools to deepen capability of institutions to implement responsible finance in operations.²⁰ The PIIF piloted reporting requirements for its investor signatories and developed a new reporting framework for implementation in 2013. In addition, an investor group launched new guidelines to avoid over-indebtedness and better harmonize due diligence and investee reporting requirements²¹.
- **Investors are increasingly concerned about building healthy financial markets and institutions.** The PIIF engages investors and their clients in mutual accountability relationships to promote responsible practices throughout the financial market. IFC's work



emphasizes capacity building and implementation of responsible finance. Other examples include private and public investors working: (1) in the Kyrgyz Republic with MFIs to develop a responsible lender charter; (2) with the Cambodia Microfinance Association and several leading MFIs and banks to prepare for certification using the Smart Campaign methodology, including supporting research²² and providing technical assistance to upgrade systems and practices; and (3) in Bosnia and Herzegovina and India to support marketwide initiatives. (See case studies on Eastern Europe and Central Asia, Bosnia and Herzegovina, and India in Chapter 3.)

Financial Education

Challenges faced over the last year raised questions including: what do we mean by “financial education”? What programs and policies are likely to be effective? How do we measure impact? What is an appropriate role for financial institutions?

- **As experience increases, national consumer research begins to address these questions.** Colombia, Kenya, Mexico, Peru, Tanzania, and the Philippines, among others, champion these efforts. Research, such as Citi Foundation’s 2012 “Bridging the Gap” report,²³ Microfinance Opportunities’ (MFO) collaboration with Consumers International, and the Russia Financial Literacy and Education Trust Fund have generated useful tools, research, and metrics for financial education.²⁴ The private sector is also engaged; for example, Allianz SE pilots an insurance financial education initiative in Indonesia. (See case study in Chapter 3.) These initiatives are backed by an array of toolkits, data banks, metrics, and research.
- **Financial education is increasingly on the agendas of governments, nongovernmental organizations (NGOs), and the private sector.** It is also mandated by some central banks and financial-sector regulators. This year, we note that financial education is increasingly tied to consumer protection frameworks and financial institutions’ self-regulation. (see case study on Ghana in Chapter 3.) Consumer financial capacity is becoming widely recognized as an indispensable component of any consumer protection regime, not merely a complement. Governments and other stakeholders engage actively to

implement the Organization for Economic Co-operation and Development’s International Network on Financial Education (OECD/INFE)’s “High-Level Principles on National Strategies for Financial Education,” which were endorsed by Group of Twenty (G-20) leaders in June 2012.

- An increasing trend is to search for models that are cost-effective, can reach scale, and keep the client at the center. Financial education is an important tool to address the imbalance between the consumer and the provider and help consumers access, use, and benefit from products and services. Financial education is in tandem with consumer protection because it can help clients develop skills to compare and select the best products for their needs and empower them to exercise their rights and responsibilities. Practitioners see financial education more broadly, as a means for people to better manage their lives, going beyond consumer protection. Properly designed, financial education is tailored to clients’ specific contexts, helping them understand the way financial instruments can address their financial concerns, from daily cash-flow management to planning for emergencies to managing risk.

Emerging Challenges and Issues

Despite impressive progress, global experience in responsible finance implementation demonstrates that challenges remain,²⁵ especially around the need for increased capacity building and dedicated resources across all three pillars. These challenges are discussed in Chapter 2. Specific challenges across the pillars are highlighted below.

Consumer Protection Regulation

Consumer protection regulation is just being introduced in many countries. Key challenges include (1) matching regulators’ capacity with intent and mandate, (2) coordination across agencies for implementation, supervision, and enforcement of consumer protection regulation, which is less advanced in many countries, meaning that incentives for financial service providers to comply with regulations may be weak; and (3) developing a framework for supporting financial infrastructure (e.g., credit bureaus), which is also limited in most countries.

Financial Institutions' Self-Regulation

The business case for responsible finance demonstrates the long-term viability and sustainability for financial institutions and is increasingly being understood by not only the microfinance community, but beyond within the financial sector. One such example is the “Treating Customers Fairly (TCF)” guidelines which apply to all companies in the United Kingdom (UK) were instituted by the UK Financial Conduct Authority in 2006, prior to the financial crises. Many stakeholders, especially those that have survived crises and are committed to customer-centric principles, consider it “a way of life.”²⁶ However, the up-front investment costs and resources needed to implement responsible finance practices are often a deterrent to financial institutions. The up-front investment compared with the long-term payback impacts institutional growth and sustainability. Implementing a management-driven, sustainable approach based on a code of conduct requires a fine balance between responsibly scaling up financial inclusion and managing medium-term growth and returns. Where regulations, industry codes of conduct, and/or financial infrastructure, such as credit bureaus and registries, are weak or nonexistent, institutions' emphasis on growth alone can impede implementation of responsible finance principles.

Financial Education

For financial service providers, perhaps the biggest question is how to improve clients' understanding, skills, and behavior reliably, at scale, and in a cost-effective way. Stakeholders more broadly want to determine to what extent responsibly designed and delivered products can benefit clients in the absence of investment in financial education. These debates would benefit from input from financial consumer and advocacy organizations, which are, however, relatively scarce and under-resourced in most developing countries. Another key issue is who should pay for different types of consumer awareness and financial education interventions: individual providers, industry associations, governments,

or a combination of stakeholders? Evaluation of financial education and awareness initiatives has been stepped up in the past few years²⁷ to better inform these debates.

Enabling Infrastructure – Support to Responsible Finance

An enabling environment is critical to ensure responsible finance principles have an appropriate environment in which to take root and have sustainable impact on the sector. This environment includes an effective credit reporting system, well-functioning credit bureaus with efficient sharing of information across institutions, as well as an emphasis on risk management within institutions. Credit reporting addresses a fundamental problem of credit markets: asymmetric information between borrowers and lenders leading to adverse selection, credit rationing, and moral hazard. IFC has been an international leader in the development of credit reporting systems, providing support in more than 60 emerging markets worldwide since the late 1990s, prior to the global financial crises including in Bangladesh, Cambodia, Ethiopia, Tonga, the Caribbean and more. In India, with IFC support, two bureaus, High Mark and Equifax, now provide credit reporting services for the clients of microfinance institutions with over 95 million records, making it the largest database in the world.

The first universal standards on credit reporting, the “General Principles for Credit Reporting” were published in September 2011, following two years of deliberations by an international task force, including IFC²⁸. Credit information sharing is critical for tackling some of the issues underpinning the latest financial crises including the development of more inclusive credit reporting systems for small and medium enterprises (SMEs) and microfinance institutions; better utilization of credit information data by prudent supervisors; and financial education and literacy on credit and credit reporting, targeted at supervisors, regulators, lenders, and indirectly, end-users or borrowers.

CHAPTER 2

Progress and Challenges in Global Responsible Finance Initiatives



Introduction

Financial inclusion is high on the agenda of policy makers, funders, and practitioners. An increase in access to finance offers households and businesses many benefits, such as asset building, better risk and money management, consumption smoothing, and gains in efficiency. It also contributes to the broader economy through job creation and tax revenue. Access to finance is justified on growth and equity grounds and is compatible with stability objectives when services are designed and delivered responsibly. Adoption and use of services, even those that are designed and delivered responsibly, are likely to be suboptimal if consumer confidence and trust is low. Initiatives within each of the three pillars can boost confidence and trust, a key way that responsible finance advances financial inclusion efforts.

Policy makers and others see the links between responsible finance and financial inclusion. More attention is paid to financial consumer protection (FCP) policy and regulation and understanding is growing that disclosure alone will rarely compensate for low levels of financial capability or customer inexperience with financial services. Policy makers are also seeking ways to improve disclosure regimes through research on financial consumer and financial institution behavior. Finally, the role of financial capability is acknowledged throughout guidelines and integrated into policy implementation and standards setting, just as the state of knowledge and practice about what works well, when, where, and for whom is still evolving. This chapter discusses recent progress in the three pillars. It notes promising developments and discusses key challenges within each pillar.

Initiatives that Set the Policy Framework at the Global and National Levels

The G-20 High-Level Principles on Financial Consumer Protection²⁹ consist of 10 principles summarized in Box 2.1. They are broadly consistent and aligned with responsible finance trends described in this report,³⁰ including the recognition that financial consumer protection is a main element of regulation and supervision and should be reinforced and integrated with other financial inclusion and financial education policies. The 10 G-20 principles include a call for a greater role for financial consumer protection oversight bodies with sufficient authority and resources to carry out their missions. Many countries have taken up this call to action.³¹

A white paper prepared by CGAP on behalf of GPFI³² offers guidance to standard-setting bodies on the relevance of financial inclusion for their mandates and provides opportunities to explore those linkages, including the contribution of financial inclusion and protection measures to the traditional core mandates of financial stability and integrity.³³ It is also noteworthy that the International Association of Insurance Supervisors (IAIS) recently issued updated “Insurance Core Principles” (ICPs). IAIS’s mission is to promote effective and globally consistent supervision of the insurance industry to develop and maintain fair, safe, and stable insurance markets for the benefit and protection of policyholders (including microinsurance policy holders); and to contribute to global financial stability.³⁴

Consumer Protection Regulation

Policy makers and regulators engaged in developing financial inclusion strategies note the value of improved financial consumer protection regulation and

Box 2.1: Summary of G-20 High-Level Principles on Financial Consumer Protection

- 1. Legal, regulatory, and supervisory framework:** Integrate financial consumer protection into frameworks in a proportionate way and a consultative manner.
- 2. Role of oversight bodies:** Assign oversight bodies to be explicitly responsible for financial consumer protection with the necessary authority to fulfill their mandates. Encourage a level playing field across services and cooperation among oversight bodies.
- 3. Equitable and fair treatment of consumers:** Ensure consumers are treated equitably, honestly, and fairly at all stages of their relationship with financial service providers and pay special attention to the needs of vulnerable groups.
- 4. Disclosure and transparency:** Provide consumers with key information about the benefits, risks, and terms of the product, including conflicts of interest associated with the authorized agent through which the product is sold. Ensure financial promotional material is accurate and understandable and not misleading. Adopt standardized pre-contractual disclosure practices to allow comparisons among products and services. Conduct consumer research to help determine and improve the effectiveness of disclosure requirements.
- 5. Financial education and awareness:** Promote financial education and awareness. Ensure consumers can access clear information on rights and responsibilities. Develop mechanisms to help existing and future consumers develop knowledge, skills, and confidence to appropriately understand risks and opportunities, make informed choices, know where to go for assistance, and take effective action to improve their financial well-being.
- 6. Responsible business conduct of financial services providers and authorized agents:** Financial services providers and authorized agents should work in the best interest of their customers and be responsible for upholding financial consumer protection. Financial services providers should be responsible and accountable for the actions of their authorized agents.
- 7. Protection of consumer assets against fraud and misuse:** Relevant information, control and protection mechanisms should protect consumers' deposits, savings, and other similar financial assets against fraud, misappropriation, or other misuses.
- 8. Protection of consumer data and privacy:** Protect consumers' financial and personal information by defining the purposes for which data may be collected, processed, held, used, and disclosed (especially to third parties). Acknowledge the rights of consumers to be informed about data sharing, to access data, and to obtain prompt correction and/or deletion of inaccurate, or unlawfully collected or processed data.
- 9. Complaints handling and redress:** Ensure consumers have access to adequate complaints handling and redress mechanisms that are accessible, affordable, independent, fair, accountable, timely, and efficient.
- 10. Competition:** Promote competitive markets that provide consumers with greater choice among financial services and ensure providers offer competitive products, enhance innovation, and maintain high quality service. Consumers should be able to search, compare, and where appropriate, switch between products and providers easily and at reasonable and disclosed costs.

Source: OECD 2011.

supervision. One aim of widespread reforms in disclosure regimes is to ensure that financial service providers (FSPs) provide information to end-clients in a transparent manner to enable them to make well-informed decisions about how best to manage and use financial services. Complaints-handling and redress is another common area of focus for regulation and supervision, with different jurisdictions focusing on strengthening service providers' internal

mechanisms, as well as creating or improving third-party dispute resolution options such as financial ombudsmen. Fair treatment—ranging from responsible lending to sales and collection practices to staff ethics—is another major area receiving more attention. The World Bank's newly released *Financial Inclusion Strategies Reference Framework*³⁵ provides practical advice on ways to implement the concepts. *The Principles and Good Practices for Financial*



Consumer Protection,³⁶ also from the World Bank, provides a comprehensive diagnostic tool to help identify consumer protection issues in all parts of the financial sector. Guidance from AFI, CGAP and others offers policy advice tailored to the circumstances of lower-access markets, where regulatory and supervisory capacity is typically more limited than in more developed countries.

Many respondents to the mapping survey agree that measures to strengthen consumer protection, enforcement and to raise financial consumer awareness and capability need to be introduced alongside or as part of financial inclusion strategies.³⁷ (See Figure 2.1) The Citi Foundation’s 2012 study, *Bridging the Gap: The Business Case for Financial Capability*, notes, “where consumers are not well protected or unable to make informed decisions or where products or institutions are not well monitored, the impacts of financial inclusion can be reduced or even negative.”³⁸

Disclosure Reforms Get More Attention

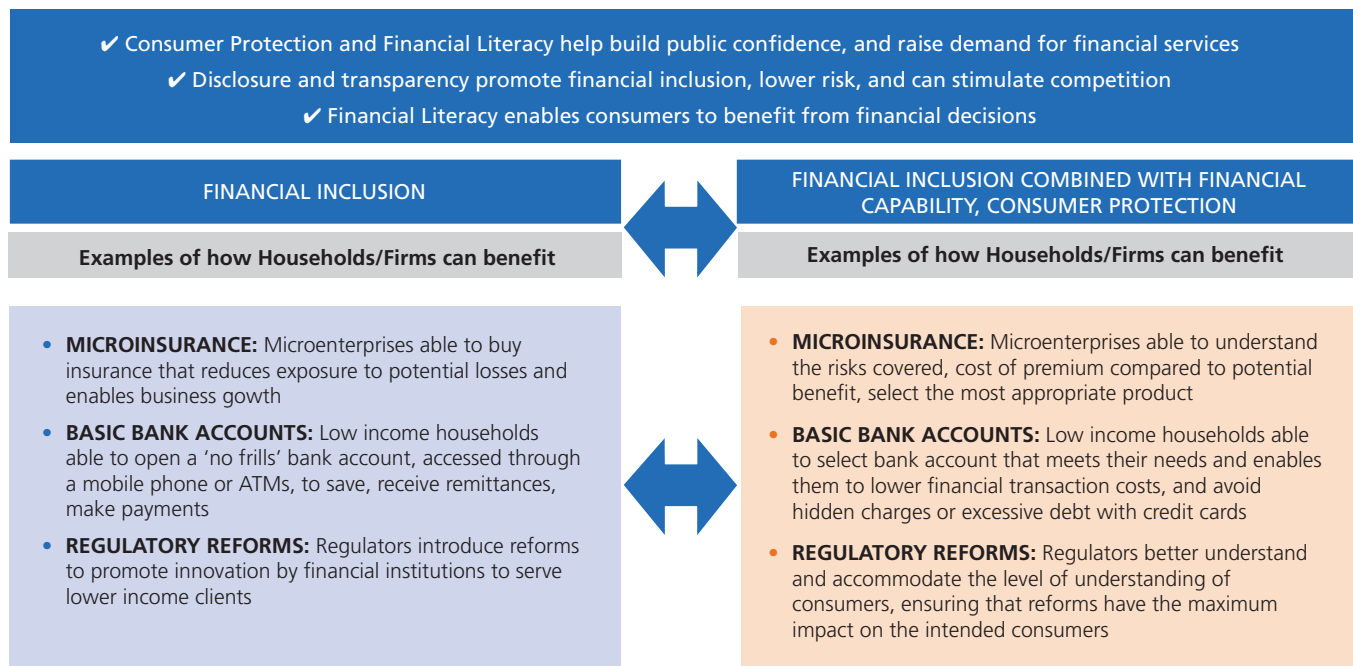
Policy makers are paying increasing attention to consistent disclosure requirements across financial products as essential for consumer protection. They also recognize that such measures may not compensate for limitations in consumer

financial knowledge or inexperience, or be sufficient on their own.

Disclosure regimes have rarely been designed and implemented in ways that are sufficiently informed by the specific circumstances of poorer and more vulnerable consumers. Efforts are underway to design a next generation of more effective disclosure requirements. Experiences in Mexico (see Box 2.2) and the Philippines (see case in Chapter 3) illustrate innovations and challenges in reforming disclosure regimes.

Lack of enforcement complicates consumers’ ability to make informed choices. For example, a study found that 60–80 percent of Indian insurance agents recommended unsuitable high-commission products, and that requiring commission disclosures for one product led agents to recommend other products without disclosure requirements.³⁹ This experience raises the issue of conflict of interest in the way staff and agents are compensated and its effects on consumer protection. In addition, many staff and agents who interface with customers cannot adequately explain products and terms, as recent research in Mexico illustrates. (See Box 2.2)

Figure 2.1: Responsible Financial Inclusion Strategies



Source: World Bank 2012b.

Consumer research is being undertaken to prioritize consumer protection measures and strengthen their design and implementation. Several government agencies, such as Mexico's National Banking and Securities Commission (Comision Nacional Bancaria y de Valores; CNBV) and National Commission for the Defense and Protection of Financial Consumers (CONDUSEF), and the Central Bank of the Philippines (Bangko Sentral ng Pilipinas; BSP) are undertaking full-fledged research efforts to understand consumer and financial institution staff behavior and how to improve the disclosure environment and customer comparison shopping. The research also examines whether simple and targeted educational efforts (e.g., SMS reminders) affect consumers' ability to make sound financial decisions. (See case studies on Ghana and the Philippines in Chapter 3.)

A positive recent trend toward “responsible financial inclusion” is supported by the Alliance for Financial Inclusion Members (AFI) and the peer-to-peer working groups of central bankers, regulators, and policy makers. In 2011, AFI launched the Consumer Empowerment and Market Conduct (CEMC) Working Group, which serves as a platform for policymakers to develop a common understanding of good practices and adopt cost-effective policy tools at national levels and within the broader international context.

The Maya Declaration

The Maya Declaration (2011), the AFI member commitment to financial inclusion, is applauded and valued as the first global and measurable set of commitments by developing and emerging country governments to address responsible financial inclusion. The Maya Declaration has been endorsed by 108 countries, representing over 75 percent of the world's unbanked population (see Figure 2.2). Over 40 Alliance for Financial Inclusion (AFI) member countries have committed to the principles and committed to more than 70 initiatives following the areas outlined in the declaration. Each country makes measurable commitments in the following four broad areas proven to increase financial inclusion:

- **Creating an enabling environment to harness new technology.** Many believe that a phased approach with small payments serving as an entry to formal financial services followed later by a suite of financial services,

Box 2.2: Mexico's National Commission for the Defense and Protection of Financial Consumers

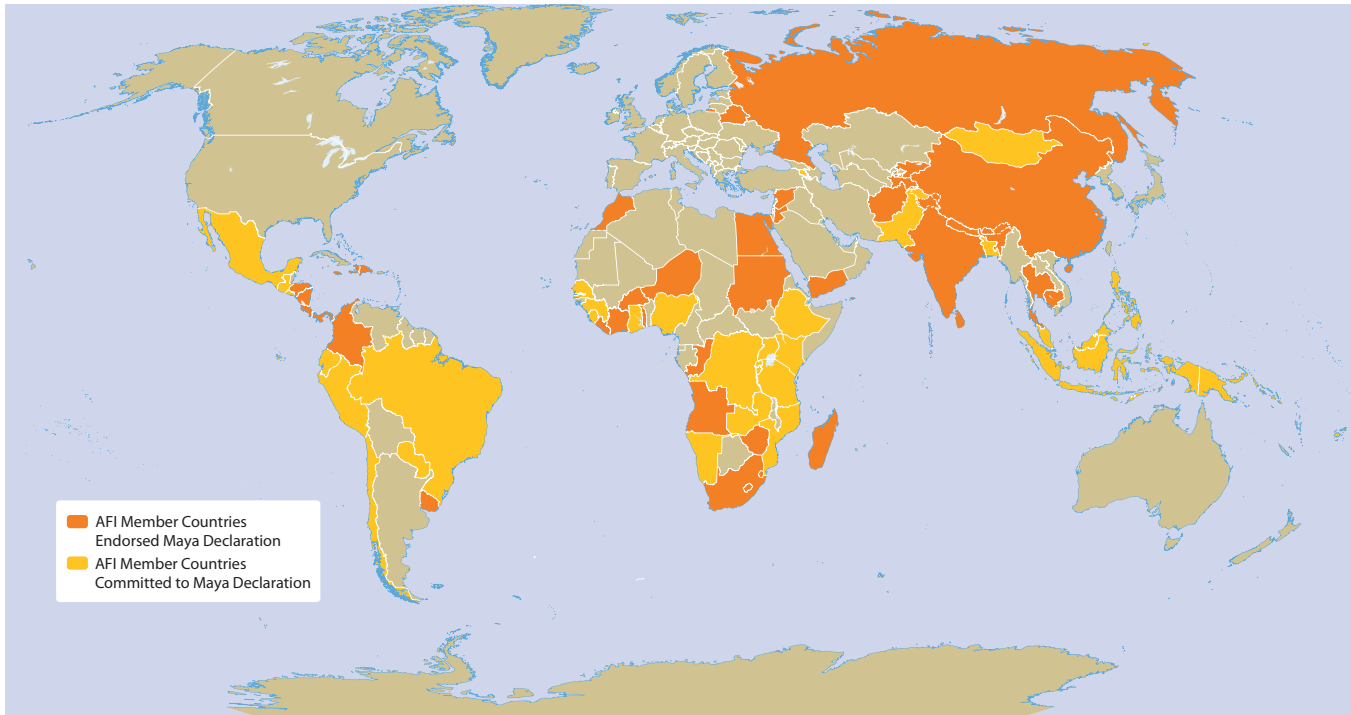
A study^a commissioned by Mexico's National Banking and Securities Commission (Comision Nacional Bancaria y de Valores; CNBV) in collaboration with its National Commission for the Defense and Protection of Financial Consumers (Comision Nacional para la Proteccion y Defensa de los Usuarios de Servicios Financieros; CONDUSEF) evaluates the effectiveness of Mexico's credit disclosure reforms on consumer understanding and financial decision making. Early findings suggest that financial service provider staff members appear to be misinformed about many of the characteristics of the products offered, do not often provide voluntary information, and do not know or could not adequately explain potentially confusing terms to customers. Second, the study notes that disclosure and transparency policies are difficult to implement successfully because financial institutions have a strong incentive to undo them. Third, disclosure policies alone are insufficient to correct for the lack of consumer knowledge and information. Finally, effective enforcement of disclosure requirements lags behind setting policies and regulatory requirements.

Notes: a. Xavier Giné, Cristina Martinez de Cuellar, Rafael Kennan Mazer, February 2013. “The Quality of Financial Services: Evidence from an Audit Study in Mexico”

such as savings, credit, and insurance, will spur large socioeconomic gains by increasing access and lowering costs of financial services.

- **Developing proportionate regulatory frameworks.** Implementing a proportionate regulatory framework strengthens connections between financial inclusion, integrity, and stability.
- **Connecting consumer protection and education.** Integrating consumer protection and consumer empowerment is a key pillar of financial inclusion.
- **Collecting data:** Data will be used to inform policy making and track results.

AFI's CEMC working group is a dedicated platform for policy makers to discuss policy and regulatory issues related to their consumer empowerment initiatives and

Figure 2.2: Alliance for Financial Inclusion Members: Maya Declaration

Source: Alliance for Financial Inclusion

market conduct regulations. The group focuses on four priority areas: (1) transparency and disclosure; (2) sales and marketing practices; (3) avenues for help and redress; and (4) financial literacy, capability, and awareness.⁴⁰ AFI's Working Group on Mobile Financial Services has published guidance on protecting consumers that includes guidance contributed by the CEMC working group.⁴¹

Summary: Consumer Protection Regulation

Increasingly governments are conducting research and policy level initiatives to further the agenda on consumer protection regulation. Policy-makers and regulators note the complementarity in consumer protection regulation and financial education to both protect low income consumers and increase broad-based access to financial services. The Maya Declaration endorsed by over 100 countries, representing 75 percent of the world's unbanked population is one of the notable efforts to promote consumer protection regulation globally.

Financial Institutions' Self-Regulation Initiatives

Ideally, self-regulation initiatives reinforce regulation and vice versa. Incentives from global initiatives, donors, and investors are essential to make country-level self-regulation initiatives effective. This section updates recent trends in global industry self-regulation from practitioners and investors and discusses benefits, lessons, and challenges for future action from each perspective.

To help institutions and investors navigate the initiatives for responsible investments in microfinance, a joint industry effort has produced a map of responsible finance and responsible investment initiatives (Figure 2.3).

Global Initiatives on Universal Responsible Finance Standards for Microfinance

In June 2012, the Social Performance Task Force launched the "Universal Standards for Social Performance Management (USSPM)" driving industry progress across distinct but related global initiatives.

Figure 2.3: Universal Standards for Social Performance Management



Source: Social Performance Task Force

These universal standards offer a comprehensive resource for microfinance institutions (MFIs) and draw on best practices from leading industry initiatives and MFIs in the field (including CERISE, Smart Campaign, Microfinance Transparency, the International Labour Organisation (ILO), Microfinance Information Exchange Inc. (MIX), Imp-Act, and MicroSave). The universal standards aim to reduce reporting burdens and improve coherence among the many initiatives. Implementation is a process that MFIs choose to undertake at their own pace.

Investors can also use the standards, tailoring indicators to suit their context, as part of their due diligence processes. A group of investors called Aligning Investor Due Diligence and Monitoring with the Universal Standards (ALINUS) are developing a due diligence tool that will be aligned with the standards and will be available to all investment institutions. It will offer a single set of due diligence indicators based on the standards and shaped by the expertise and experience of investors across a variety of institutions. Aligning investors around a single due diligence tool also reduces the reporting burden for financial service providers, who frequently have to report to their investors in many different ways.

Smart Campaign

The Smart Campaign is a global effort to unite microfinance leaders with a common goal: to embed a set of client-protection principles deeply into the fabric of the microfinance industry (Figure 2.4.) The campaign works with microfinance leaders from around the world to provide microfinance institutions with the tools and resources they need to deliver transparent, respectful, and prudent financial services to all clients. As of May 2013, more than 1,000 MFIs have endorsed the Smart Campaign. The Center for Financial Inclusion (CFI), together with CGAP, led a coalition to create the Smart Campaign to put the seven client protection principles into practice. After two years of research, consultation, and testing, their “Client Protection Certification” is ready for use.⁴² In January, 2013, the campaign formally launched the Client Protection Certification initiative.

Certification requires preparation. Financial service providers undertake an initial assessment of their policies and practices and often need to modify them. When institutions are ready, they invite one of the certifiers licensed by the Smart Campaign (Planet Rating, Microfinanza’s Ratings, M-CRIL, and MicroRate) to undertake an on-site examination. To become certified, institutions must to pass all 30 standards within the seven principles. Financial institutions that meet or exceed the standards are highlighted publicly by the Smart Campaign as being “client protection certified.”

Within the first group of 13 Smart Campaign certified institutions, 3 are from Bosnia and Herzegovina and 3 are from India, both of which experienced over-indebtedness crises. (See case studies on Bosnia and Herzegovina and India in Chapter 3.)

Investors play a key role in reinforcing responsible finance. IFC, for example, supported the first group of financial institutions certified by the Smart Campaign. Since then, there is some evidence that support for the certification process is growing. For example, the Microfinance CEO Working Group⁴³ notes, “Over the past year, the number of network members who have endorsed the Smart Campaign increased by 40 percent, and the number of MFIs completing the ‘Getting Started Questionnaire’ a self-assessment of client protection practices, grew by more

Figure 2.4: The Smart Campaign Certification

Source: The Smart Campaign.

than 50 percent, which represents important early steps toward appropriate client protection. Moving forward, we will apply the same commitment to supporting members of our networks to become certification ready.”⁴⁴

Yet, there are challenges. One of the main challenges is generating demand for certification from FSPs. To date, demand is driven by investors such as KfW Entwicklungsbank, Agence Française de Développement (AFD), the Netherlands Development Finance Company (FMO), and IFC. Marketplace recognition of certified FSPs is still a distant goal. For some FSPs, responsible finance is recognized as important to ensuring sustainable growth and facilitates better risk management, but the benefits of implementing better practices are less evident when FSPs are faced with immediate needs for growth in challenging and competitive markets. Implementing a management-driven approach often requires a mindset change and a redesign of systems and practices that require investment in capacity building. (See case study on India in Chapter 3.)

For the next three years, the Smart Campaign intends to address top challenges including (1) working with international and national networks and technical assistance providers to incorporate the Client Protection Principles into their work; (2) building a cadre of accredited assessors, who will help prepare retail providers for the certification process; and (3) seeking ways to reduce the costs of assessment and certification by developing tools, guidance, and communications packages that will lead to better preparation and more complementarities between assessment tools and certification.

This effort builds on the early and continuing leadership from many private investors such as IncoFin, Oikocredit, Triodos, IFC, Triple Jump, Accion, Blue Orchard, Opportunity International, FINCA International, Women’s World Banking (WWB), part of the Social Performance Task Force, and early supporters of the initial stages of the Smart Campaign.

Microfinance Transparency

Another important initiative is MicroFinance Transparency (MFTransparency), an international non-governmental organization that promotes transparency by facilitating microfinance pricing disclosure, offering policy advisory services and developing training and education materials for all market stakeholders. MFTransparency represents an industry movement toward responsible pricing practices. MFTransparency promotes transparent communication among market players on the prices of microcredit products, through the use of Annual Percentage Rate (APR) and Effective Interest Rate (EIR) as standards for communicating pricing that allows comparison between products. MFTransparency provides training and education to the broad range of stakeholders to ensure that transparency leads to a strengthening of the microfinance industry and also works with regulators and policymakers to support the development of effective policies for pricing disclosure and client protection. MFTransparency partners with initiatives such as the SPTF, the MIX, SMART Campaign to facilitate industry-wide participation in the process of developing standards for transparent and responsible pricing.

Important Role of National Networks

Another emerging trend is to evolve ownership within national networks and authorities to enhance sustainability, innovation, and learning in the marketplace. National networks and member-based industry associations have an important role to play in promoting codes of conduct as a means of self-regulation in the microfinance industry. Microfinance Associations (MFAs) can be effective mechanisms for the collective action required for setting standards and providing their members with support to adhere to codes of conduct. They serve as advocates for the importance of codes among market stakeholders, such as policy makers, investors, regulators, competing financial services providers, and clients, on what it means to commit to the codes and the expected market behavior.⁴⁵

MFAs pursue many activities to design meaningful self-regulatory systems and implement effective codes of conduct, including:

- Assessing the best means to ensure adherence to global consumer protection principles and standards while ensuring adaptability to local contexts;
- Extending research on self-regulation and codes of conduct to examine the practices of other successful associations;
- Monitoring the implementation of a code over time to assess its impact on MFI practices;
- Sharing knowledge on effective designs for and practices of self-regulation; and
- Studying the relationship between systems of self-regulation and formal regulation.

Self Regulation Benefits and Challenges

Self-regulatory initiatives by provider associations offer a flexible and pragmatic approach that can be tailored to local market context and the needs of retail service providers that are association members. One primary disadvantage of relying on such an approach is inadequate coverage: the number of FSPs who fall outside association membership and influence may be large and they may lack incentives and enthusiasm for responsible behavior (the coverage problem). Another is the challenge of enforcing compliance by association members. MFAs that seem able to overcome this challenge in the context of a voluntary code tends to have a strong reputation and representative membership, which gives the MFAs the status and the authority to encourage good practices by members and influence nonmembers to modify their practices.⁴⁶

The lack of incentives for network members, as well as for FSPs outside the MFA's ambit, to comply poses a second challenge to self-regulatory systems, which is why the linkage to FCP regulation and supervision is important. All systems of self-regulation function better when formal regulatory systems provide a framework. Complementary measures required by donors and investors that reinforce and improve the effectiveness of self-regulatory initiatives provide powerful incentives as well. Monitoring members' compliance and enforcing standards are often difficult for a network. The main functions of MFAs are to advocate,

exchange ideas, and collaborate with authorities to develop or expand regulatory frameworks for microfinance. As such, demanding member compliance is often beyond their sphere of authority. The monitoring process also can be expensive, which may limit an association's ability to oversee members' compliance with standards.

Finally, conflicts of interest may arise when those who are charged with promoting and enforcing a code are also running businesses that must be bound by it. A well-established, well-reputed association, not directly engaged in the business of running MFIs, can go a long way to promote and support compliance with such a code. A hopeful vision for the next generation of MFA self-regulatory initiatives is illustrated by MFIN in India.

With IFC support, MFIN and Sa-Dhan, India's two largest microfinance industry associations collaborated to adopt a unified code of conduct for all MFIs. (See India case study in Chapter 3.) MFIN uses several mechanisms to enforce its code including a five-member Code of Conduct Enforcement Committee responsible for overseeing member compliance and enforcement. The committee establishes stringent guidelines and strict timelines regarding violations, reporting, and inquiry procedures. Finally, code violations by MFIN members can result in financial penalties and pose a reputation risk.

Principles for Investors in Inclusive Finance

Investors are an increasing stakeholder group influencing quality and accountability. "*Principles for Investors in Inclusive Finance (PIIF)*," an investor initiative to meet the demand for guidance on investing responsibly in inclusive finance, was launched specifically to focus on institutional investors, both asset owners and investment managers. PIIF's focus is to promote policies and procedures among investors that encourage and reward good practice at the retail level.⁴⁷

In signing the principles, investors commit to:

- Expand the range of financial services available to low-income people;
- Integrate client protection into all policies and practices;
- Treat investees fairly, with clear and balanced contracts and dispute resolution procedures;



- Integrate environmental and social performance and governance factors into policies and reporting;
- Promote transparency in all operations;
- Pursue balanced long-term returns that reflect the interests of clients, retail providers, and end investors; and
- Work together to develop common investor standards on inclusive finance.

Signatories are required to report on their practice against the principles, on an annual basis. Over the past year, a new reporting framework was designed with input from PIIF's signatories. The new reporting framework has both mandatory and voluntary indicators. The mandatory indicators represent the minimum set of public information that signatories are required to report beginning in 2014. Signatories will receive a confidential report that will assess their progress in implementing the PIIF year-on-year and relative to peers.

The framework was piloted in 2012. A "Report on Progress," based on the responses received, revealed high commitment among direct investor participants to invest in retail providers that offer a range of services and adopt client protection practices. Investors provide debt and equity with a range of terms and conditions to investees and participate in industry-wide initiatives to develop common standards. Areas where there is room for improvement include incentives for social returns, an active role in corporate governance, investors transparency, and encouragement of investee transparency on pricing and other terms and conditions to the ultimate client.

PIIF provides summary data from the reporting pilot showing investor performance with respect to each principle, as follows:⁴⁸

- **Expanding the range of services.** All 15 direct investor participants reported actively supporting retail providers to offer a diverse range of financial services that respond to client needs. Most provided some level of technical assistance to retail providers, particularly for organizational capacity building and new product development. They also encouraged knowledge sharing among their investees.
- **Integrating client protection.** All investors who took part in the pilot endorsed the Client Protection Principles (CPPs). Nearly all include client protection measures in their investment policies, due diligence processes, and financing agreements. Fewer support investees in implementing the CPPs; however, most reported that they provide training or assistance to investees in implementing client protection measures. Activities include educating one's own investment staff on the CPPs so they can share best practices and provide suggestions on implementation of the principles during monitoring visits, funding workshops for investees on the CPPs, and funding country-level over-indebtedness studies that lay the groundwork for discussions on the topic.
- **Ensuring fair treatment.** The reporting framework looks at proxies such as the tenor and currency of finance provided and the transparency of terms and conditions. All debt providers offered local currency loans, but the term varies widely. Debt investors indicated that they ensure that investees have full understanding of financing terms, covenants, and the implications of breach. The responses from direct investors suggested that equity holders take a fairly long-term investment perspective, with investment periods typically five or more years. Most seek minority stakes.
- **Integrating environmental, social performance, and governance into policies and reporting.** Participants reported integrating social performance measures into due diligence and monitoring and reporting processes. Some used in-house tools; others relied on external tools. Nearly 90 percent reported a procedure to integrate environmental issues into investment decision making. This percentage is larger than the 66 percent reported by microfinance investment vehicles (MIV)s in a 2012 survey.⁴⁹ Most also reviewed the composition and compensation of boards, ensuring they had depth and breadth of skills. The majority had board seats with half of their investees and slightly over half of the investors providing training or assistance in corporate governance.
- **Promoting transparency.** Building transparency has to be a proactive process; it does not happen by chance.⁵⁰ Of those reporting in 2012, 80 percent disclosed information to investors aligned either to the MIV Disclosure Guidelines or Impact Reporting and

Investment Standards (IRIS). Most disclosed their own policies, criteria, and related conditions of products and services on their websites and fully explained pricing in a form understandable to investees.

- **Striving for balanced, long-term returns.** All reported taking social performance into account in investment decision making and would decline to invest if social performance did not meet minimum standards. Only a few incentivized social performance by considering a price reduction in debt funding and/or a technical assistance grant if social performance is high or by creating staff incentives in line with social performance measures.
- **Collaborating to set harmonized standards.** A high level of direct engagement with industry initiatives was reported but less encouragement for investees to endorse and/or participate in such initiatives. Generally, participants valued the knowledge sharing and joint working opportunities facilitated by the global initiatives. Although most participated in global initiatives to varying degrees, MIX, Smart Campaign, and SPTF tended to be industry leaders for both internal and external investor actions.

PIIF led a case study research project among signatory investors regarding application of the principles. The cases provide insights and challenges on implementing each principle.⁵¹

Investors Increase Use of Responsible Finance in Operations

Private investors as IncoFin, Oikocredit, Triodos, Triple Jump, Accion, Blue Orchard, Opportunity International, FINCA, Women's World Banking, just to name a few, have integrated responsible finance into their investment processes.

Examples of development finance institutions (DFIs) are highlighted below.

- **FMO (Netherlands Development Finance Company),⁵²** the Dutch development bank, takes a risk-based approach to client protection as part of its due diligence for new and existing investees. It developed a new risk rating assessment that helps formulate and negotiate an effective action plan to aid its client to implement

responsible finance into daily operations. FMO further suggests that good quality, affordable local or regional experts in responsible finance are an essential ingredient for investors and potential clients to implement the CPP.

- **IFC focuses on both implementation and capacity building and** sees strong complementarities among implementing responsible finance practices, risk management, and credit reporting across the entire array of financial products and services⁵³. Since 2008, IFC's performance-based approach has enabled IFC to embed responsible financial inclusion and social performance strategies in line with an institution's business. Today, more than 80 clients at various stages of implementation of responsible finance practices are being tailored to deepen implementation of more customer-centric practices. IFC also supports sector initiatives in priority regions and countries by advancing consumer-centric practices jointly through its investment appraisal work and advisory services to help build capacity at the industry and institutional levels.
- **KfW Development Bank,⁵⁴** Germany's leading development bank, sees responsible finance as an integral part of its holistic strategy and approach to financial sector investments. KfW promotes responsible finance practices at the institutional, policy, and sector levels. Since 2007, with the publication of a responsible finance "Leitmotif", or guiding motif, KfW Development Bank committed to align all of its financial sector activities to responsible finance practices. Responsible finance at KfW is a mandatory part of program appraisal for financial institutions. To support this strategy, KfW has developed a series of tools to integrate responsible finance issues into the normal project cycle. The toolkit includes a position paper on responsible finance, a due diligence checklist, a responsible finance contract clause for loan agreements and grants, and studies on responsible finance topics such as over-indebtedness. KfW also promotes responsible finance as part of its governance responsibilities and holds seminars and publishes knowledge management resources for staff and partners.

Summary: Financial Institutions' Self-Regulation

Global initiatives show many positive trends toward coherence, accountability, and addressing challenges,



especially in the microfinance sector. Industry initiatives focus on coherence of standards and have worked together to create common universal standards. Investors and practitioners are going beyond recognizing that self-regulation and consumer protection regulation are mutually reinforcing, to acting on this agenda. The broader industry is calling for increasingly higher levels of commitment to principles by requiring specific actions. The business case for implementing responsible finance is gaining increased attention as investors and practitioners call for practical solutions on the trade-offs and synergies with the goal of bringing responsible finance practices to the entire financial services industry. And finally, investors' procedures increasingly investigate responsible finance practices during due diligence and require responsible finance measures in performance based agreements.

Financial Education

This section examines financial education, highlighting initiatives, recent research findings, and practitioner experience.

- **Financial literacy** comprises a combination of financial awareness, knowledge, skills, attitudes, and behaviors necessary to make sound financial decisions and ultimately achieve individual financial well-being.
- **Financial education** is the process by which financial consumers/investors improve their understanding of financial products, concepts, and risks, and, through information, instruction and/or objective advice, develop the skills and confidence to become more aware of financial risks and opportunities, to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being.⁵⁵ (Financial education includes financial capability.)
- **Financial capability** encompasses financial knowledge (literacy), attitudes, skills, and behaviors. More specifically, financial capability is the internal capacity to act in one's best financial interest, given socioeconomic environmental conditions. It includes the knowledge, attitudes, skills, and behaviors of consumers to be able to manage their resources effectively. In addition, to understand, select, and make use of financial services that fit their needs⁵⁶ and to choose and make appropriate use of these financial products. It engages the financial

services sector in its responsibility to offer the right products to its target markets.

- **Financial inclusion** implies an alignment of supply and demand, where financially literate consumers have opportunities to apply their knowledge in a marketplace of appropriate product options.⁵⁷

Policy Initiatives

Changing consumer financial behavior has become a long-term policy priority in many countries. As the attention and resources spent on financial education has increased, so has the importance of ensuring the efficiency, relevance, and impact of these programs on improving financial capability. Coordinated and tailored strategies at national levels are considered a good means for meeting efficiency goals and avoiding duplication of resources and efforts.⁵⁸ Well-designed and implemented national financial capability strategies can reinforce financial consumer protection frameworks. Countries all over the world have developed national strategies.⁵⁹

Many policy makers view increasing financial education as a complement to consumer protection regulation. Increasing the financial literacy of the population aims to ensure that consumers can make savvy use and choices of financial services available to them, thereby improving their individual and household future financial well-being and eventually contributing toward broader financial stability of the country. Many governments are responding with new regulatory frameworks as the industry creates new products and technologies that have the potential to dramatically close the financial access gap. Governments are also seeking to address these challenges either through traditional school-based initiatives and adult education programs or by new methods that incorporate real-time interventions to provide information and promote changes in financial behavior. These new methods include text messages, radio programs, and other ways of communicating that take advantage of multimedia.

Global Initiatives

The World Bank's global efforts include developing a comprehensive survey instrument to measure financial capability of low-income populations in low- and middle-income environments. The recent publication "Measuring

Financial Capability: New Instruments and Results from MICs and LICs,”⁶⁰ summarizes the financial capability measurement work, funded by the Russia Trust Fund for Financial Literacy and Education (RTF).

Starting in 2002, the OECD developed a comprehensive project on financial education which led to the development of a series of globally recognized policy instruments on financial education including a first general recommendations on financial education and awareness in 2005 and three recommendations relative to specific areas in the financial sector related to insurance (2008), private pensions (2008), and credit (2009).

In 2008, the OECD created the International Network on Financial Education (OECD/INFE) to gather worldwide expertise on financial education and pursue the development of this project. The OECD/INFE now comprises 107 countries and 240 public institutions and relevant international organizations. It works on developing global policy instruments and frameworks, research, report, methodologies, data collection and tools to promote, implement, and review financial education strategies and initiatives. These notably include:

- The development of “High-level Principles on National Strategies for Financial Education” endorsed by G-20 leaders in Los Cabos in June 2012. Follow up work in 2013–14 included a G-20, Russia, and OECD report on national strategies for financial education, international guidelines on the role of private and civil sectors in financial education and a policy handbook on the implementation of these national strategies. This work is ongoing and will include consolidation of existing recommendations and policy instruments on financial education in a global set of policy instruments.
- The development of policy instruments for strategic areas including: principles on evaluation of financial education programs, guidelines on financial education in schools and policy guidance to address needs for financial education, and financial awareness specifically for girls and women.

A national strategy for financial education⁶¹ is defined as “a nationally coordinated approach to financial education that consists of an adapted framework or program, that:

- Recognizes the importance of financial education, including possibly through legislation, and includes a definition and scope to drive implementation at the national level based on identified national needs and gaps;
- Includes collaboration across a range of stakeholders and identifies a national champion or coordinating body/ council responsible to drive the agenda;
- Establishes a roadmap to achieve specific and predetermined objectives within a set period of time; and,
- Provides guidelines for individual programs to use and ensure contribution towards the national strategy goals and objectives.”

With the support of the Russia Trust Fund for Financial Literacy and Education⁶² OECD/INFE has further established criteria, principles, guidelines and good practices to improve financial education efficiency. This has included work in the following areas:⁶³

- Surveys, research, reports and implementation toolkits on topics of priority including: (1) financial education in schools/for youth; (2) the role of financial education in financial inclusion, including a dedicated work stream on migrants; (3) empowering women through financial education and awareness; (4) financial education for long-term savings and investment;
- Tools to measure and evaluate financial literacy and financial education programs;
- A database to collate financial literacy work globally (20 countries covered, 20 more planned);
- Regional peer reviews of financial education programs, policy instruments, and methodology (e.g., in Africa, and Latin America; Asia is forthcoming in 2014);
- A Financial education database, “International Gateway for Financial Education,”⁶⁴ a global clearinghouse on financial education (400 programs summarized across more than 100 countries), providing access to a comprehensive range of information and resources on financial education issues worldwide.

With the support of the private sector Banco Bilbao Vizcaya Argentaria (BBVA), the OECD Program for International Student Assessment (PISA), which tests the attainment of



15-year-olds in mathematics, reading, and science across 65 countries, introduced a financial literacy assessment in 2012 and 2015 to provide an international benchmark in 18 countries. Initial results were evaluated in June 2014.

At the country level, national strategies are being implemented successfully in over 20 countries, with at least another 25 in the process of developing national strategies.⁶⁵ An example of a financial education initiative in the new generation of impact evaluation of financial education programs was Brazil's National Strategy on Financial Education launched in December 2010. This strategy included the Financial Education Program for School Children and Parents, and a pilot initiative in 891 schools with 26,000 students between the ages of 14–17. The initiative aimed to empower high school students to make sound financial decisions. A recent impact study⁶⁶ notes positive preliminary results: (1) the average level of financial proficiency was significantly higher in the participant group (60) than in the control group (56) and 10 percent higher for knowledge about financial concepts, such as interest rates, loans and sources of finance, insurance, income tax, and minimum payments on credit card bills. The number of students who saved increased by 10 percent and the number who saved for future projects by 14 percent.

This study was the first large-scale, rigorous, impact evaluation to measure whether a high-school-based financial education program can successfully change financial knowledge, attitudes, and behaviors among students and their parents.

The World Bank has conducted research on the effectiveness of a wide range of financial capability enhancing programs, including those that address traditional methods of financial education as well as those using more innovative methods. A range of impact assessments are available online.⁶⁷ “Financial capability in low- and middle-income countries: measurement and evaluation”⁶⁸, A report on the World Bank's research program and the knowledge from the Russia Financial Literacy and Education Trust Fund summarizes the World Bank studies, including lessons learned. A key finding was that programs that use mass media and social marketing tools promise to be particularly effective. Another important finding was that programs can be effective in changing financial behavior even in cases where the financial literacy (i.e., knowledge) does not

improve. For instance, the World Bank study, “The Impact of Financial Literacy through Feature Films: Evidence from a Randomized Experiment in Nigeria,”⁶⁹ provides empirical evidence that an entertaining movie with an emotionally charged story line can motivate entrepreneurs to open savings accounts.

Industry Initiatives

The link to consumer protection is one goal among many for financial education as the microfinance industry has recognized. Generally, the industry group's financial capability efforts fall into three broad categories: consumer protection and awareness, product adoption and improved product use, and personal development for improved livelihoods.⁷⁰

- **Consumer protection and awareness.** Some broad-based financial education programs seek to change consumer interactions with the financial market. A popular example of this type of program is the use of financial education as a tool to introduce the public to basic financial concepts and to promote financial inclusion for the “unbanked.” In general, financial industry associations typically favor this type of financial education program because they have a mandate to change some aspect of the market in which their membership operates. For example, Association of Microfinance Institutions (AMFIU) in Uganda and South African Insurance Association (SAIA) engage in these programs.

AMFIU uses a variety of delivery methods, including an educational radio program with integrative elements to encourage public participation. AMFIU selected radio stations that reach out to a diverse range of people. An impact study showed a significant increase in the number of clients and number of deposits at a sample of financial institutions.

SAIA has a mandate from the government of South Africa to promote insurance education. It offers various financial education interventions intended to increase consumer knowledge about insurance and their rights and responsibilities as consumers when buying products from accredited financial services providers. This initiative is an example of a successful private–public partnership to provide consumer education about insurance.

Finally, partnerships among government agencies and stakeholders have the advantage of introducing large numbers of people to financial concepts and the formal financial sector. (See case on Ghana in Chapter 3).

- **Product uptake and improved product use:**⁷¹ Financial education can teach consumers about appropriate products and services, thereby boosting uptake and use. This uptake can be mutually beneficial for consumers and FSPs. Clients can become better equipped to manage their finances and make more appropriate choices about the financial products offered; some FSPs perceive improved portfolio quality as being a result of less risky clients. This type of financial education program is generally implemented by FSPs. Financial institutions have an invaluable advantage over other organizations in providing financial education; they can offer clients an immediate opportunity to practice and apply newly acquired skills with actual financial products. For example, the Foundation for International Community Assistance (FINCA) of Mexico sees financial education as the principal driver for the increased adoption and use of ATMs; Opportunity International Bank of Malawi (OIBM) credits financial education as a critical ingredient in maintaining portfolio quality and increased outreach.⁷²

FINCA Mexico introduced its financial education program to build clients' knowledge and confidence about the prepaid card it offers and, ultimately, its branchless banking. FINCA's financial education program addresses the clients' level of technical knowledge and enhances their trust in mobile banking and other financial technologies. FINCA has reached 10,500 people with prepaid cards. All received financial education training. OIBM is the largest commercial microfinance bank in Malawi. Together with its financial product line, OIBM offers financial education aimed at improving the money management skills of its clients and their ongoing use of the bank's products and services. Since the start of its financial education program in 2004, OIBM has reached 337,000 people. OIBM measures the success of financial education through improvements in portfolio quality indicators and increases in the use of its products and services.

- **Livelihood training:** Financial education can be complemented by and integrated with other essential

knowledge/behavior/skills building around livelihoods. One such example is the Private Education Development Network (PEDN) in Uganda, a nonprofit organization that empowers youth by establishing entrepreneurship and business skills programs in public and private secondary schools, as well as in communities. Its objective is to produce creative and competitive individuals who are productive job creators, not just job seekers. PEDN combines financial education with entrepreneurial and business skills training and an opportunity to save so that participants are able to immediately put new knowledge into practice. Globally, many such programs combine financial education with livelihood training and some organizations go a step further to connect entrepreneurs with mainstream markets for their goods and services.

An in-depth assessment of over 60 financial awareness and education initiatives in India was undertaken to review their success and efficacy.⁷³ Early findings from the study suggest elements of success for financial education programmes by FSPs. Each of these conclusions applies to certain interventions but is open to debate in others.

Elements of Success from the India Study

- **A diverse set of communication methods (e.g., media, live training, posters, skits) helps reinforce messages and enhance retention.** Different communication methods obtain different levels of attention and response from the audience, so diversification is an important strategy to ensure effectiveness.
- **Follow up is important.** It is useful to have follow-up programs that build on and reinforce each other. An illustration comes from the work of Ujjivan, a microfinance institution and IFC client, that has two financial literacy programs aimed at training its customers to manage debt prudently while meeting investment needs and also emphasizing the importance of maintaining good credit history. **Efficacy and monitoring can be a challenge in one-size-fits-all programs** (standardized structure/standardized modules). It is important to build the stake and participation of the partner institutions in conducting demand assessment, designing the curriculum, and choosing the appropriate delivery methodology.



- **The study suggests that a long-term strategy and multiple follow-ups by technical service providers offer a more comprehensive and focused approach to financial literacy than those designed by individual MFIs for their own clients.** Technical service providers have the expertise and resources to design comprehensive financial literacy modules without bias toward any particular product or service. The programs are often a part of a long-term strategy on financial literacy, implemented through partner organizations. The materials are well researched and tested, as well as constantly improved to include the latest changes in the financial sphere relevant to the target segment.
- **Keeping time and associated opportunity costs low for lower income households is important** when designing appropriate programs. Some institutions have devised innovative programs to make the training less time intensive and more quickly beneficial. The idea is to take the training to the target audience with minimal loss of time and earning opportunities.
- **Financial education followed by relevant product delivery enables behavior change and facilitates financial inclusion** but can create a conflict of interest. Financial literacy messages need to avoid product biases and encourage clients to make the right choices for themselves.
- **Client demand for financial literacy drops when fees are charged – full cost recovery is not yet a possibility.** Very few initiatives catering to low-income people charge fees for financial literacy programs. Sustainability of effective financial education programs is higher when linked to the core business of the institution.

Bringing Consumer Organizations Into The Responsible Finance Agenda

A major item for the future agenda is to bring consumer representatives into the responsible finance mix. To date, consumer interests are represented only indirectly by FSPs or their networks and by government departments. Consumers rarely have advocates who represent their interests in stakeholder dialogues or serve as unbiased resources for advancing the consumer perspective. Consumers International and Microfinance Opportunities, supported by the UK's Department for International Development (DFID), launched a pilot project in Kenya

and Tanzania to bring financial consumer advocates into the financial capability agenda.⁷⁴ The project's overall objective is to create an enabling environment that empowers consumers to make informed decisions about their money and the financial products they buy. Specific objectives are to strengthen the capacity of national consumer organizations to provide financial education services and track consumer behavioral change. As part of the project, an important resource, the "Financial Education Counseling – Counselor's Handbook," was created for financial counselors.⁷⁵

Challenges for Financial Education

Challenges and controversies emerge from experiences in developing, implementing, and evaluating financial education programs.

Different perspectives exist within the industry about the objectives of financial education, which influences the way challenges are perceived. One perspective links consumer financial education to consumer protection, the aim of which is to ensure adequate protection to consumers who purchase financial products. A second perspective aims for the broader goals of helping people use financial products to improve their livelihoods and well-being. Neither objective is mutually exclusive; however the perception around resources needed, programs, activities, and funding vary.

A case can be made that customers can gain practical experience and increase financial capability simply by using basic financial products. Conversely, a recent study by Citi Foundation, a veteran supporter of financial education efforts globally, argues that "the risk of not addressing the [financial capability] gap can prove costly not only to customers but to a range of actors in the financial services system."⁷⁶

Another debate centers on responsibility for making markets safer and fairer. Responsibility clearly lies with regulatory authorities and the industry, rather than with the consumer. Yet, there is a compelling argument that the growing complexity of the financial landscape increasingly transfers financial risks and responsibilities to consumers. Financial education is one useful tool to restore confidence in financial markets.⁷⁷ This debate is further complicated by the general absence of financial consumer advocacy organizations in many places.

A clear business case for financial education has not yet been established, even though education in general is a well-established “public good,” and many FSPs see multiple advantages of financially capable customers. Achieving financial capability reliably, at scale, and in a cost-effective way is still an open question, although there has been advancement. Several approaches, such as consumer education campaigns that reach the public with key messages, can reach scale at relatively low cost. The test must be to define which financial education interventions achieve the desired behavior changes and outcomes. School-based programs that use traditional platforms to reach groups of young people provide an opportunity to go to scale and may have a long-term effect on behavior but may be resource intensive. (See case study on Brazil in Chapter 3.)

Financial education provided by FSPs has the advantage of using “teachable moments” that combine education with product use, which is essential to adoption of new behavior. Yet, marketing incentives may compromise quality financial education. A recent study looked at different approaches that compare the costs of traditional classroom programs and FSP-provided “induction training.”⁷⁸ Newer methods of delivering financial education are met with enthusiasm, yet few initiatives have been evaluated over the long term for cost effectiveness, sustainability, or increasing financial capacity. Further, there is the question of “Who pays? Should it be individual providers, industry associations, government, consumers, or a combination?”

“Who is really in the best position to provide financial education in a transparent manner?” FSPs have the ability to offer clients an immediate opportunity to practice and apply newly acquired financial management skills.⁷⁹ Early promising results illustrate that product-linked models can achieve cost-effective delivery through induction training.⁸⁰ However, the model raises the question of striking the right balance between financial capability and product marketing, something the field has long recognized. “Full financial capability to know the choices and make decisions among the full range of product offerings and the promotion of the relatively narrow range of products provided by a particular financial service provider are not always aligned,”⁸¹ commented a Center for Financial Inclusion blogger.

The author of a study on financial education in developing countries noted that, “There is little in the way of robust evidence to show the overall effect of financial training... This conclusion is valid across different types of interventions... and calls for caution and not pushing for more of the same until better evidence is at hand.”⁸² Emerging evidence from financial education programs indicates changes in behavior. However, none of the impact studies to date have spanned a period of time long enough to capture the anticipated changes.⁸³ New evaluation tools developed by OECD/INFE and the World Bank, with support from the Russian Trust Fund on Financial Literacy and Education and Microfinance Opportunities, now allow assessment of an increasing number of programs. In addition, the OECD/INFE and World Bank have developed survey instruments to measure financial literacy/capability across countries with different income levels. Measurement efforts have been undertaken in several countries and results are now available for a wide variety of countries.⁸⁴ However, challenges remain.

Consumer representation in stakeholder consultations is a topic for consideration. Financial consumer and advocacy organizations are not present in most countries, and if present, lack adequate resources and a singularity of focus to meet the high demands of financial education. It therefore becomes a challenge to address the interests of end-clients. Emerging innovative programs from Consumers International, Microfinance Opportunities, and DFID may develop solutions.

Summary: Financial Education

Consensus exists about the importance of financial education as a strong pillar of responsible finance. Policy makers have embraced financial education efforts as a key component that leads to financial stability, consumer protection, and widespread benefits from financial innovation and inclusion. The industry continues to engage in promoting and advancing financial education. As evidence emerges about the success and promising results of different programs, there is a role for a range of stakeholders to test and scale up these programs, effectively managing costs and measuring outcomes.

Case Studies



This report is based on a global mapping methodology. This year's stocktaking involved a survey of the community of practice, including industry associations, investors and donors, and global support networks. Survey participants were asked to describe their responsible finance initiatives, and nominate innovative cases across the three pillars that could be featured in the report. Case studies were selected from the responses. The criteria for case selection included: (1) initial implementation results; (2) emerging evidence and lessons learned; (3) potential for scale and replicability; and (4) a balance of initiatives across the three pillars. Case study contributors were interviewed to provide the flavor of the case and to dig deeper into lessons and results, highlighting key insights and global trends.

This chapter highlights eight case studies:

- Eastern Europe and Central Asia:** IFC developed a market indebtedness assessment tool in Bosnia and Herzegovina that allows an assessment of the extent of the over-indebtedness problem. This case falls into the self-regulation pillar and shows how practical research can inform follow up initiatives.
- Bosnia and Herzegovina:** U-Plusu, a nonprofit, free, personal financial management counseling center, conducted a unique effort to provide debt mediation services and financial education opportunities. The center is being replicated within the country to demonstrate its efficacy as a more broadly relevant model. This case falls into both the financial capability and self-regulation pillars and provides lessons for others interested in establishing similar initiatives.
- Ghana:** A GIZ/BMZ initiative with multiple Ghanaian stakeholders shows the effectiveness and challenges of a multiplayer initiative across several responsible finance pillars. The case involves a concerted effort to promote cohesive industrywide action.
- Pakistan:** The Pakistan Microfinance Network (PMN) case is firmly rooted in the self-regulation pillar but with a strategy that incorporates all three pillars. The case analyzes how PMN is providing a range of practical responsible finance services to the microfinance industry.
- Indonesia:** Allianz SE's Allianz Care Foundation Financial Literacy Program for Adults (FLAME) in Indonesia shows private sector engagement in microinsurance training and financial education curriculum development. The case shows how a private-sector provider can improve financial education.
- China:** The ombudsman service in China, supported by GIZ on behalf of BMZ and the China Securities Regulatory Commission, illustrates development of financial market infrastructure for dispute resolution through mediation. The case shows how the mechanism was developed and shares lessons for similar initiatives in the consumer protection regulation pillar.
- Philippines:** The Central Bank of the Philippines (Bangko Sentral ng Pilipinas; BSP) conducted consumer protection and market conduct initiatives with efforts to make disclosure effective for low-income consumers and more broadly across the market (with support from AFI and CGAP). The case documents process and product lessons and falls under the consumer protection regulation pillar, with aspects of self-regulation.
- India:** The case from India describes IFC's early initiative to advance responsible finance across all pillars since it began credit bureau work in 2009. In 2010, a multiyear collaboration began with industry networks and the Smart Campaign on client protection principles, risk-management, and financial awareness. The case shows how investors can play a broader role with advisory services before and after a crisis to help embed responsible finance in institutions' operations, rebuild a market, reinforce regulations, and benefit the industry overall.

A range of organizations implemented the eight responsible finance programs featured in this report. The case studies can be grouped into five categories:

- Consumer protection and disclosure (Philippines), a government initiative;
- Integrated approaches to shaping the industry (Ghana, Pakistan, and India) that show dedicated attention to all three pillars;
- Addressing over-indebtedness (Bosnia and Herzegovina and India), through development of tools to understand market behavior, responding to over-indebtedness through mediation, broad-based work across the microfinance industry, and long-term efforts to build consumer financial capability;
- Financial education initiatives, such as the effort in microinsurance (Indonesia) sponsored by Allianz SE, an international insurance company, as well as several other cases almost all of which offer financial education as a component;
- Investor protection, mediation, and dispute resolution system (China).

These cases are drawn from the responses to the global mapping survey and can serve as examples to others who may be implementing similar initiatives.⁸⁵

Depending on their longevity and depth, some cases offer lessons in design and start-up and others offer insight on longer-term implementation.

Emerging Evidence: Themes and Lessons

The cases reinforce the trends and the lessons discussed in this report. They highlight several general themes and good practices.

- **Efforts are more effective when they work across the three pillars.** This conclusion does not mean effective initiatives are never specialized, but it does mean that coherent regulation, industry standards and expectations, and emphasis on improving client financial capability tend to have a mutually beneficial effect on successful implementation of responsible finance initiatives.
- **Different factors (such as financial sector stability, provider commitment to social goals, or financially empowering consumers) motivate pursuit of responsible finance.**
- **Collaborative efforts and assurance of stakeholder commitment is worth the time and effort, even though it may delay implementation plans.** There is renewed emphasis on the importance of consultation, working groups, and building stakeholder commitment and ownership.
- **Involving a broad range of expertise,** through peer-to-peer learning and exchanges among policy makers, combining specialized technical staff such as insurance agency staff, with FSP client communication expertise, using human resources expertise **are effective approaches for building experience and capacity.**
- **Effectively managing change is key to progress and innovation.** Because new concepts and ways of doing business challenge social and business norms and values, they may meet initial resistance from stakeholders. Effectively managing change through (1) management vision; (2) a clearly defined strategy; and (3) timely communication is key for effective implementation. Effective change management was demonstrated in the case of U-Plusu, Bosnia and Herzegovina, which successfully launched a new concept to market.
- **Rigorous data collection techniques and analysis help to clearly identify problems and solutions during implementation.** The Bosnia and Herzegovina and the Philippines cases demonstrate this approach.
- **Use of tools, toolkits, reference guides, and practical applications** developed over the last few years enable efficient tailoring and adaptation to the local context.
- **Capacity building at all levels is important.** In some cases, the goal is to change the way things are done industry-wide, including major changes in rules and practices. The BSP Philippines case on reforming disclosure regimes is an example of this theme. BSP found that consultation; peer-to-peer learning, and establishing a culture as a learning organization enhanced implementation. The India and Pakistan cases demonstrate how capacity building is key to translating institutional vision and mission to every “foot-on-street” loan officer.

Responsible Finance in Eastern Europe and Central Asia: Measuring Over-indebtedness

Context

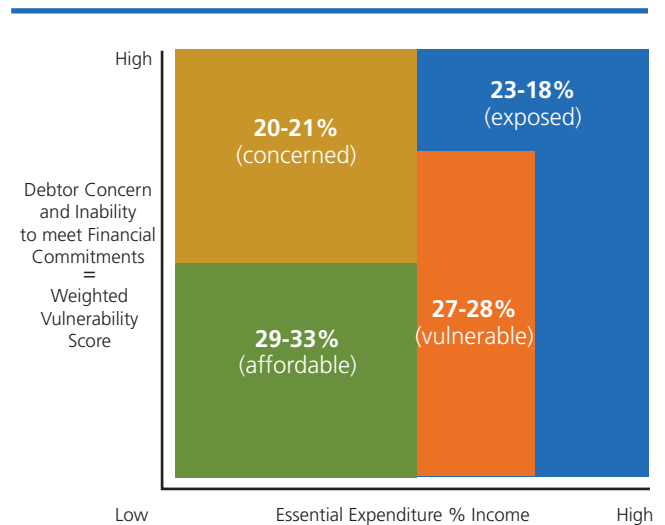
In 2009, questions regarding the potential over-indebtedness of microfinance clients arose in the Kyrgyz Republic and Bosnia and Herzegovina. Regulators, MFIs, and the general public expressed their concerns about industry practices that contributed to high levels of client debt. Microfinance institutions needed to determine the depth and pervasiveness of the problem, respond to the current crisis, and determine how to be most effective in implementing responsible finance measures for the future.

Objectives

In Bosnia and Herzegovina, over-indebtedness became a serious problem, as expressed through a rise in non-performing loans and a 40 percent equity loss compared with 2008. The first issue was how to measure client over-indebtedness to assess the degree of the problem. Portfolio at risk and multiple loans were possible proxies, but neither was directly correlated to client indebtedness and thus not a direct measure.

To test the level of over-indebtedness in the market, IFC developed a survey tool and an analytical approach it has further refined over the past three years. The tool includes subjective and objective means of verifying the level of borrower distress. Subjective questions allow the tool to map clients on a risk matrix based on their responses to personal vulnerability questions. The objective axis maps clients according to the portion of their income used for essential expenditures and for service debt. The tool provides a more complete picture by combining debtor concern and inability to meet financial commitments with hard data on the percentage of income used for household basics and debt repayment (Figure 3.1).

Figure 3.1: IFC Survey Tool for Determining Over-indebtedness



Source: IFC.

Note: Smaller percentage figures represent 2011 results and larger figures represent 2012 results.

Results

Use of the tool resulted in segmentation of 4,000 respondents in the Bosnia and Herzegovina representative sample, of which 80 percent were credit borrowers.

To address the needs of vulnerable and high-risk clients (the orange and red segments of Figure 3.1), IFC worked with Plus, the Association for Responsible Personal Finance Management, formerly the Centre for Financial and Credit Counseling, a local organization established by several MFIs as a response to the crisis. (See case study on Bosnia and Herzegovina for more on U-Plus.) Since the founding of Plus in 2010, with the support of the European Fund for Southeast Europe (EFSE) and IFC, more than 6,000 individuals have participated in financial education and personal money management counseling, which represents more than 2 percent of the country's microfinance clients. In addition to onsite training, one-on-one debt advice services are offered. In 2012, 882 Bosnia and Herzegovina citizens who had specific questions regarding repayment used the service. In the most recent six-month period, the debt resolution success rate for clients who were experiencing repayment problems grew to 42 percent.

Putting principles into practice

In the Kyrgyz Republic, IFC supported a responsible finance roundtable in March 2012 that attracted more than 100 participants. The topic of over-indebtedness was introduced, and experiences were shared among colleagues from other countries. In July, the Smart Campaign held a training session on the principles of consumer protection in microfinance. By January 2013, two Kyrgyz Republic MFIs had undergone Smart assessments and several others were in the pipeline.

Meanwhile, IFC continued support at the client level. A screenplay with personal finance messages was developed into a 21-series radio soap opera. To deepen financial literacy levels, the MFI association developed cartoons, brochures, and posters. To test the impact of various approaches, a survey was designed and implemented in January 2013. The next steps will be to design additional means of communicating messages about personal finance to specific target groups.

In Bosnia and Herzegovina, the Smart Campaign was launched with a workshop on responsible financing within the microfinance sector in February 2012. The workshop results were enhanced by the fact that several Bosnia and Herzegovina MFIs (including Partner and Mi-Bospo) had engaged with the Smart Campaign since 2009 and had undertaken assessments as part of the research pilot. They provided advice, experience, and technical knowledge to the Smart Campaign's advisory committee and working groups. The workshop, attended by the key players from the financial sector, aimed to improve implementation of the client protection principles by enabling participants to identify weaknesses and priority areas for improvement within their organizations.

By February 2013, three Bosnia and Herzegovina microfinance institutions (EKI, Microcredit Foundation, Mi-Bospo, and Partner) were certified by the Smart Campaign (see Chapter 2) and a third MFI was undertaking the certification process. These MFIs are among the only six Smart-certified institutions in the world.

Bosnia and Herzegovina: U-Plusu - An Innovative Approach to Hard Times

Consumer protection and financial education are aimed at protecting customers before and during financial transactions. But what happens when borrowers get into trouble with debt?

Context

Microcredit borrowers in Bosnia and Herzegovina were hit hard by an overheated and competitive local market during the global financial crisis. An innovative approach to personal financial management and debt counseling was initiated by three MFIs.

The idea of debt counseling or even seeking out a personal financial management professional is new in Bosnia and Herzegovina. People rely on friends and family, not professionals, for financial advice. But something had to be done to address the high level of over-indebtedness of many clients. A debt advisory center seemed a reasonable response to a sector in crisis, and a good alternative for people in trouble with credit.

The first debt counseling center was opened in Tuzla in September 2010 with IFC advisory services support and funding from EFSE.

Success Factors and Challenges

The center staff quickly learned a great deal about social and cultural norms, including misdirected ideas about responsibility and blame, and the stigma carried by indebted clients.

Social norms stigmatize people who carry debt beyond their means to repay. There is often little incentive to help anyone who is considered so irresponsible as to get into that situation. Research on the extent of debt and reasons for client indebtedness were keys to successful implementation. As a result Plus changed the marketing emphasis to focus on responsible personal financial management and financial education, even though debt counseling remains a centerpiece of the operation.



When people get into trouble with credit, there is often misguided behavior on both the borrower and lender side. As Plus explains, some clients don't understand interest rates, and expect to repay only the principal. When they find that their debt includes accumulated interest payments, they may even become aggressive. Likewise, management is often unaware of the aggressive collections practices used by its staff. As Plus began to communicate with lenders about the problems clients face and the possibility of debt mediation measures, awareness was raised about sharing responsibility. Many FSPs also appreciated the unintentional "watch-dog" role played by Plus when investigating client complaints about aggressive collections behavior.

Some lenders did not want to participate in debt consolidation because they felt their own means of collection would be more effective. There is often little incentive to split the burden. Others lenders recognized that the debt burden was partly their responsibility, and a new repayment plan might make sense, particularly when multiple lenders were involved.

Results

Despite the challenges, Plus's team of professionals has:

- Provided personal money management services to 2,528 adults and youth and provided specialized individual counseling to 955 individuals since its opening in 2010 in Tuzla and its expansion to Sarajevo;
- Engaged eight financial institutions to form a debt counseling steering group;
- Developed a client market segmentation matrix, core concepts for debt resolution and debt prioritization, and a common financial statement that better analyzes client disposable income; and,
- Joined the European Consumer Debt Network, a group of similar providers in the European Union.⁸⁶

The center's outreach services are growing, and innovative methods to reach targeted segments of the market are expanding. Plus staff works with schools, both students and teachers, and holds seminars for government employees.

As a result of Plus's research, services are expanding to employees of large private companies. The supermarket

chain Merkator and Sarajevo Gas Company were the first to respond. Plus research found that one of the main reasons people sought out counseling services was for repayment of loans for which they were guarantors. Because of their regular salaries, employees of private companies and government are regularly sought out as guarantors for loans. Companies such as Merkator and Sarajevo Gas have retained Plus to provide financial education to their employees on financial products, particularly credit contract clauses and household budgeting. Plus has held three workshops for 60 government employees in cooperation with municipalities in Sarajevo and Tuzla on the same topics.

Plus plans to (1) expand financial education with employees of private companies, state institutions, and schools, and (2) continue debt counseling and mediation services. After a difficult start, the program has been successful in helping people negotiate repayment plans with multiple financial institutions. Plus sees this service as an important contribution to society, the industry, and financial well-being of clients.

In addition, it will work on mechanisms for industry support. There is potential for financial service providers to contribute financial support, possibly by contributing to the government and for the government to support Plus, as is done in some countries. This mechanism fosters independence, reduces the perception of a conflict of interest, and allows FSPs to avoid the appearance of direct responsibility, especially if the contribution is mandatory. Plus is also investigating how debt counseling is supported in other countries.

IFC is also working with local government bodies, such as social work centers, municipalities, and free legal assistance offices to ensure that Plus's learning is transferred to them when it comes to working with the overindebted clients. Training in a series to expand debt counseling outreach was planned for June 2013, with an IFC assessment to follow on the effectiveness of this approach as a potential transitional and exit process.

Future challenges include changing regulations around lending codes to compel over-indebted clients to interact with the FSPs and lenders to consider adjustments when clients are in difficulty (Bosnia and Herzegovina has no personal bankruptcy law) and working toward long-term

change in societal attitudes and the debt stigma, which may prevent people from dealing effectively with debt. There is a need to communicate that preventing over-indebtedness and acting in a responsible manner when it happens are both important. Making the business case for financial education and appealing to lenders for support are also important.

Key lessons learned:

- Communicate with FSPs by understanding their behavior, incentive structure, and business norms.
- Ensure the communications and marketing package contains messages that bolster the reputation of an unpopular but important initiative.
- Research the causes of over-indebtedness to understand the problem and define a solution. Publicize findings and use them in communications with stakeholders who may have other views. Everyone supports having principles and practices to protect people who use financial services. Prevention is important, but having solutions for people in debt is equally important.

Ghana: Promising Results from a Concerted Approach with Multiple Stakeholders

Context

Forty-four percent of adult Ghanaians are financially excluded.⁸⁷ Broadening access and deepening participation in financial markets emerged as one of the key recommendations of Ghana's Financial Sector Strategic Plan (FINSSP). The Government of Ghana is convinced that this goal can only be achieved if consumers are capable of making well-informed financial decisions and if financial service providers follow responsible finance principles. A survey revealed that the level of knowledge of financial institutions, services, and products among urban Ghanaian adults is low and that even when consumers are knowledgeable; their knowledge often does not translate into behavioral change.⁸⁸ In January 2009, Ghana's National Forum on Microfinance adopted the National Strategy for Financial Literacy and Consumer Protection in the Microfinance Sector, which places Ghana among the first countries in Africa to have a dedicated national strategy on financial literacy.

On behalf of BMZ, GIZ supports the Bank of Ghana (BoG), apex bodies, and the Ministry of Finance and Economic Planning (MoFEP) to strengthen banking supervision of MFIs to protect consumers, and to improve financial literacy and consumer education through awareness campaigns and education. The support of responsible finance is part of the GIZ Program for Sustainable Economic Development in Ghana. It follows a participatory approach, involving key stakeholders in the microfinance sector. For example, in the area of financial literacy and consumer education, a working group, consisting of the BoG, MoFEP, and different microfinance apex bodies (Ghana Microfinance Institutions Network (GHAMFIN), Ghana Association of Microfinance Companies (GAMC), ARB Apex Bank, Credit Union Association (CUA), the Association of Rural Banks, and Ghana Cooperative Susu Collectors Association (GCSCA)) was established as a platform for discussion, development, and implementation of financial literacy activities. Similarly, GIZ, the Bank of Ghana and CGAP have begun a similar industry-wide engagement on consumer protection issues, including developing consumer protection priorities and action plans through a November 2012 policymaker and provider workshop.

The GIZ program collaborates with the Investigation and Consumer Reporting Office (ICRO) at the Bank of Ghana. Technical assistance focuses on development of a suitable regulatory framework for consumer protection across the entire market to establish consistent consumer protection standards for all providers offering credit, savings, and other common retail products and services.

Objectives

The objective of GIZ's Responsible Finance Project is "to provide micro, small and medium enterprises (MSMEs), economically active low-income households, and students with a better understanding of loan and savings products and to enable them to enjoy better client service and consumer protection in the banking sector." GIZ assists the Banking Supervision Department of the BoG to develop a regulatory and supervisory framework for the microfinance sector and provides advice on BoG guidelines for setting up a new microfinance supervision unit. The program supports microfinance apex bodies (CUA, GAMC, Money Lenders Association Ghana [MLAG], GCSCA) to set up supervisory mechanisms including supervision manuals,



reporting systems, and risk-management systems. Specific efforts are taken for Tier 4⁸⁹ Institutions, such as GCSCA and MLAG, where the BoG has opted for a delegated supervision model.

In collaboration with BoG's Investigation and Consumer Reporting Office, Technical assistance focuses on development of a suitable regulatory framework for consumer protection. The current focus is on disclosure, recourse, and the development of a set of general principles. The recourse model, the level of engagement of the associations, and integration of consumer protection in the supervision visits are being discussed. Guidelines are being developed with CGAP. At a later stage, specific activities will address the challenges of apex bodies in complying with or helping their members comply with the regulations.

Working on the third pillar of responsible finance, financial education, is equally important. GIZ supports the working group to implement the National Strategy for Financial Literacy and Consumer Protection in the Microfinance Sector. The following activities have been carried out:

- **Support to the Ministry of Finance and Economic Planning** for financial literacy weeks.
- **Development of client educational material**, such as DVDs on borrowing, savings, and banking operations, and an “ABCs series” of savings, loans, and insurance in the form of posters and brochures, which are distributed by the apex bodies to retailers.
- **Organization of a financial literacy campaign** with road shows that feature giant puppets, brass bands, and a drama and that ends with a question and answer session. The working group, a local event organizer, a drama troupe, and managers of MFIs developed the script and chose participating communities.
- **Development of a financial literacy radio program** called “Money Matters” based on the results of a survey among MSME's about the perception of savings and credit access in Ghana. The content of the radio program was developed with the working group. The program was aired once a week on each radio station, using local languages and music. Each program consisted of a jingle, a drama, a panel discussion, and a phone-in section. This effort is now being followed by a series of radio

messages about loans, saving, and consumer rights. One-minute messages were developed and are currently being broadcast. The plan is to broadcast several messages per day over one year to familiarize the audience with the messages in hopes they start following the advice.

- **Training modules** on customer care and protection for MFI employees and a “Financial Literacy and Consumer Protection Tool Box” have been developed. Staff members of microfinance apex organizations were trained as trainers for member institutions.
- **Introduction of financial education** in a compulsory curriculum for senior high schools is currently underway. Seventeen teaching and learning modules have been developed. The teachers in pilot schools have been trained, and modules are being piloted, with the objective to roll out the project nationally.

Results

Regulation and supervision of the microfinance sector:

BoG is aware of the acute need to regulate and supervise the microfinance sector to avoid fraud and to protect the interests of its clients. The Microfinance Unit in the Banking Supervision Department helped develop a regulatory and supervisory framework that BoG approved in July 2011. Currently, the unit is working on licensing operators and developing the supervision model. GIZ has assisted in training and in developing a supervision manual.

The newly issued guidelines give associations a new role, particularly those falling under Tier 4, GCSCA and MLAG, to which supervision has been delegated. Technical assistance concentrates on Tier 4 associations by supporting them to develop required reporting systems and maintain a member database. Supervision manuals have been developed, and training has been delivered to most of the apex organizations. Technical assistance has been provided in areas that can impact good governance, such as proper internal financial management.

Exchanges with BoG's Investigation and Consumer Reporting Office on the development of the draft guidelines for a consumer protection framework will be presented to BoG's Banking Supervision Department management. Consultation with the apexes is the next step before final BoG approval.

Financial literacy and consumer education: An impact assessment of “road shows” revealed a generally positive impact. Road shows, a nontraditional approach to financial education, use giant puppets and other forms of entertainment to deliver financial education messages to consumers. Following the road shows, MFIs observed a significant increase in the number of clients and deposits and were able to improve their customer care services. After the shows, MFIs were more able to recognize and categorize clients’ expectations and had a better understanding of the clients’ needs. From the client perspective, 94 percent found that messages were appropriate and that the mode of delivery was suitable. The shows allowed consumers to improve their knowledge of cash savings and daily sales management and gain confidence to save money at the bank. Their savings also increased in anticipation of access to credit. Overall, the shows strengthened the bank-consumer relationship, improved the level of trust, and encouraged clients to transact business with banks.

Financial literacy in the schools: Seventeen learning modules are available covering all aspects of financial education. These modules, which serve as guides for teachers, use a highly interactive methodology. The modules are being piloted in schools, which will be followed by an impact evaluation.

Success Factors and Challenges

- **The program’s comprehensive approach** implies a synergy between increasing the number of microfinance clients through the financial literacy activities and a well-regulated and supervised financial sector plus the adoption of consumer protection measures. Improved regulation and supervision, including consumer protection, may encourage people to use financial services with confidence.
- **The participatory approach** involving all stakeholders builds consensus on measures to address the problem and facilitates coordination of activities. Through working groups, strong commitments from all parties were reached and maintained.
- A main challenge is ensuring **sustainability** of financial education programs. A champion to host and drive all the priorities included in the financial literacy strategy is needed.

- Introducing compulsory financial education into school curricula and scaling up to cover all senior high schools in the country are major challenges.
- Impact measurement of financial education activities, behavioral change among clients, and balancing costs and benefits remain challenging. It is difficult to find the right balance between financial resources dedicated to measurement and those dedicated to implementation.

Key lessons include:

- Rely on good analysis of partner commitment, particularly in areas where significant financial resources are needed, such as for the support of school curricula and for development of financial literacy materials.
- Develop plans jointly with partners. Take time to make the project ready to implement. The inception phase is critical for a project that involves multiple stakeholders who sometimes have opposing interests. A good stakeholder analysis is needed to identify potential conflicts.
- Identify a local financial education champion to ensure sustainability and steer the process.

Pakistan: Shaping a Responsible Finance Vision for the Microfinance Industry

Context

Since 2009, the Pakistan Microfinance Network (PMN) has put in place a sector-level responsible finance initiative that includes: (1) information bureaus (credit clients, staff, and branch mapping), (2) client protection, (3) social performance, and (4) financial literacy. These initiatives were urged on by evidence from PMN research⁹⁰ on the high degree of client over-indebtedness, the increased credit risk for MFIs,⁹¹ and a weakening of lender-borrower relationships, all consequence of intense competition among MFIs during a period of rapid growth from 2002–07. In a similar crisis in 2010 in the Pattoki district in Punjab, the PMN and its members⁹² concluded that client indebtedness and eroding portfolio at risk (PAR) had become an ongoing reality nationwide, and was even more entrenched in some of the country’s more competitive markets for microfinance.



PMN is well placed to carry out responsible finance initiatives because of the trust placed in it by its members and the support and recognition of crucial industry stakeholders, such as donors, the industry apex (Pakistan Poverty Alleviation Fund [PPAF]) and the central bank (State Bank of Pakistan [SBP]). Among the first proactive efforts in responsible finance, PMN's initiatives are being taken forward and deepened through its business plan for 2013–17. PMN's initiatives are based on the three-pillar strategy, with a focus on industry self-regulation.

Objectives

Information Bureaus: As a result of a successful two-year pilot begun in 2010, a microfinance-specific credit information bureau is being rolled out nationwide in collaboration with IFC under a three-year plan. There are 2.2 million micro-borrowers in the country about whom 1.6 million records have been collected, and the remaining micro-borrowers are expected to be completed soon. In the second quarter of 2012, 46,000 inquiries were made with a hit rate⁹³ of 71 percent. PMN analysis shows that MFIs' rejection rate of loan applications has gone up by 15 to 20 percent as a result of use of this bureau. In addition, the bureau is helping MFIs design more appropriate products because they are now in a better position to gauge debt burdens and credit capacity of borrowers.

The PMN also runs a microfinance staff reference bureau. This bureau, launched in August 2010, helps flag staff members who have committed fraudulent behavior, embezzlement, or other coercive practices. This bureau is especially useful in a country where the legal recourse mechanism is fraught with challenges. The bureau offers a closed-group platform on which information on staff wrongdoing can be shared with other microfinance institutions. It also sends a strong message at the field level that there is low tolerance for such practices. So far, 44 cases have been reported to the bureau.

The third quasibureau set up by PMN is the "MicroEYE" software available on the PMN website that maps every microfinance branch location in the country through an online format powered by Google Maps. The purpose is to avoid crowding branches into a few locations, which has led to unhealthy practices and issues of over-indebtedness, client protection, and staff poaching. The map also helps

identify areas that have few microfinance services and enables balanced outreach. Pakistan microfinance provision is clustered in urban localities and east of the Indus River, whereas the western part of the country has little to no access to microfinance. This software was launched in February 2012 and by December 2012 was receiving more than 150 hits per month.

Consumer Protection: The consumer protection initiative began with a code of conduct for consumer protection that was signed voluntarily by PMN's entire membership in early 2009. Since then, PMN has moved forward in four implementation areas:

- Dissemination of client rights and responsibilities messages to the clients of microfinance through a staggered communications campaign. The first component of this campaign, a print campaign via microfinance institutions' branches, has been completed.
- Work on pricing transparency in the Pakistan microfinance industry in collaboration with MFTransparency an international organization that promotes transparent pricing in the microfinance world, in 2013.
- Client protection assessments of all member MFIs to help offer a roadmap to improve client protection practices in collaboration with the Smart Campaign during 2013–15.
- Advocacy with member MFIs to put in place client grievance mechanisms, as well as advocacy with industry stakeholders for setting up a third-party grievance redress mechanism for the microfinance industry in Pakistan.

Social Performance: PMN has taken several strides toward mainstreaming social performance (SP) management practices within member institutions, including encouraging since 2009 all members to report on social performance to the MiX Market, an international nonprofit that reports social performance measurements for microfinance institutions globally. By 2012, 100 percent of PMN members were reporting their MiX Social Performance Standards. PMN has been performing validation of its members' data for the past two years in collaboration with MiX Market, for enhanced transparency and reliability of data reported. This data culminates in a biennial "Social Performance State of the Sector Report." PMN promotes active involvement of

its members on social performance issues through an SP working group, and more recently by developing a four-year SP strategy with three main components:

- **Awareness Raising:** dissemination of information related to SP initiatives to MFPs and other industry stakeholders such as external social auditors, networks, institutions, the State Bank of Pakistan, and the Pakistan Poverty Alleviation Fund.
- **Social Transparency:** promotion of tools for reporting on SP indicators to external stakeholders and social auditors and rating agencies and strengthening poverty measurement in the sector.
- **Implementation:** collaborating with MFPs to build roadmaps for compliance to universal standards for social performance management, building capacity of MFPs' data management systems to include poverty, and impact data management for better decision making and review.

PMN is engaging in a social performance management implementation project in 2013–14, with support from the Microfinance Center in Poland and the Ford Foundation. This project will contribute to the network's wider SP strategy, ultimately leading to institutionalization of social performance management at MFPs with a double bottom line vision.

Financial Literacy: PMN has been collaborating with industry players active in the field by providing input and a short-term supply-side analysis toward the National Financial Literacy Program run by the central bank. PMN has also recently completed curriculum development for a financial literacy initiative for the biggest social safety net program in the country. Going forward (2013–17), PMN is planning a microfinance industry-wide financial literacy campaign targeting lower microfinance staff and ultimately, microfinance clients.

Results

PMN is in the preliminary stage of most activities. However, the process of evidence-based decision making and joint local action on global initiatives has shaped a responsible finance vision for Pakistan's microfinance institutions. These partnerships help build credibility for PMN's work and help

win acceptance for and build confidence in its members. The PMN has solicited support for some initiatives from the State Bank of Pakistan and the Pakistan Poverty Alleviation Fund. Funding from these sources would send a signal to local microfinance industry of the importance ascribed to these efforts by local policymakers, thus compelling more MFP participation.

PMN's interventions focus on building a healthy microfinance sector through responsible, sustainable institutions serving the market. Benefits of these activities to microfinance institutions include:

- Customer loyalty as a result of a better relationship with microfinance clients and a long-term and sound means to a more robust microfinance sector. Within such an environment, it will become difficult for local activists and others to create problems for the industry, which is what happened in previous delinquency crises;
- Well-informed clients that act responsibly and become better financial managers;
- More client information available to each microfinance institution, helping them to offer better products, manage staff and deliver effectively on the ground;
- Open sharing of information that leads to healthy competition, especially in terms of transparent and uniform pricing disclosures;
- A more level playing field among MFPs. Building compliance with industry client protection standards and transparency in pricing disclosures levels the playing field between bank MFPs and nonbank MFPs, who currently are not regulated. The regulated segment of the market is now at a disadvantage to nonbank players because regulations require many client protection and disclosure requirements, which unregulated nonbank players are not obliged to follow;
- Elimination of the need for restrictive regulations that do not contribute to creating a level playing field that benefits customers, responsible providers, and the industry;
- Creation of a positive reputation for the industry at the local and international levels.



Indonesia: Private Sector Engagement in Financial Education for Microinsurance

The international insurance company, Allianz SE, through its Allianz Care Foundation, started a Financial Literacy Program for Adults (FLAME) in 2012. Partnering with the International Labour Organisation (ILO), Allianz plans to scale up this educational initiative with the engagement of MFI staff nationwide in 2013.

Context

Access to formal finance in Indonesia remains low. The weak educational background of a large share of the population and the geographical challenges of a country with more than 17,000 islands add to the challenge of improving access to finance and promoting responsible use of financial products. Allianz engaged in the Indonesian microinsurance market in 2006 and by the end of 2012 had a base of 1.2 million clients. Life insurance linked to loans is the most common form of insurance in the low-income market. MFIs use both informal mandatory “credit life insurance” and offers voluntary life insurance products to their clients. MFIs are Allianz’s major distribution partners for the formal, voluntary microinsurance products. Allianz’s MFI partners have articulated the need for more information on insurance, since it is a relatively new financial service, and for appropriate ways to communicate this information to their clients. Allianz partnered with the ILO, which developed a curriculum on personal financial management for adults in 2007. This curriculum was amended by a module on insurance developed by Allianz in 2011.

Objectives

Most MFI clients are unfamiliar with insurance products and lack knowledge of the range of financial services. Reaching scale with educational programs is a challenging task in Indonesia because it is the fourth most populated and the largest island country in the world. Partner MFIs of Allianz stated the need for support from the insurance company in educating their clients on insurance and, if possible, other financial literacy topics such as credit, savings, and budgeting.

FLAME’s goal is to assist low-income adult Indonesians achieve full financial capability, with particular emphasis on insurance. Allianz follows the OECD/INFE definition

of financial education and financial literacy: a combination of consumers’ understanding of financial products and concepts and their ability and confidence to appreciate financial risks and opportunities, to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being.

In late 2011, Allianz developed a module on insurance for the ILO Adult Financial Literacy Curriculum. The curriculum, including the insurance module, was pilot tested in three MFI partner institutions. Twenty trainers went through a “training of trainers” workshop and subsequently trained about 200 clients in Papua, Borneo, and Java.

Lessons learned from the 2012 FLAME pilot are:

- Selecting participants and location is important to the success of this program. Although specific requirements for training participants (such as age, gender, education, business background) had been presented in advance to MFI partners, some participants were ineligible because they were illiterate, unregistered, or had different expectations of the classes. Some participants arrived late and asked to finish early to travel the long distance to and from their homes.
- Validation of participants’ eligibility on the established criteria and mapping time and location for class training should be carefully planned with partners. An initial training needs assessment should be planned to meet participants’ expectations, and the question of whether a classroom-based approach is the best alternative for the target group should be addressed.
- Participation and company buy-in have increased outreach effectively.

For the scale-up in 2013, a network of master trainers of the ILO/Allianz curriculum will be established throughout the country to educate trainers at about 80 MFIs with a total customer base of 1.2 million. The trainings for groups of customers are delivered mostly by MFI staff, but also by Allianz staff who contribute their work time as part of the company’s employee social engagement program.

Allianz has initially assigned two full-time employees as master trainers. More trainers will be added as needed to cover class demand. Allianz also covers costs for travel, accommodations, meals, class training, and logistics.

Results

The 2012 pilot provided important lessons for future efforts. Participants showed improved awareness of insurance and the associated benefits. However, because of a lack of detailed knowledge of insurance processes, such as making claims for benefits, coupled with a short supply of suitable insurance products, insurance penetration remained quite low in all trained MFI client groups.

In addition, a rough assessment of participants' feedback and follow-up on their financial behavior after the training show that most participants were able to improve their personal financial budgeting, including prioritizing contributions to savings or household expenditures, which showed a positive effect on their ability to pay regular loan installments. Participants also requested Allianz to offer follow-up trainings and a wider range of topics, especially on entrepreneurship (how to start, maintain, and grow their small enterprises).

Success Factors and Challenges

A key success factor of this initiative lies with the partner structure. The existence of the ILO curriculum as a basis for the initiative proved to be a valuable asset: Allianz could build the insurance training module on the existing curriculum without starting from scratch. The curriculum as a whole now allows trainers to give MFI clients a full picture of responsible use of financial services.

The MFIs, as the central implementing partners of the initiative, made a crucial contribution to the training program's success. Their demand for more customer education on financial capability in general and insurance in particular kicked off the engagement of Allianz in this initiative.

Allianz staff members in Indonesia are dedicated to social engagement, which helps motivate employees to become voluntary FLAME trainers. The MFI and Allianz management support this engagement by providing the training materials and encouraging staff members to conduct trainings during work hours, so volunteer staff members do not have to spend free time conducting trainings.

The decentralized structure of regionalized master trainers providing local training-of-trainer sessions for MFI staff, who then educate MFI clients, seems a promising approach to improve outreach in Indonesia's geographical context. This structure not only overcomes logistical challenges, but also considerably reduces costs.

Key lessons include:

- Having different partners with their respective fields of expertise and experience was a crucial success factor for the initiative. The pilot counted on the expertise of insurance experts from Allianz, training expertise and curriculum development from ILO, and communications and client interface from MFI partners.
- Linking corporate social responsibility activity with the MFIs' interest in improving their clients' knowledge of financial services was a good precondition for the implementation of the initiative.
- A key challenge during pilot testing was the low supply of financial services: access to financial services remains low in Indonesia, especially in remote areas. The training sessions, which included information on a multitude of services, raised demand by participants for the products about which they learned. Disappointment at being unable to access these products might have a negative influence on people's attitudes toward those services. Recent research shows financial services knowledge does not last long if it cannot be applied.⁹⁴
- Until now, the training sessions have been selective and not embedded in a comprehensive structure. Incorporating training into a larger curriculum and follow-up training sessions to deepen knowledge would contribute to the initiative's impact.

China: Ombudsman Scheme with the Securities Regulatory Commission

Context

China has more than 50 million private investors. In the past few years, an increasing number of complaints were addressed to the Chinese supervisory authorities, so the China Securities Regulatory Commission (CSRC) considered implementing an ombudsman scheme to lighten the burden on the judicial system. The ombudsman



scheme is a convenient, time- and cost-efficient, flexible, out-of-court conciliation scheme that helps protect private investors in China.

On behalf of the BMZ, the German Federal Ministry for Economic Cooperation and Development, GIZ is cooperating with institutions from the Chinese financial sector to implement the ombudsman scheme.

The program, “Investor protection in the securities market in China,” is part of the GIZ Financial Sector Reform Programme based on a trilateral cooperation among GIZ, the German Financial Services Regulatory Authority (BaFin), and the CSRC. Several other key stakeholders on both sides of the globe are involved. The project has facilitated strong cooperation and exchanges of experiences among the Association of German Private Commercial Banks (BdB), which established an ombudsman scheme in Germany in 1992, the CSRC, and the Securities Association of China (SAC).

Objectives

CSRC and GIZ work jointly to improve the protection of private investors in the securities market by strengthening Chinese institutions.

To achieve these goals, the program follows two approaches:

1. **Capacity Development** in the Chinese financial sector through workshops and advisory services on investor protection specialists and managers of Chinese public authorities
2. **Exchange** between German and Chinese financial sector institutions in cooperation with BdB, CSRC, SAC, and the Securities Investors Protection Fund (SIPF).

Several steps were taken to establish the ombudsman scheme:

- In October 2010, a Sino–German workshop on the ombudsman scheme brought together experts from BdB and an expert team from the Renmin University. The experts from BdB visited local authorities, investment firms, and the Shanghai Stock Exchange to learn about complaint mechanisms. A Chinese delegation of CSRC, SIPF, and SAC representatives visited BdB in Germany

and learned about the German system during two study tours in 2011 and 2012.

- A comprehensive study of research results from German and Chinese experts was handed over to the Chinese public authorities in 2011. This study served as a guideline for the design of the Chinese ombudsman scheme.
- In 2012, SAC set up the Mediation Professional Committee, composed of representatives of securities companies, and started designing financial mediation schemes. The Chinese authorities formally approved the Mediation Center, which is responsible for the daily management of the mediation scheme.
- SAC issued a set of rules on the mediation scheme:
 - Management Measures for Securities Dispute Mediation System (Trial)
 - Securities Dispute Mediation Rules (Trial)
 - Mediator Management Measures (Trial)

Results

The mediation scheme is fully operational in China and has started processing disputes. It resolves disputes between consumers (private and institutional financial investors) and service providers in the securities market, disputes among member companies, and disputes between member companies and other stakeholders. The scheme is organized in three parts (see Figure 3.2):

- The SAC Mediation Committee gives overall guidance to the mediation scheme. The committee is responsible for the design and revision of mediation rules and measures and for mediator appointments.
- The SAC Mediation Center organizes and coordinates the securities mediation and is responsible for the mediators’ management.
- SAC Branch Offices in all provinces support the mediation scheme by receiving the complaints and conducting a preliminary complaint assessment. Mediators are stationed in all provinces to provide effective and timely dispute-resolution services. Part-time mediators were recruited by the SAC and are prepared to undertake their responsibilities through training provided by SAC.

Success Factors and Challenges

The major success factor was the strong commitment of the Chinese authorities from the onset. Because of the high participation of Chinese people in the capital markets, public authorities in China were aware of the need to build strong institutions to protect investors in the securities market. Therefore, all key stakeholders from the Chinese financial sector were involved in the process, which made the initiative succeed.

Consultation with FSPs was especially relevant because the concept of the ombudsman scheme was at first received with scepticism.

Recruitment and training of mediators was challenging. It was difficult to determine the best kind of professional background for mediators, as well as how (and where) they should be trained. Initially, the plan was to train Chinese ombudsmen in Germany, but language barriers and the differences in legal systems and mediation schemes made this approach too difficult.

Key lessons include:

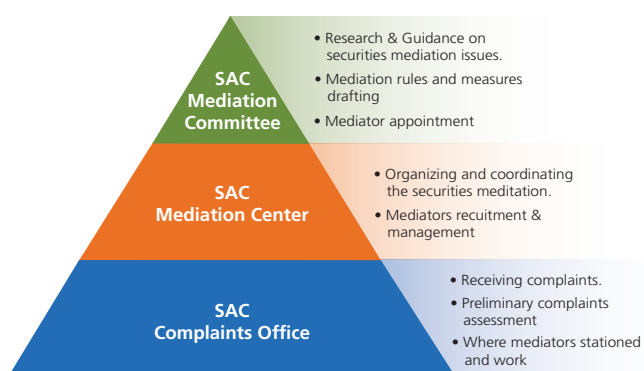
- Identifying a strong partner in the country who supports the scheme is vital.
- Involving all relevant stakeholders, including FSPs, in a consultation process is essential for the success of any new initiative, particularly when it entails a new way of settling disputes.
- Looking at international “best practices” can be helpful, but it is important to implement an ombudsman scheme adapted to the country’s institutional and legal landscape and to consider different options for the institutional setup, looking closely at their advantages and disadvantages.

Philippines: Bangko Sentral ng Pilipinas and Consumer Protection

Context

The Central Bank of the Philippines (Bangko Sentral ng Pilipinas; BSP) pursues many responsible finance initiatives. It has established a framework for consumer protection, enhanced implementation of the Truth in Lending Act (see Box 3.1), adopted market conduct regulation, and set up a

Figure 3.2: Securities Association of China Mediation Scheme



Source: Ombudsman Intro & Project Progress

Financial Consumer Affairs Group (FCAG) as part of the bank.

The Alliance for Financial Inclusion (AFI) comprises 100 policymaking and regulatory member institutions from more than 80 developing and emerging countries. BSP serves as chair of the AFI steering committee, chairs the AFI Consumer Empowerment and Market Conduct (CEMC) Working Group, and is an active member of Mobile Financial Services, Financial Inclusion Data, and Financial Integrity working groups.

This case study highlights the BSP work in consumer protection and market conduct. It also shows one example of the power of peer-to-peer exchanges promoted by AFI.

Objectives

BSP believes “financial inclusion is a worthy policy objective that should be pursued alongside the promotion of the stability and efficiency of the financial system.”⁹⁵ The general approach promotes an enabling policy and regulatory environment for market-based solutions to address financial access while maintaining proportionate application of sound regulatory and supervisory principles. BSP is guided by the framework of financial inclusion that includes:

- Provision of a wide range of financial services (credit, savings, payments, and insurance) to serve the demands of different market segments;



- Availability of financial products that are appropriately designed, priced, and tailored to market needs and capacities;
- Participation of a wide variety of strong, sound, and duly authorized financial institutions that use innovative delivery channels to provide financial services to more Filipinos; and
- Effective interface of bank and nonbank products and delivery channels, technology, and innovation to reach the financially excluded.⁹⁶

Results

With support from AFI, BSP visited Bank Negara Malaysia (BNM) to better understand BNM's practices of credit disclosure reforms. BSP's aim was to ensure transparency and information standards were met by all credit providers on all credit products offered in the country. During the visit, BSP reviewed the BNM disclosure sheet and discussed BNM's experiences with adoption procedures and practices.

BSP revised its disclosure requirements based on knowledge gained from its visit and market research it conducted to better understand how new disclosure reforms could improve the understanding and decision making of consumers. This research, conducted in collaboration with CGAP, included initial testing of draft disclosure formats with low-income microfinance consumers, which led to revisions to the format to enhance clarity and consumer understanding of the key terms of the credit product. As a follow-up, BSP and CGAP are using mystery shopping methodologies to measure the quality of information provided to consumers during the sale of credit products before and after the Truth in Lending Act takes effect. (See box 3.1).⁹⁷

A key lesson from BNM was to involve all key players in revising the disclosure information requirements and practices to ensure successful adoption. Development and adoption of the new BSP disclosure system involved a broad consultation process with credit providers, and review by the banking association and the NGO MFIs, who are not under the jurisdiction of the BSP. The different jurisdictions over financial institutions that provide credit also required the development of memorandums of understanding between BSP and the regulators responsible for cooperatives and for NGO MFIs where these regulators committed to

issue similar Truth in Lending Act requirements to those that would be issued by the BSP.

Key Elements of the Disclosure Reform

- The Truth in Lending Act is designed to protect consumers from a lack of awareness of the true cost of credit and help them make informed decisions when they borrow. Being able to compare prices combined with effective transparency regulations enables price shopping and stimulates competition, thus lowering prices and improving product quality.
- The BSP and other regulatory agencies issued similar regulations to cover all credit providers, which is an element of an effective disclosure regime because it covers the entire market. These regulations mandate full disclosure of all charges related to the extension of credit.⁹⁸ The reform requires all credit providers to charge interest on the outstanding balance of a loan at the beginning of an interest period and consider all charges incident to the loan in computing the effective interest rate.
- All credit providers are required to use a standard, simple disclosure format to ensure that borrowers are provided with the information they need to understand their loan transactions.⁹⁹
- One of the most important elements of BSP's disclosure reform is its comprehensiveness. Disclosure regulations cover the entire financial sector, regardless of the type of financial service provider. The BSP issued several tailored circulars that covered banks and nonbank financial institutions under BSP supervision, such as quasi-banks, non-stock savings and loan associations, credit card companies, investment houses, and pawnshops. It also issued a circular for other credit providers not covered by BSP issuances, such as NGOs and in-house financiers that include retailers. BSP also harmonized the policy with the Securities and Exchange Commission, the Insurance Commission, and the Cooperative Development Authority.
- BSP collected baseline data on the state of transparent lending practices in the market prior to the effective date of the regulation. To gauge the impact of the regulation, another round of evaluation will be conducted one year later. The results of the research will be considered by the BSP to inform future policies.

BSP also harmonized the policy with the Securities and Exchange Commission, the Insurance Commission, and the Cooperative Development Authority.

Success Factors and Challenges

- A main success factor was the previously established relationship between BSP and FSPs in the Philippines. There was a history of frequent consultation and outreach. BSP's emphasis on coordination and harmonization of supervisory and regulatory methods with the creation of the Financial Sector Forum in 2004 enabled the organization of stakeholders, who were accustomed to working together and harmonizing regulatory reporting requirements.
- AFI's ability to support targeted exchanges among members allowed BSP to exchange ideas and discuss plans with a peer who had experienced obstacles and accomplishments in the design and implementation of a new disclosure system.
- BSP notes that supervision is one of the most effective functions of consumer and market conduct regulation. BSP's dedicated consumer protection unit, FCAG, is unable to provide supervision based on its mandate. For supervision, FCAG must pass the possible violation to the examination group. The examination group follows a risk-based approach to supervision, and consumer protection concerns are not always addressed because

they are considered a lower risk. FCAG sees onsite examination and use of market surveillance tools as key to fulfilling its mandate. BSP is seeking to change the FCAG mandate by reorganizing functions and securing a legislative amendment, if necessary. The proposal for this change has been submitted. Hopes are high that the approval will be granted next year.

Key lessons include:

- Learn from peers. Even though the process and institutional mandates may be different, practices and policies can be relevant when adapted to the context. Peers are also forthcoming about how they addressed challenges and can provide helpful advice.
- Involve all stakeholders in the process of review and comment when a new regulation will affect their current practices. Stakeholder consultation facilitates adoption. If a mechanism exists to accomplish consultations, the process is expedited.
- Ensure a comprehensive regulatory framework for all FSPs, including banks, NGOs, cooperatives, and pawnshops. To ensure a comprehensive approach, engage with the appropriate regulatory authorities in other sectors of the financial services industry, such as insurance commissions, cooperative development authorities, and industry self-regulatory bodies, including MFI networks.

Box 3.1: The Philippines' Truth in Lending Act

The Truth in Lending Act protects Philippine citizens from a lack of awareness to the true costs of credit to the customer by ensuring a full disclosure of such costs and other terms and conditions with a view to preventing the uninformed use of credit.

As such, a disclosure statement is a required attachment to the loan contract. It must include, at a minimum, the following information:

- Total amount to be financed
- Finance charges and all other charges incident to the loan
- Net proceeds of the loan
- Schedule of payments
- The percentage that the finance charge bears to the total amount to be financed expressed as an effective interest rate (EIR)

The borrower has a right to demand a copy of the disclosure statement.

Source: *Philippine Truth in Lending Act, Republic Act 3765.*



- Seek ways to revise past mandates that may limit desired new directions. Mandates may need to be revised given advances in technology or policy emphasis on responsible financial inclusion.
- Maintain ideals as a learning institution. BSP stresses the importance of continual learning to respond to innovations in financial services. Field visits for policy makers, seminars and active engagement with FSPs and their associations, and communications campaigns for the public are equally important. These learning experiences keep BSP open to new ideas and prepared to respond.
- Collect baseline data and design systems to measure impact. These efforts can inform future policy directions and reforms.

India: A Comprehensive Approach across all Three Pillars of Responsible Finance

Context

Seeds of IFC's Responsible Finance Program in India were planted in the Microfinance Credit Reporting Initiative in 2009. This initiative aimed to reduce the significant information asymmetry among microfinance borrowers and lenders by supporting increased linkages between MFIs and credit bureaus. In the wake of the Indian Andhra Pradesh microfinance crisis of 2010, IFC developed the \$3.1 million Responsible Finance Program as a comprehensive crisis response to strengthen the microfinance sector by emphasizing a customer-centric approach in institutional operations, raising awareness among decision makers and stakeholders, and uncovering the reputational risks facing the sector. The program was an early and comprehensive effort covering three levels of intervention: sectoral, institutional, and end-client.

Objectives

At the sectoral level, partnerships were forged with:

- **Industry-wide networks and associations**, including India's Micro Finance Institutions Network (MFIN), which covers the largest MFIs serving the sector (more than 80 percent of the market), and the information association Sa-Dhan, whose members include the entire MFI sector (NGOs, trusts, nonbank financial institutions), and the Small Industries Development Bank of India (SIDBI), a government body and major funder of the sector;
- **International organizations, credit bureaus, and investors** including Michael and Susan Dell Foundation (MSDF), Americans for Community Co-operation in Other Nations (ACCION), ACCESS Development Services, Smart Campaign, High Mark Credit Information Services Ltd., and Equifax; and
- **Large and strategic MFIs** including Ujjivan Financial Services Ltd., Grameen Financial Services Ltd., Utkarsh Microfinance Ltd., Shree Kshetriya Dharmasthala Rural Development Project (SKDRDP), Arohan Services Ltd., CASHPOR Micro Credit, Suryodaya Microfinance Ltd., Swadhaar Financial Services Ltd., Intellectash (MFI incubator), and FWWB Ananya.

IFC convened key sector institutions by setting up the Indian Responsible Finance Forum. It successfully facilitated the adoption of a harmonized code of conduct for the Indian microfinance sector and supported credit bureaus' efforts to link over 65 million records to help MFIs address issues of multiple lending and over-indebtedness among clients in India. The forum now serves as a platform for key stakeholders (lenders, investors, donors, industry associations, and experts) to exchange ideas and determine activities to implement responsible finance principles across the sector.

At the institutional level, IFC partners worked directly with the large MFIs to adopt client protection principles. Ujjivan Financial Services, one such strategic MFI, is a market leader today in developing client financial awareness modules and has seen a change in the way clients select and service products and provide accurate financial information. In partnership with the Smart Campaign, industry-wide capacity building has been conducted for MFIs and service providers on the Client Protection Principles (CPP). In addition, the Smart Campaign's largest program covering in-depth assessments with over 20 Indian MFIs is underway with further capacity building interventions planned in up to half of the institutions assessed.

At the **client level**, a comprehensive review of over 60 financial education programs targeted at low-income segments was completed in partnership with M-CRIL, one

of India's leading microfinance rating agencies. Findings of this review will inform IFC's support in developing appropriate and sustainable financial literacy models. These models, which are intended to build client capacity in making sound financial decisions, are expected to be piloted and rolled out across 10–15 institutions that have an estimated outreach to 2 million clients.

Results

For the Indian microfinance sector to recover from the crisis, a series of multidimensional yet interlinked interventions by different stakeholders was necessary. At a time when the sector needed cohesive and unified action to counteract the negative impacts of the crisis and when most MFIs were barely able to stay afloat, the institutions that came together under the Responsible Finance Forum helped advance responsible microfinance initiatives at the sectoral, institutional, and client levels. Five major initiatives were:

- **Harmonizing a Code of Conduct for the sector.** India's Responsible Finance Forum succeeded in facilitating the adoption of a harmonized code of conduct by nearly 90 percent of the MFIs in the country. The code of conduct provides a set of robust guidelines to help design systems and processes for recruiting and training, staff conduct, client protection, and product pricing.
- **Implementing responsible finance in practice.** SIDBI, MFIN, and Sa-Dhan are working with MFIs to support capacity building to help institutions implement the code of conduct. Smart Campaign, with IFC support has facilitated six CPP training sessions, covering 56 MFIs, which constitute more than 90 percent of the sector. Through this partnership, IFC expects to reach 200,000 more clients. MFIs are working on implementation and changes in policies and procedures in line with assessment findings. Ujjivan, CASHPOR, and Grameen Financial Services are among the first Smart certified institutions in the world.
- **Highlighting emerging good practices.** The forum also helped create efficient communication channels between policy makers and the media. It supported national conferences to facilitate stakeholders' interaction and commissioned several studies on trends, needs, and best practices within the sector. For instance, MFIN, the industry association with the largest nonbank financial institutions as its members, commissioned a study with IFC support on benchmarking human relations practices across the microfinance sector. MFIs are using the findings from this study to guide internal policies and ensure greater standardization across the industry.
- **Tackling over-indebtedness through credit reporting.** Over 95 million records are now available with the largest credit bureau in India, High Mark, covering more than 90 percent of the market. These records will help MFIs assess client repayment capacity and address issues of multiple lending and over-indebtedness among clients in India. The MFI Ujjivan has launched a widespread campaign on client awareness for credit reporting, and MFIN is now designing and disseminating a credit bureau awareness toolkit for borrowers in India.
- **Complementing risk management with responsible finance.** IFC is also supporting several Indian institutions to formulate a customized risk management strategy based on a risk management diagnostic and is building capacity in the sector for increased understanding of risk management and its link to responsible finance.

The Responsible Finance Program won the Skoch Financial Inclusion Award this year for its work on advocacy and was recognized for being among the top 50 institutions working on financial inclusion in India. The Skoch Financial Inclusion Award recognizes best practices from the banking and financial services sector to promote inclusive growth in urban and rural India.

Success Factors and Challenges

- **Despite the India crisis, many MFIs still view responsible finance as a cost rather than an investment.** A change in mindset to embed responsible finance throughout the operations of an institution for maximum effect is required. The previous challenge also applies to financial education. A review of more than 60 initiatives in financial education across India showed that although there is a clear need to implement financial education/literacy/awareness initiatives, typically these initiatives require substantial upfront investment and are costly to implement and difficult to scale in a one-size-fits all approach.



- **MFIs need technical assistance and capacity-building support to help them implement responsible finance principles.** MFIs need support to build the necessary internal capacity resources, systems, and processes to fully integrate responsible finance practices within operations.
- **Finally, there remains a need for advocacy work across stakeholders (national and state government, Reserve Bank of India (RBI), India's Central Bank, banks, development finance institutions, investors, and across larger and smaller MFIs).** Key stakeholders, such as lenders and investors, are starting to incorporate responsible finance practices as part of their due diligence and selection processes, and there is a need for other funders, investors, and stakeholders to follow suit.

CHAPTER 4

Microinsurance: Emerging Focus



“Insurance is a business of claims payments and not of premium payments. The payment of a claim is when the insurance product becomes tangible and when the client decides whether we are selling a dream or a nightmare.” Negros Women for Tomorrow Foundation, Philippines

Recently, the industry called attention to the importance of providing a suite of appropriate financial products to poor and low-income people to enhance opportunity and reduce risk. With the publication of the “Social Performance Indicators for Microinsurance” in March 2013, the Microinsurance Network (MIN) advances principles and standards setting. This initiative, complemented by Smart Campaign’s effort and the Microinsurance Network’s Consumer Protection Task Force, resulted in the development of “Smart Insurance,” a toolkit to guide incorporation of the client protection principles into microinsurance. The indicators are a result of a two-year sector-wide consensus-building process, led by microinsurance practitioners representing different countries, organizations, and product lines.

Social performance for microinsurance means the effective design and delivery of products that create value for low-income people by allowing them to more effectively manage risk. Microinsurance targets vulnerable and financially excluded people who are exposed to relatively high levels of risk, such as illness, death, natural disaster, crime, or crop failure. If well designed and delivered, microinsurance can provide a formal and dependable coping mechanism to reduce a household’s vulnerability to risk. Measuring social performance and using it as a management tool can help achieve these goals.¹⁰⁰

Social performance for microinsurance recognizes that the primary goal of the microinsurance business is not profit maximization, but setting up risk mitigation mechanisms for the poor, who do not have access to formal insurance or

social protection mechanisms. There are four dimensions of social performance in microinsurance:

- **Product value:** The product provides the client with appropriate and effective risk coping mechanisms
- **Client protection:** The insured are treated fairly and respectfully
- **Inclusion:** The product aims to include the less privileged
- **Socially responsible management:** The micro-insurer’s institutional system enables a socially responsible management.¹⁰¹

A study in the Philippines and Colombia, commissioned by the Microinsurance Network proposes an analytical framework and provides recommendations and an agenda for the future.¹⁰²

Consumer Protection Regulation

Governments should engage stakeholders to assess consumer protection needs and to share the burden of monitoring measures to protect consumers. Tracking results and customer awareness is critical to the effectiveness and capacity of delivery channels to offer insurance. Monitoring efforts are invaluable in understanding which of the disclosures, processes, and educational messages work well.

Capacity building within governments is often needed at the regulatory and supervisory level. Insurance regulators and supervisors may be understaffed or under-resourced to develop appropriate regulations and to supervise appropriately. In the case of microinsurance consumer protection, which involves new products, new consumers, and innovative designs and delivery channels, these problems are often exacerbated. The field is still new enough that regulators and supervisors have few established best practices.

Financial Institutions' Self-Regulation

In the absence of consumer protection regulation for insurance, how well market players respond to consumer protection varies according to their relationships to low-income consumers and their incentives to represent consumer interests. This role also highlights the tensions and synergies in protection regulation, which can be restrictive, and development over time of a deeper market with a level playing field. Facilitating broad access to insurance may involve providers that are less stable, less trustworthy, or less likely to represent the interests of the consumer.

Where nontraditional delivery channels and MFIs are active in providing insurance to their customers, additional consumer protection measures may be appropriate, including efforts to ensure that consumers understand and know how to use products before they purchase them. At a minimum, some information should be disclosed prior to sale. These efforts may be difficult when delivery channels are unlicensed, and when some channels, such as retail outlets, can provide little verbal information to customers. Written disclosures are an imperfect solution, even if they are simple and in clear language. However, written disclosures can at least alert consumers to the fact that the products involve some complexity. They can be especially effective when combined with market-wide consumer education efforts about insurance and key insights as to what to look for when considering insurance.

Where delivery channels lack the capacity or appropriate incentives to carry out consumer protection responsibilities, it makes sense to insist that the insurer work with an intermediary to ensure accountability and clarity about product features and processes. Although insurers may be less attuned to the needs of low-income customers, they know the details of their insurance products and processes. (See case study on Allianz in Chapter 3.)

At the insurer level, capacity-building is often needed to understand the needs of low-income consumers, including how they value insurance products. Insurers lack experience with the low-income market and struggle to design products that meet consumers' risk management needs while accounting for their ability and willingness to pay. IFC's Global Index Insurance Facility (GIIF) is piloting

innovative approaches in microinsurance to build capacity at the insurer level (see Box 4.1). Delivery channels can provide support in this area, especially those who have relationships and experience with the target consumers. The joint efforts of some insurers and delivery channels in the Philippines to develop formal microinsurance products based on this knowledge and often modeled on informal insurance products provide an excellent example of this concept.

Financial Education

Consumers need to be engaged as active participants in protecting themselves. The responsibility for protection that is left to consumers depends on the level of consumer financial capability, the complexity of products and processes involved, and on the capacities, responsibilities, and incentives of other parties. Consumers must have clear information about products and processes at the appropriate times. Many consumers need additional capacity building, primarily through a range of financial education initiatives. These initiatives should be an integral part of the product offerings as the 2011 *Landscape Study on Micro Insurance* concludes.^{103,104}

Broad financial and insurance education efforts often led by governments or industry associations can improve consumer awareness and disseminate information. These efforts are most effective when they involve government, donors, and industry tapping into the strengths of different parties. Governments often have the "purest" incentives to educate consumers in a way that does not promote either insurance generally or specific products, but they often lack the expertise in developing effective messages, budgets, and channels to deliver those messages. Insurers and delivery channels can bring a better understanding of insurance products and of low-income consumers. Donors can bring funding (which is always a challenge in the case of public goods such as education) and experience and best practices from other contexts. Insurer support in training staff, delivery channels, developing appropriate materials, and acting as an ongoing resource can be helpful in building capacity.

Donors and other international stakeholders can be helpful in developing and sharing practices, supporting regulatory developments, and building expertise within government



Box 4.1: Global Index Insurance Facility

Innovation in insurance is emerging, demonstrated by recent results of the Global Index Insurance Facility (GIIF), a program managed by IFC and jointly implemented with the World Bank, and financed through donor funds from the European Union, Japan, and the Netherlands. GIIF is pioneering the development of an agricultural insurance market for small farmers and pastoralists in Africa. Working closely with insurance companies, meteorological departments, banks, microfinance institutions, governments, farm cooperatives, and agribusinesses, the program helps expand access to index-based insurance to farmers and pastoralists, compensating credit providers and/or farmers for losses that happen because of adverse weather conditions. The innovative aspect of index insurance is that payouts are made as soon as the predefined statistical indices are triggered, irrespective of the actual loss and without having to wait for onsite visits to farms and lengthy claims to be settled. Over 53,000 farmers in Kenya and 21,000 farmers in Rwanda have benefited from the program.

Innovation is not only key for the products on offer, but also in the way they are marketed and sold to reach clients who are often scattered in rural and hard-to-reach areas. Africa and other parts of the developing world need more innovation, better products, and an increasing focus on the needs of farmers, small business owners, and consumers at the base of the economic pyramid. Index insurance bears the promise to become a breakthrough because the measurable indices make it easily standardized. The product also demonstrates that well-targeted and appropriate solutions can find willing consumers on a scale that opens new markets, expands economic opportunities, and delivers longer-term development impact for the people who need it most. Most importantly, farmers are now learning that index insurance can be trusted and unfavorable weather conditions need not have such a destructive effect on their livelihood.

agencies to allow them to supervise adequately. Caution should be taken in assuming that a “best practice” exists in protecting consumers in microinsurance. Most countries have new markets, with regulation typically following rather than leading market activities.

Responsible Finance Forum IV – Focus on Microinsurance

At Responsible Finance Forum IV, June 24-25, 2013 in Berlin, hosted by the German Federal Ministry for Economic Cooperation and Development (BMZ) and the Federal Financial Supervisory Authority (BaFin), 85 high-ranking participants from 23 countries exchanged ideas, shared experiences and presented initiatives to advance the agenda for responsible finance in emerging insurance markets. The RFFIV was organized in collaboration with the Access to Insurance Initiative (A2ii), CGAP, IAIS, IFC, the ILO, MIN, the Ministry of Foreign Affairs of the Netherlands, and Munich Re Foundation.

The timing of the debate on consumer protection in emerging insurance markets could not have been more

pertinent. There are now more than 500 million microinsurance consumers and that number keeps growing. Innovations are taking place in the market to bring down costs, safeguard profits, achieve affordability and extend the reach of microinsurance. However, to sustain growth and achieve scale and sustainability, consumers must experience true value. To meet this challenge, the delivery of microinsurance needs to be responsible.

Key Takeways from the RFF IV

Consumer Protection Regulation

- Innovations are necessary to facilitate market development. The IAIS acknowledged that supervisory authorities are faced with a complex dilemma: how to effectively protect consumers without threatening the availability of needed services and innovations that promote the development of the microinsurance market. The IAIS and the A2ii are investing in building supervisory capacity to help supervisors to meet both of these challenges without overlooking the Insurance Core Principles (ICPs).

- Supervisors from emerging insurance markets have adopted different approaches to protect consumers in various areas, such as formalization of insurance providers and distribution channels, product regulation and robust engagement on financial education.
- Regulators and supervisors need to consider the stage of development of the insurance market in order to choose the most appropriate consumer protection strategies.
- Strengthening the ability of distribution channels to actively protect consumers is often essential, and it is typically desirable to bring these channels under the insurance regulation. In any case (and particularly when distribution channels are not licensed) it is important to ensure that insurers are held accountable for wrongdoing by distribution channels.

Industry Initiatives

- Consumers' trust and confidence in insurance products and providers is needed to achieve scale and sustainability of microinsurance. The industry plays a crucial role in developing this trust, both through specific consumer protection measures and more broadly by offering understandable, affordable, and valuable insurance products as well as by providing unique and rapid claims administration.
- Industry players have different experiences and approaches, as well as interesting initiatives for self-regulation and tailoring grievance mechanisms.
- The relationship between industry self-regulation and consumer protection through regulation is intertwined and there are strong possible synergies between the two.

Financial Capabilities

It is important, though difficult, to measure impact of financial education efforts on consumers' understanding and ability to make good decisions about insurance.

Financial education strategies are different from marketing strategies but it is necessary to find ways of linking education with platforms that make products available for potential consumers.

Building financial capabilities is a long-term and complex process because it requires behavioral change. Localized context is important. Financial education therefore requires efforts by all stakeholders.

Conclusions

The three pillars of responsible finance are as valid for insurance as they are for the other poverty-oriented financial services. Joint efforts of policy makers, supervisors, industry, development partners and other stakeholders are needed for further consumer protection in microinsurance. The sector needs to ensure real accountability and enforceability of existing regulations based on existing mandates and to tackle cost issues that arise with the adoption of consumer protection measures.

The main challenge in consumer protection in microinsurance is to strike the right balance between effectively protecting the consumer and increasing access to microinsurance by promoting the development of the microinsurance market. Efforts to stimulate the market scale of microinsurance and increase access to insurance must be balanced against consumer protection needs, but in the long term there are synergies between the two. Given that effective consumer protection promotes stability, value, and trust in microinsurance, scale and access goals will also ultimately benefit from consumer protection.

We must empower consumers in order to build confidence and trust, and ensure that they can play an active role in protecting themselves and using insurance effectively. To do so, it is important to understand who the consumers are, what knowledge and capacity they already have, and what information and skills could help them play a more active role.

CHAPTER 5

Looking Forward



Microfinance has grown rapidly over the last few decades, expanding access to financial services for the poor across the world. With half a billion of the world's poorest living in India alone, six hundred million across South Asia and when combined with the over four hundred million poor in Africa, the poverty numbers remain staggering. With low defaults, high returns and large unmet demand leading to expansion and growth, the top-tier microfinance institutions matured into a high-return asset class. Mainstream capital flocked to the sector, enticed by the profitability and growth, giving rise to increased number of institutions offering small loans to clients.

Intense competition has provoked over-indebtedness and led to crises in countries such as Bosnia and Herzegovina, India, and Nicaragua, while signs of overheating are emerging in other markets. The ongoing financial crisis in more developed countries such as in Western Europe has underscored the importance of accountability and transparency for a more stable and resilient financial services sector, beyond microfinance.

Today, in many countries, microfinance clients now have access to a number of institutions willing to offer loans. While many institutions have added payment systems, education and other loans and savings to their services mix, the tried and true microcredit remains the main driver for most MFIs. The developing world needs more innovation, better products, and an increasing focus on the needs of end customers, small business owners, and consumers at the base of the economic pyramid. By embedding the principles of Responsible Finance into core delivery of financial services, the financial institution is able to appropriately manage risk, balance profitability with inclusive finance, and contribute to long-term sustainability and wider systemic growth. This chapter takes a look at a future agenda critical to maintain progress toward responsible financial inclusion.

Consumer Protection Regulation

Lessons from initiatives featured in this report in Ghana, India, and the Philippines show the power of implementing comprehensive regulatory regimes across the financial sector to strengthen and broaden responsible finance. This approach will help ensure that financial services providers follow the same rules and standards. The future agenda includes working on comprehensive regulatory frameworks that include all providers of financial services, including banks and nonbank financial institutions.

Governments such as China are developing new consumer protection regulations, and involving industry stakeholders in the process to hear their views and share lessons. A future agenda looks into the constraints of effectively supervising and enforcing consumer protection regulation, which often lags behind initial reforms. Innovative research at the consumer level is also essential for regulators to design disclosure reforms and other effective measures to improve market conduct, fair treatment, and effective recourse. A future agenda could include further developing tools on effective methodologies.¹⁰⁵

Financial Institutions' Self-Regulation

Global microfinance industry stakeholders are engaged in creating a new vision and next steps.¹⁰⁶ An updated statement of shared vision includes the commercial financial sector. Challenges to bring about this vision include further awareness raising, changing incentives, building capacity to implement new solutions, and expanding the scope of work beyond microfinance to the broader financial market and more purely commercial players. These challenges form the basis of a future priority agenda to deepen responsible finance practices within the fabric of the financial sector.

A future agenda for industry self-regulation looks at the following, namely to:

- Embed responsible finance principles and practices more cohesively within institutions' operations,¹⁰⁷ including the use of credit bureau reporting to mitigate over-indebtedness,¹⁰⁸ to tackle some of the issues underpinning the latest financial crises including asymmetric information between borrowers and lenders leading to adverse selection, credit rationing, and moral hazard.
- Ensure complementarity of risk management and responsible finance in operations.¹⁰⁹ Responsible Finance and risk management are two sides of the same coin. Combined they define a set of standards, systems and processes to assess and monitor borrower creditworthiness and provide early warning signals on potential risks. While responsible finance focuses on the end customer as consumers of products and services provided by financial institutions that are growing/expanding; risk management focuses on the financial stability of the institutions (growth, products, services) themselves. It is clear that an emphasis on both is necessary for long term sustainable growth.
- Strengthen corporate governance standards of financial institutions, through harmonized industry standards and practices based on regulation and mutually reinforcing self-regulation, such as the common codes of conduct established between associations in India.
- Engage financial services industry associations, such as those serving bankers, insurers, and cooperative development authorities in bringing responsible finance principles and practices to their members, such as the work of IAIS.

Several mainstream financial institutions, such as the members of the Global Alliance for Banking on Values (GABV), the World Savings Bank Institute and the European Savings Bank Group¹¹⁰ are continuing to build on past lessons from microfinance and the global financial crises. Their initiatives also reinforce the basics of doing good business. Reflecting this vision, the GABV released the Berlin Declaration in March 2013, which calls “for a fundamental shift in how banks operate to make them more transparent, sustainable and diverse. GABV believes

introducing these three principles as fundamental for a paradigm shift in finance.”¹¹¹ GABV member banks are already discussing what is needed to make the financial system more people oriented and stable and what stakeholders including banks, regulators, and governments have to do to make this happen.

A future agenda also calls on the broader industry to harmonize the definitions of standards, principles, practices, indicators, and language of the different global initiatives with the established organizations highlighted earlier in the report (e.g., Smart Campaign, MIX Social and Financial Performance Reporting Standards, Universal Standards for Social Performance Management); and coordinate multiple relationships with partner organizations efforts for effective capacity building and training initiatives at the sector level.

Investors Well-Positioned in Responsible Market Building

Responsible funders are well positioned to build broader market capacity for responsible finance, particularly those with substantial capacity for advisory work or grants for capacity building and “public goods” work. This healthy trend is worthy of continued dialogue among development finance institutions and other investors. In Chapter 3, this report featured IFC's initiatives in India, Bosnia and Herzegovina, and Eastern Europe and Central Asia, as well as BMZ and GIZ's initiatives in China and Ghana. The future agenda includes continued work about how investors engage in responsible finance market building, sharing results of experience, and expanding efforts to other countries.

In 2013, AFD and FMO began work with the Cambodia Microfinance Association (CMA) and several leading MFIs and Banks to develop a client protection certification process, for the market as a whole, not only their individual investees. The effort focuses on providing technical assistance to upgrade systems and practices for selected institutions that cover over 80 percent of the microfinance market. The effort complements IFC's work since 2006 to strengthen the financial infrastructure for credit reporting in Cambodia, including ongoing capacity building support for institutions committed to embedding responsible finance practices.



“Under what circumstances can a self-regulatory initiative like this be effective?” AFD and FMO believe such initiatives can be effective if there is a transparent and consistent standard to measure compliance and a credible mechanism to ensure that it can be enforced. Smart Certification provides the standard. “What about enforcement?” A key issue is whether investors can create strong incentives for responsible practices by building them into their policies and financing structures – that is, “will they say no when practices are inadequate and reward providers with stronger responsible practices?” As the Principles for Investors in Inclusive Finance (PIIF) pilot reporting notes, all investors who took part in the pilot have endorsed the Client Protection Principles, and nearly all include client protection measures in investment policies, due diligence processes and financing agreements.¹¹² The positive momentum established by investors in post crisis and heated markets bodes well for achieving the future agenda.

The enforcement mechanism appeals to the weight and momentum of dominant market practices and dominant market players – both investors and the financial service providers. In Cambodia, CGAP blogger Daniel Rozas noted, “DFIs are funding leaders in the market and in a perfect position to kick-start enforcement of client protection by mandating that MFIs become Smart Certified as a precondition for investment. Because MFIs maintain multiple funding relationships, the impact of such a mandate would quickly propagate through the market.”¹¹³

“The rationale for effectiveness is based on reaching critical mass. Reaching critical mass of certified MFIs would have two important outcomes: first, it would isolate the few remaining large MFIs unaffected by the mandate, at which point it’s likely that they would choose to become Smart Certified rather than risk being singled out in front of their regulators, politicians, and the local media. Second, as the mandate is rolled out across more countries, the same dynamic would emerge among funders and investors, whose portfolios would become increasingly populated by Smart Certified MFIs. At that point, it’s likely that investors would themselves start to apply the mandate rather than be singled out for having lower rates of Smart Certification than their competitors. In effect, by kick-starting the process, the original mandate could credibly push the microfinance sector from equilibrium where Smart Certification is

regarded as desirable but optional, to one where it is seen as required.”¹¹⁴

Financial Capability Gaining New Ground in New Places

New techniques in delivering financial education, as well as established ones have created a rich experiential base for further innovation. The diversity of consumers and providers will support emerging efforts to deliver financial education messages through multiple channels including cell phones, radios, TV, and social media. New ways to stage and reinforce themes will be developed to foster continuous learning. And, because managing money is a skill that is in high demand and short supply, financial education untied to consumer protection or specific customer relationships will continue to be embraced far beyond the financial services industry. Corporate employees, factory workers, union members, and farm workers are likely consumers of financial education in the future. (See the Bosnia and Herzegovina case study in Chapter 3 as an example.) The industry begins to accept the perspective that the goal of financial capability is to help people manage better their livelihoods and well-being.

A complementary vision for the future sees financial education as a public good tied to the formal education system. The development of national financial education strategies include financial and social policies and involve public and private stakeholders. Governments have also initiated national financial education strategies, some of which incorporate rigorous monitoring and impact measurement. Ministries of Education are being engaged to incorporate financial education into their national school curricula. As detailed in this report, a future agenda includes more experimentation with innovative ideas that work and can operate at scale, engaging Ministries of Education to confer about what it would take to integrate financial education into school curricula, and involving nongovernmental stakeholders to support the process.

Several recommendations for the future agenda are:

- Incorporate what is known about learning and behavior change into financial education/literacy/capability design. Interventions aimed at increasing financial capability

should make use of insights about teachable moments, cultural influences, and changing lifecycle needs.

- Support the delivery of capability-building messages. Further research is needed to understand the most effective ways that technology can be used to support financial capability.
- Continue developing reliable methods for measuring financial capability levels and effectiveness of interventions, including indicators that measure and track financial capability levels at the national level, coupled with studies tracking the impact of various interventions.
- Build financial education within school curricula to promote a basic level of financial literacy across the population of a country. Further research is needed to develop best practices in this area and ensure that they are relevant to country context.
- Deepen understanding of the business case for financial education. More research, based on practice, is also needed on how to make financial education efforts sustainable and scalable.

Building Capacity Across the Pillars of Responsible Finance

Every chapter of this report highlights the need for concerted capacity building across the three pillars of responsible finance: for consumers, for retail financial service providers, for support networks, and for government agencies. The future agenda calls for efforts to deepen and broaden

past experience with pilots and innovative initiatives that have produced results. The agenda focuses on scaling up, continued research and evaluation of efforts and developing practical means to coordinate harmonize and implement efforts among pillars and within the industry.

AFI's and OECD/INFE's peer-to-peer working groups and subgroups have been effective among policy makers and regulators. Recent research and experience in financial education initiatives at the client level show the cost-effectiveness of some high-touch, but nontraditional methods of communicating messages effectively. On the industry self-regulatory front, Smart Campaign certification opens new opportunities for industry self-regulation. Capacity-building efforts are equally important to ensure more accredited assessors and raters are trained and more equitably distributed to regions. At the financial service provider's level, incorporating new responsible finance practices almost always requires a change in systems, increased staff development, and capacity building at various levels of the organization, as the India case documents. Chapter 4 notes that new players in the microinsurance market often do not understand low-income customers and have difficulty designing products that respond to their needs. More recent progress has been made in calling attention to the importance of consumer protection, developing guiding principles, and setting standards. Going forward, these efforts taken altogether are critical to reinforce a solid foundation for the future of responsible financial inclusion.

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Endnotes



1. This report refers to clients, consumers, and customers and uses these terms as in the original source documentation. When no source document is cited directly: “client” is generally used to refer to an individual, group of individuals, or a firm (as in the case of investors) who have established a direct relationship with the financial service provider or investor; “customer” is used to refer to individuals who buy services or products, the focus being on the transaction; and “consumer” is used to refer to a segment of the population, as in “consumers of financial services” or “consumer protection.”

2. IFC, CGAP, and BMZ 2011.

3. Responsible Finance Forum III, hosted by IFC, April 2012, “Executive Summary and Key Takeaways.”

4. IFC, CGAP, and BMZ 2011.

5. This definition of financial education was endorsed by OECD Governments in 2005 and G-20 leaders in 2012.

6. IFC, CGAP, and BMZ 2011; Stein, Randhawa, and Bilandzic 2011,30; CGAP 2011, 2-3.

7. CGAP and IFMR Trust 2012; World Bank 2012a; and Citi-Foundation 2012.

8. This report is based on a survey of the responsible finance community of practice, including organizations, industry associations, investors and donors, and global support networks. See “about this report” in front matter.

9. In India, estimates of the large number of inoperative “no-frill” accounts range from 87 percent to 95 percent. Account holders do not use accounts because they have little information on transaction costs and fear poor treatment

by bank officials. See Almazan 2010 and studies by the IFMR www.ifmr.ac.in and MicroSave, www.microsave.org. The more recent reference, CGAP and IFMR Trust 2012, provides an encouraging note that well-designed financial capability interventions — including information and quality engagement between clients and bank agents — brought about improvement in banking activity and savings.

10. Ibid.

11. See Alliance for Financial Inclusion website, “What is the Maya Declaration?” <http://www.afi-global.org/maya-declaration>.

12. <http://responsiblefinance.worldbank.org/events/-/media/GIAWB/FL/Documents/Misc/Event-Global-survey-on-consumer-protection-and-financial-literact.ashx>

13. World Bank 2012a.

14. See CGAP website, “Implementing Consumer Protection in Emerging Markets and Developing Economies”, A Technical Guide for Bank Supervisors, Denise Dias, 16 August 2013 and others.

15. GFPI and CGAP n.d. The G20 Leaders have acknowledged the increasing engagement of global standard-setting bodies regarding financial inclusion for the 2.5 billion people around the world without access to formal financial services. (October 2012) First GFPI Conference on Standard Setting Bodies and Financial Inclusion.

16. Cenfri 2012.

17. See AFI website, <http://www.afi-global.org/policy-initiatives/mobile-financial-services>.

18. Smart Campaign Assessment and Certification Process tools and guidance, www.smartcampaign.org; Microinsurance Network's "Social Performance Indicators," www.microinsurancenetowork.org; Social Performance Task Force's "Universal Standards for Social Performance Management," www.sptf.info/spmstandards/universal-standards.
19. CGAP 2010. CGAP's guide for investors includes individual investor's guidelines, checklists, and tools for responsible finance, social performance, and client protection.
20. IFC 2012b and IFC 2012c.
21. AVOID Investor Group, draft guidelines presented at the Social Performance Task Force Investor Meeting, June 2013.
22. Dannet 2013.
23. Citi Foundation 2012.
24. Consumers International 2012; MFO and the Russia Trust Fund, "Financial Literacy and Education," www.finlitedu.org.
25. Key challenges are identified from experience implementing responsible finance initiatives. These challenges, as well as other references in this report come from responses to the RFF Global Mapping exercise, July-February 2013 (see "About this Report" in front matter).
26. IFC FinNet 2013, Session on "Progress in Responsible Finance: Two Views From Inside Out", February 2013.
27. Russia Trust Fund, DFID Africa Financial Education Fund.
28. The report has been prepared by a Task Force coordinated by the World Bank, with support from the Bank for International Settlements. The Task Force comprises representatives from central banks and other financial and privacy regulators, from multilateral organizations involved in credit reporting and from international credit reporting service providers. The Task Force also benefited from the significant experience of the Credit Bureau Team of the International Finance Corporation.
29. OECD 2011.
30. For example, the Smart Campaign CPPs, AFI, CGAP/World Bank work and guidance, among others
31. See AFI experience
32. GCAP and CGAP n.d.
33. For more detail on policies and practices, please refer to GCAP and CGAP n.d.
34. Global Standard-Setting Bodies and Financial Inclusion for the Poor: Toward Proportionate Standards and Guidance. (nd) <http://www.gpfi.org/sites/default/files/documents/CGAP.pdf>. For more detail on policies and practices, please refer to the document.
35. Pearce and Ortega 2012. This reference framework was prepared at the request of the Mexico G-20 Presidency. It builds on and profiles: country models and examples, the work of the GPFI through its four subgroups (Principles for Innovative Financial Inclusion and Standard Setting Bodies Engagement, SME Finance, and Financial Inclusion Data and Measurement, Financial Consumer Protection and Financial Literacy), the Alliance for Financial Inclusion (AFI), IFC, CGAP, the World Bank, UNCDF, Asia-Pacific Economic Cooperation (APEC), and others.
36. World Bank 2012b.
37. Citi Foundation 2012. *Bridging the Gap*, cautions that "—a chasm that exists between those who have skills and knowledge to responsibly engage with a formal financial system... and those who have not." The research suggests that between 500 million and 800 million of the world's low income earners have access to finance, but 75 percent have not been offered the skills and knowledge needed to make informed financial decisions. The study cautions that the gap is set to widen and will likely become increasingly difficult to fill.
38. Citi Foundation 2012.



39. Reddy 2012; Anagol et al. 2012.
40. AFI 2011. CEMC Working Group
41. AFI, www.afi-global.org
42. To develop certification, the Smart Campaign and its task forces translated the seven principles into 30 specific standards of practice within organizations. The standard-setting process drew on norms, values, and practices already present within microfinance, but not always formally recognized. See E. Rhyne, *Huffington Post* Blog, January 25, 2013.
43. The Working Group comprises eight global organizations that have more than 250 microfinance affiliates, subsidiaries, and partners in over 70 countries, supporting more than 40 million clients.
44. Microfinance CEO Working Group statement, January, 2013.
45. SEEP Network 2012. SEEP supports over 60 MFAs to establish, disseminate, and enforce codes of conduct for their MFI members. Most of the discussion in the text comes from the SEEP paper referenced.
46. SEEP Network 2012.
47. PRI 2012a. A group of investors developed PIIF together with the United Nations-backed Principles for Responsible Investment (PRI), CGAP, and other key industry players. The Dutch Ministry of Foreign Affairs provided grant funding to enable the PRI to establish the PIIF, and additional support came from Incofin, Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V (FMO), Grassroots Capital Partners, Caspian, OikoCredit, PGGM Vermogensbeheer B.V. (PGGM), SNS Impact Investing and Triodos Investment Management.
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49. Symbiotics Research and Advisory. 2012. “Symbiotics MIV Survey: Market Data & Peer Group Analysis.” July. <http://www.microfinancegateway.org/p/site/m/template.rc/1.9.59392/>
50. PRI 2012b. Lessons from the Case Studies come from Incofin, Triple Jump, Blue Orchard, Triodos, Finance in Motion, Grassroots Capital and Caspian, Oikocredit, SNS, and responsibility.
51. PRI 2012b.
52. FMO 2013.
53. IFC 2013a.
54. IFC 2013a.
55. This financial education definition was endorsed by OECD governments in 2005 and G-20 leaders in 2012.
56. World Bank and Russia Trust Fund 2013.
57. Cohen and Nelson 2011.
58. OECD/INFE 2012.
59. Grifoni and Messy 2012.
60. Holzmann, Mulaj, Perotti 2013. “Financial capability in low- and middle-income countries: measurement and evaluation”, A report on the World Bank’s research program and the knowledge from the Russia Financial Literacy and Education Trust Fund.
61. OECD/INFE 2012.
62. Russian Trust Fund, <http://www.finlitedu.org/>
63. See OECD/INFE outputs of the Russian Trust Fund on financial literacy and education at <http://www.oecd.org/daf/fin/financial-education/6%20-%20Summary%20Records%20-%20Russia%20WB%20OECD%20Trust%20Fund%20Dissemination%20Conferences%20.pdf>
64. International Gateway for Financial Education: <http://www.financial-education.org/home.html>
65. Grifoni and Messy 2012 and OECD/INFE update in 2013.

66. Banco Central do Brasil 2012; World Bank 2011.
67. For a range of impact studies, see www.finlit.edu.
68. Holzmann, Mulaj, Perotti 2013. "Financial capability in low- and middle-income countries: measurement and evaluation", A report on the World Bank's research program and the knowledge from the Russia Financial Literacy and Education Trust Fund.
69. Yoong, Mihaly, Bauhoff, Rabinovich, Hung 2013 "A toolkit for the evaluation of financial capability programs in low- and middle-income countries", World Bank toolkit from the Russia Financial Literacy and Education Trust Fund includes: "The Impact of Financial Literacy through Feature Films: Evidence from a Randomized Experiment in Nigeria"
70. The MasterCard Foundation, Microfinance Opportunities, and Genesis Analytics 2011. The text, framework, and cases presented in this section are from this stocktaking report.
71. Zottel et al. 2013 provides an empirical illustration of the positive relationship between financial knowledge and financial inclusion (e.g. p. 43).
72. Zottel et al. 2013.
73. Micro-Credit Ratings International Ltd. 2012.
74. MFO; Consumers International 2012.
75. Consumers International 2012,
76. Citi Foundation 2012.
77. Laboul 2012.
78. Citi Foundation 2012.
79. MasterCard Foundation and others 2011.
80. Citi Foundation 2012.
81. Chris Dunford, "Freedom from Hunger," Center for Financial Inclusion blog, May 15, 2012. <http://cfi-blog.org/tag/chris-dunford/>
82. Holzmann 2010.
83. MasterCard Foundation et al. 2011.
84. See Russia Trust Fund, "Two Efforts in Financial Capability Measurement," blog, 2013 <http://www.finlitedu.org/measurement/> and OECD, "Measuring Financial Literacy: Pilot Results from 14 Countries," <http://www.oecd.org/daf/fin/financial-education/measuringfinancialliteracy.htm>
85. IFC 2012a.
86. IFC 2012a.
87. Finscope 2010 Survey, Boakye, Amankwah, Abstract from "Determinants of the demand for financial Products in Ghana" http://www.microfinancegateway.org/gm/document-1.9.59150/Determinants_CB.pdf
88. Finscope 2010 Survey
89. Bank of Ghana deals with a Tier System of Licensing based on an organization's or company's capital base. There are 4 Tiers, with Tier 4, no capital base is required.
90. Burki 2009.
91. Chen et al. 2010. Portfolio at risk (PAR) of around 2 percent in 2008 rose to an average PAR of 13 percent by 2009.
92. Thirty member MFPs covering 98 percent of the market by volume.
93. The number of times a match is made with an existing record inside the bureau.
94. See, for example, MFO n.d.
95. BSP 2012.
96. BSP 2011a.



97. BSP 2011b.
98. BSP 2012.
99. BSP 2012.
100. ADA et al. 2013.
101. ADA et al. 2013.
102. Zimmerman et al. 2013.
103. MIA et al. 2011.
104. CGAP 2012.
105. In May 2012, IFC and The MasterCard Foundation launched a partnership to improve financial services for an estimated 5.3 million people in Sub-Saharan Africa. Through this new \$37.4 million partnership, IFC and the MasterCard Foundation will help microfinance banks expand more rapidly and develop new products and cost-effective delivery channels, while expanding coverage in new, often hard-to-reach locations. In January 2013, the Ford Foundation hosted a day-long retreat for the CEOs, executive directors, and other senior staff of major initiatives that directly support inclusive, responsible finance. MFTransparency, the Center for Financial Inclusion, the Smart Campaign, the MixMarket, the Seal of Excellence, the Social Performance Task Force, the Principles for Investors in Inclusive Finance, and CERISE were represented. IFC 2012
106. IFC forthcoming 2013.
107. IFC 2012c.
108. IFC 2012b.
109. Global Alliance for Banking Values, [www. http://www.gabv.org](http://www.gabv.org), World Savings Bank Institute and European Savings Bank Group: <http://www.savings-banks.com/PortalHome.aspx>;
110. GBAV 2013.
111. See Chapter 2, PRI and PIIF.
112. Daniel Rozas, “Can Self-Regulation Protect Microfinance Clients?” CGAP blog, February 7, 2013
113. Daniel Rozas, “Can Self-Regulation Protect Microfinance Clients? CGAP blog, February 7, 2013
114. MasterCard Foundation et al. 2011.
115. These are draft recommendations are from the CFI 2020 Working Group on Financial Capability, and are broadly representative of thinking about an agenda for the future.



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This compendium includes organizations that responded to the Responsible Finance Survey 2013 and participants in previous Responsible Finance Forums. It is not a comprehensive list of the many organizations involved in responsible finance. Organizations are grouped as: intergovernmental organizations, donors and investors, support networks, national support networks, research advocacy and consulting organizations, rating agencies, microfinance institutions affiliates, and financial service providers.

Intergovernmental Organizations

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT (OECD)

Country: 34 member countries

Type of organization: Intergovernmental

Introduction: The mission of the Organisation for Economic Co-operation and Development is to promote policies to improve the economic and social well-being of people around the world. OECD provides a forum in which governments can share experiences and seek solutions to common problems and works with governments to understand drivers of economic, social, and environmental change. OECD measures productivity and global flows of trade and investment and analyzes and compares data to predict trends. It sets international standards on a wide range of issues from agriculture and tax to the safety of chemicals.

Responsible Finance Initiatives: Regulation for Consumer Protection, Responsible Practices by Financial Providers, Financial Capability

The OECD Directorate for Financial and Enterprise Affairs is working on how to enhance financial consumer protection, which includes determining what is required to help consumers gain the confidence, knowledge,

information, security, and choices they need to fully participate in financial markets.

In February 2011, the Group of Twenty (G-20) called on the OECD, the Financial Stability Board (FSB), and other relevant international organizations to develop **common principles on consumer protection** in the field of financial services. In October 2011, G-20 finance ministers and central bank governors endorsed the G-20 High-Level Principles on Financial Consumer Protection and called for further work on implementation. The OECD-led Task Force on Financial Consumer Protection, which is open to all G-20 and FSB members, other relevant international organizations, and standard developers, developed key principles for financial consumer protection. The task force membership includes 33 countries and 10 international organizations.

OECD developed a **financial education database**, the International Gateway for Financial Education, which serves as a global clearinghouse on financial education, providing access to a comprehensive range of information, data, resources, research, and news.

Searchable database: <http://www.financial-education.org/program.php?debut=20>;

Financial education documents: <http://www.oecd.org/daf/financialmarketsinsuranceandpensions/financialeducation/>

Donors and Investors

THE AFRICAN DEVELOPMENT BANK (AfDB)

Countries: Africa, headquartered in Nigeria

Type of organization: Public, development finance institution (DFI)

Introduction: The African Development Bank Group spurs sustainable economic development and social progress in its regional member countries (RMCs), thereby contributing to

poverty reduction. The Bank Group mobilizes and allocates resources for investment in RMCs and provides policy advice and technical assistance to support development efforts.

Responsible Finance Initiatives: Regulation for Consumer Protection

Investments: The African Development Bank (AfDB) allocated 324.1 million in private sector investments to the financial sector, including to the Development Bank of Southern Africa and the West African Development Bank. Two African insurance institutions, ZEP-Re and Africa-Re, were supported by equity investments. These investments will help strengthen the insurance sector in Africa, which is generally underdeveloped, and boost its share of the global insurance market. Local financial institutions in Mali, Namibia, Nigeria, and Uganda were provided with letters of credit, primarily for lending to domestic micro, small, and medium enterprises. <http://www.afdb.org/en/topics-and-sectors/sectors/private-sector-development/>

African Financial Market Initiative: The AfDB recently launched this initiative to develop African capital markets by building relationships among financial market stakeholders in Africa and contributing to setting up a transparent and well-documented statistical environment for the financial markets to improve countries' borrowing terms in local currency. <http://www.afdb.org/en/topics-and-sectors/initiatives-partnerships/african-financial-markets-initiative-afmi/>

The Enhanced Private Sector Assistance Initiative: This multicomponent, multidonor partnership for resource mobilization and development will support implementation of the AfDB's Strategy for Private Sector Development. <http://www.afdb.org/en/topics-and-sectors/initiatives-partnerships/enhanced-private-sector-assistance-for-africa-epsa-initiative/>

The multidonor Fund for African Private Sector Assistance: This fund provides untied grants for technical assistance and capacity building to African governments, regional economic communities, intergovernmental organizations, business associations, market regulatory institutions, business development service providers, business training and research institutions, and public-

private enterprises. <http://www.afdb.org/en/topics-and-sectors/initiatives-partnerships/fund-for-african-private-sector-assistance/>

The Making Finance Work for Africa Partnership is a Group of Eight (G-8) initiative launched in October 2007. Its mission is to establish a common platform to harmonize and facilitate financial sector development and knowledge sharing in Africa. <http://www.afdb.org/en/topics-and-sectors/initiatives-partnerships/making-finance-work-for-africa-partnership/>

ASIAN DEVELOPMENT BANK (ADB)

Countries: Asia, headquartered in Manila
Type of organization: Public, DFI.

Introduction: The Asian Development Bank (ADB) is dedicated to improving people's lives in Asia and the Pacific. Its mission, in partnership with developing member countries and other stakeholders, is to target investments to alleviate poverty and create a world in which everyone can share in the benefits of sustained and inclusive growth, mainly through investment in infrastructure, health care services, and financial and public administration systems, or by helping nations prepare for the impact of climate change or better manage their natural resources. The main devices for assistance are loans, grants, policy dialogue, technical assistance, and equity investments.

Responsible Finance Initiatives: Regulation for Consumer Protection

Capacity Development for Financial Regulators. ADB supports policy actions agreed to under the Post Program Partnership Framework of the Financial Market Regulation and Intermediation Program, Subprogram 2 (FMRIP-02). Its impact will, therefore, mirror that of FMRIP-02, which is an increase in the contribution of the nonbank financial sector to economic growth. The outcome of ADBs technical assistance will be a deeper, more diversified, and more resilient financial sector. More information: <http://www.adb.org/projects/44255-012/main>

Strategic Framework for Financial Inclusion. This project will support government initiative's to promote financial inclusion through a highly consultative process among the concerned government agencies, banks, development



partners, and saving and credit groups to improve the policy, supervision, and regulatory environment for a wider and deeper inclusion of the low-income population to safe and affordable financial services. More information: <http://www.adb.org/projects/45128-001/main>

More information: <http://www.adb.org/projects/search/21271>

AUSAID

Country: Australia, with projects in the Pacific, Asia, and Africa

Type of organization: Public, donor/DFI

Introduction: The Australian Government's overseas aid program (AUSAID) is improving the lives of millions of people in developing countries. Australia is working with the governments and people of developing countries to deliver aid where it is most needed and most effective. Australian aid has wiped out polio from the Pacific and has resulted in more than 1.5 million children being immunized against measles and polio in Papua New Guinea. AUSAID also helped build the first bridge across the Mekong River in East Asia, boosting economic opportunities for millions of people living in the region. In Africa, AUSAID's water supply and sanitation programs are providing clean water for nearly 500,000 people in Tanzania, South Africa, Mozambique, and Zimbabwe.

Responsible Finance Initiatives: Responsible Practices by Financial Providers, Financial Capability

Financial Services for the Poor: A strategy for the Australian aid program 2010–15. This strategy sets out how Australia will broaden its focus on expanding access to financial services to help poor people improve their standard of living. It involves projects in all three areas of responsible finance. Financial services are increasingly being seen as important to poverty reduction and achievement of the Millennium Development Goals. By borrowing, saving, or buying insurance, poor people can plan for their future beyond the short term. They can build up assets, set up small businesses, insure against crop losses, and invest in their children's education and their family's health. Over the next few years, Australia will have doubled spending to increase access to financial services and broadened its efforts in line with the geographic reach of the aid program.

More Information: http://www.usaid.gov.au/Publications/Pages/3645_1909_4834_7583_9490.aspx

BAMBOO FINANCE

Country: Global

Type of organization: Private, Investor

Introduction: Bamboo Finance has been participating in the Social Performance Task Force's (SPTF) over-indebtedness working group, which it co-facilitated in the first half of 2012. Bamboo Finance encourages microfinance institutions to undergo a third-party rating, using its proprietary social performance scorecard, ASPIRE, which includes a (scored) question on the existence of social and financial ratings. Additionally, third-party ratings are used to assess microfinance institutions in due diligence and monitoring processes, valuing the reports as a source of additional information to help investors form investment and divestment decisions. A code of conduct constitutes an important contribution to having all players abide by the same standards. More information: <http://www.bamboofinance.com>

BLUE ORCHARD

Countries: Belgium, Luxembourg

Type of organization: Private, Investor

Introduction: BlueOrchard is a commercial microfinance investment company. Its mission is to empower the poor worldwide and improve their quality of life by enabling them to participate in income-generating activities. BlueOrchard achieves this by developing and managing innovative and attractive financial products and services that invest in microfinance institutions that support millions of small enterprises in low-income regions worldwide. At the same time, its investment products generate profitable returns for its investors..

Responsible Finance Initiatives: Responsible Practices by Financial Providers

Dexia Micro-Credit Fund (DMCF). DMCF is the world's first private fully commercial microfinance fund designed to finance microfinance institutions. It offers the opportunity to invest in a highly successful vehicle managed by BlueOrchard and Dexia, two leading pioneers in the microfinance sector, and to achieve attractive returns while improving the lives of the working poor. More information: <http://www.blueorchard.com/jahia/Jahia/pid/512>.

The Microfinance Enhancement Facility (MEF), launched in February 2009 by IFC and the KfW, is designed to support the growth of more than 100 microfinance institutions across 40 countries and to generate healthy returns for investors. More information: <http://www.blueorchard.com/jahia/Jahia/pid/512>.

The Microfinance Growth Fund (MiGroF) for Latin America and the Caribbean is a response to U.S. President Obama's announcement at the Summit of the Americas in April 2009. The Inter-American Development Bank's Multilateral Investment Fund (IDB/MIF), the U.S. Government's Overseas Private Investment Corporation (OPIC), the Inter-American Investment Corporation (IIC), BlueOrchard, and other international investors signed a memorandum of understanding on September 30, 2009 to establish a microfinance facility that will provide up to \$250 million to microfinance institutions in Latin America and the Caribbean. More information: <http://www.blueorchard.com/jahia/Jahia/pid/474>

BlueOrchard also offers **expert financial advisory services** to microfinance organizations that are seeking to raise capital from investors globally or who need expert advice on financial transactions and issues, such as asset and liability management and structuring and valuation advice on an acquisition or merger transaction, or assistance with portfolio restructuring. More information: <http://www.blueorchard.com/jahia/Jahia/pid/362>

BMZ: GERMAN MINISTRY FOR ECONOMIC COOPERATION AND DEVELOPMENT

Country: Germany, with international projects
Type of organization: Public

Introduction: BMZ is the German Ministry for Economic Cooperation and Development. It develops the guidelines and the fundamental concepts on which German development policy is based. BMZ devises long-term strategies for cooperation with various players and defines the rules for implementing that cooperation, forming a foundation for developing shared projects with partner countries and international development organizations. All efforts are informed by the United Nations' Millennium Development Goals, which ambitiously aim to halve poverty in the world by 2015.

Responsible Finance Initiatives: Regulation for Consumer Protection, Responsible Practices by Financial Providers, and Financial Capability

Financial Systems Development and Responsible Finance:

- Every year, Germany makes on average €150 million available in new funding commitments from the federal budget for financial systems development. Germany is currently operating in 85 countries with 247 financial systems development projects and programs.
- All implementing organizations of BMZ have a strong focus on the three pillars of responsible finance: KfW Entwicklungsbank encourages the financial institutions it supports to adopt fair and transparent practices with their customers and good corporate governance, as board members of such institutions. GIZ, Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, advises its partners, central banks, ministries of finance, consumer protection agencies, microfinance associations and other stakeholders, to apply an integrated approach based on the three pillars of responsible finance. *Sparkassenstiftung für internationale Kooperation* (Savings Banks Foundation for International Cooperation; SBFIC) provides capacity building for financial institutions regarding responsible treatment of customers and prevention of overindebtedness and supports its partners in improving the financial literacy of their clients. More information can be found in this Annex under KfW Entwicklungsbank, GIZ, and SBFIC.
- In 2010, BMZ initiated the **Responsible Finance Forum** (RFF), a Community of Practice, with the International Finance Corporation (IFC), the Consultative Group to Assist the Poor (CGAP) and other partners and hosted the RFF in 2010 and 2013. BMZ will continue to strengthen international knowledge exchange on responsible finance.
- BMZ also supports the Alliance for Financial Inclusion, the Partnership Making Finance Work for Africa, the Access to Insurance Initiative, the Microinsurance Network and CGAP, all of which have a strong focus on responsible finance in their work.

More information: http://www.bmz.de/en/what_we_do/issues/wirtschaft/nachhaltige_wirtschaftsentwicklung/finanzsystementwicklung/index.html



THE CALVERT FOUNDATION

Country: United States

Type of organization: Private, Foundation

Introduction: The Calvert Foundation is a nonprofit organization offering community investments. Its mission is to maximize the flow of capital to disadvantaged communities to create a more equitable and sustainable society. By creating innovative financial products and services, the foundation participates in financial instruments that directly serve communities. The Calvert Foundation has multiple projects and investments in the microfinance sector on affordable housing and small businesses.

Responsible Finance Initiatives: Responsible Practices by Financial Providers, Financial Capability

Ensuring families have safe and affordable homes programs: For 15 years, the Calvert Foundation has been striving to make affordable housing available for families across the country, and it remains committed to ensuring that families have access to safe and affordable homes despite current economic conditions. More information: <http://www.calvertfoundation.org/who-we-help/our-portfolio/affordable-housing>

Responsible finance in microfinance, CDFIs/small businesses: Calvert Foundation helps make loans available for small businesses and microlenders, provides job training and daycare facilities, gets families into affordable homes, and teaches people how to set up savings and checking accounts. More information: <http://www.calvertfoundation.org/who-we-help/our-portfolio/cdfis>

More information: <http://www.calvertfoundation.org/who-we-help/our-portfolio/microfinance>

CITI FOUNDATION

Country: United States

Type of organization: Private, Investor

Introduction: The Citi Foundation supports the economic empowerment and financial inclusion of low- to moderate-income people in communities where Citi Bank operates and works collaboratively with a range of partners to design

and test financial inclusion innovations with potential to achieve scale and support leadership and knowledge-building activities. Through a “more than philanthropy” approach, Citi puts the strength of its business resources and people to work to enhance philanthropic investments and help improve communities. More information: <https://www.citigroup.com/citi/foundation/>

Responsible Finance Initiatives: Financial Capability

Center for Financial Services Innovation’s (CFSI) Financial Capability Innovation Fund: To reduce the number of unbanked households in the United States and improve consumer financial decision making, the Citi Foundation is the lead funder for CSFI. CFSI supports non-profit-led projects designed to help consumers better manage their finances and achieve financial prosperity. These projects promote financial capability by leveraging technology, applying behavioural economics concepts, and closely combining relevant, timely, actionable, and ongoing messaging with access to high-quality financial products and services.

Bridging the Gap: The Business Case for Financial Capability: Partners for Sustainable Development (PSD) and the Monitor Group’s Inclusive Markets Initiative (Monitor) conducted research to understand how the integration of microfinance and financial education activities can drive financial inclusion and support microfinance institutions’ business development and responsible finance goals.

The Inter-American Development Bank’s Financial Innovation and Research Fund: This fund was launched to test and evaluate new business models that deliver asset building products to recipients of conditional cash transfers (CCTs) across Latin America and the Caribbean. At least 17 countries in the region are implementing government CCT programs, designed to provide low-income families with monthly income transfer payments if they agree to make certain behavioral choices, such as, keeping their children enrolled in school.

Neighbor Works, a Citi Financial capability demonstration project: Citi Foundation and Neighbor Works America launched a \$5 million project to deliver financial capability and coaching in local communities,

enabling 65,000 low-income Americans to build their savings, pay down their debt, and better manage their finances. The initiative is expanding the skills of 400 financial education practitioners to adopt a new approach that combines relevant financial information with ongoing coaching and access to financial products.

Local Initiatives Support Corporation Financial Opportunity Centers: Citi Foundation is a lead funder, helping Local Initiatives Support Corporation (LISC) build a national network of Financial Opportunity Centers in underserved neighborhoods to help families build income and assets by bundling career services, financial coaching services, and access to public benefits. The centers help residents move into living wage jobs and respond to specific financial challenges such as unmanageable debt or housing affordability issues. Ongoing financial coaching helps clients develop a financial plan and stay on track to achieve their long-term financial goals. Early results showed that 40 percent of participants improved their credit score, 72 percent increased their net income, and 71 percent reduced their debt.

Improving results and impact in national financial education strategies: Citi Foundation is funding partners around the world to help develop national strategies and incorporate financial capability training into national curriculums. In Brazil, Citi Foundation funded a financial education pilot in high schools. Similar efforts are taking place through Young Enterprise Trust/Junior Achievement in New Zealand and the National Institute of Education in Singapore. Aflatoun International is embedding the social and financial education model in national teacher training institutes and as part of national strategies in Kenya and Jordan. The Aflatoun model is being adopted in India, Peru, and Uganda.

DEUTSCHE BANK

Country: Germany

Type of organization: Private, Investor

Introduction: Deutsche Bank AG is a German global banking and financial services company with its headquarters in Germany. It employs more than 100,000 people in over 70 countries and has a large presence in Europe, the Americas, Asia-Pacific, and the emerging markets. In 2009, Deutsche Bank was the largest foreign exchange dealer in

the world with a market share of 21 percent. It has many projects on corporate social responsibility and sustainability. **Responsible Finance Initiatives:** Responsible Practices by Financial Providers

Lowering the cost to develop and sustain affordable housing: Deutsche Bank Americas Foundation hosted a conference to address the need for innovation in affordable housing and announced a design competition to award \$250,000 in low-interest capital to build an innovative, affordable housing model. More information: <https://www.db.com/usa/content/en/2437.html>

The Deutsche Bank Start-Up Fund provides early stage, commercially focused microfinance institutions with loan capital to expand lending activities. This fund is capitalized through grants and soft funding. <https://www.db.com/usa/content/en/1170.html>

The Deutsche Bank Microcredit Development Fund (DB MDF) provides catalytic financing to microfinance institutions to attract resources on a leveraged basis from local commercial banks. This fund is capitalized through grants and soft funding. More information: <https://www.db.com/usa/content/en/1173.html>

The Global Commercial Microfinance Consortium provided long-term, local currency funding at commercial rates to established microfinance institutions. This fund was capitalized mainly through institutional investors. More information: <https://www.db.com/usa/content/en/1177.html>

DB Microfinance Invest No.1 provides the first microfinance investment fund for German investors. This fund is capitalized through investments from high net worth clients, pension funds and foundations, KfW, and Deutsche Bank. More information: <https://www.db.com/usa/content/en/1181.html>

FINCA Microfinance Fund is a \$21.2 million fund that has raised subordinated debt for seven affiliates of FINCA International, a leading international microfinance network with operations in more than 20 countries. More information: <https://www.db.com/usa/content/en/1185.html>



DFID – THE DEPARTMENT FOR INTERNATIONAL DEVELOPMENT, UNITED KINGDOM

Country: United Kingdom

Type of organization: Public, DFI, donor

Introduction: Department for International Development (DFID) is the department for international development of the U.K. Ministry of Foreign Affairs. When the DFID was set up in 1997, it made fighting world poverty its top priority. This marked a turning point for Britain's aid program, which until then had mainly involved economic development.

Responsible Finance Initiatives: Responsible Practices by Financial Providers, Financial Capability

Development of the financial sector: DFID will help more than 50 million people access savings, credit, and insurance through programs to “deepen” the reach of the financial sector to serve the needs of poor people. DFID supports and encourages innovative financial- sector- deepening trusts that work in partnership with governments, regulators, and financial service providers ranging from multinational banks to rural cooperatives. DFID also supports countries to reform and strengthen their financial sectors. Its Financial Sector Reform and Strengthening Initiative (FIRST) provides targeted specialist help, supporting over 300 projects across 80 countries.

Mobile banking: DFID, along with the Bill & Melinda Gates Foundation, support s the Consultative Group to Assist the Poor's technology program, which aims to harness mobile phones and other technology to help 30 million people get better financial services. M-PESA is the revolutionary mobile banking platform launched in Kenya with DFID support. Four million Kenyans have bank accounts, but 10 million people in the country now use the M-PESA money transfer service. By promoting innovation, the program can deliver at a scale that makes banking affordable for poor people. In Pakistan, it is supporting the mobile banking service, easypaisa. In just two years, easypaisa gained a larger footprint than all the banks in Pakistan combined and has processed over 10 million transactions.

Support to small businesses: DFID is supporting small and medium enterprises by collaborating with commercial banks and multilateral partners to address the funding gap and perceived risk and high transaction costs faced by these enterprises. This initiative is designed to help over 200,000 small and medium businesses and to create over 1 million new jobs.

Microfinance facility for Sub-Saharan Africa: DFID recognizes microfinance as one of the established options for delivering financial services to the poor. Building on the lessons learned, DFID continues work to strengthen microfinance institutions and develop new products including microsavings and microinsurance. DFID, in partnership with the World Bank, is developing the Microfinance Capacity Building Facility (MICFAC) for Sub-Saharan Africa to increase access to affordable and quality microfinance services by strengthening the institutional, organizational, and human capacity of microfinance institutions.

Small business program: Finance is a critical ingredient for fostering micro, small, and medium business development, which is constrained by high transaction costs and perceived risks. DFID believes that the development of financial market infrastructure and new financial instruments are critical for attracting commercial players in to micro, small, and medium financing and achieving scale. In collaboration with other multilateral and bilateral agencies, DFID supports the development of effective regulation, essential market infrastructure (for example, credit bureau and asset registries), and catalyzes new financial products.

Financial education: Through innovative approaches to financial education pioneered by the Financial Education Fund across Sub-Saharan Africa, DFID is working to build the financial capability of poor people, empowering them to manage their finances effectively and understand their consumer rights, protect themselves from financial abuse, and use financial services responsibly.

More information: <http://www.dfid.gov.uk/What-we-do/Key-Issues/Economic-growth-and-the-private-sector/Private-sector/Finance/>

DUTCH MINISTRY OF FOREIGN AFFAIRS

Country: The Netherlands

Type of organization: Public, donor

Introduction: The Dutch Ministry of Foreign Affairs supports organizations globally which adopt responsible finance practices. A second initiative is support of regulatory frameworks and legislation that is truly effective and works in practice. The focus is not only on words and paper, which counts, but more on execution. More information: <http://www.government.nl/ministries/bz>

DEVELOPING WORLD MARKETS (DWM)

Country: United States

Type of organization: Private, Investor

Introduction: Developing World Markets (DWM) is an asset manager and investment bank dedicated to making socially positive investments to promote sustainable economic and social development on a global scale. It believes that the private sector and capital markets can and should be used to create positive economic and social change, and are often the most effective catalysts for doing so. DWM primarily invests in microfinance Institutions.

Responsible Finance Initiatives: Responsible Practices by Financial Providers

Global Microfinance Investment Program: DWM advised ProCredit Holdings and arranged the first major direct equity investment, \$43 million, into a microfinance institution by a mainstream asset manager, TIAA-CREF, the leading provider of retirement savings products and services in the academic, medical, and cultural fields, through its \$100 million Global Microfinance Investment Program (GMIP). ProCredit will expand its business, enabling small-scale entrepreneurs in low-income countries to build viable enterprises and create employment while, through its investment in ProCredit, TIAA-CREF is fulfilling its mission of providing financial services for the greater good. More information: <http://www.dwmarkets.com/sustainable-capital/strategic-advisory.html>

FINANCE IN MOTION

Country: Germany

Type of organization: Private, investor

Introduction: Finance in Motion is an alternative asset management firm exclusively focused on development finance. It is one of the world's leading asset managers in this field, advising funds with committed capital of approximately € 1.03 billion (as at December 31, 2011). Finance in Motion offers a variety of services that covers the range of micro, small, and medium institution finance, housing finance, and energy efficiency and renewable energy finance.

Responsible Finance Initiatives: Responsible Practices by Financial Providers

Consumer Protection Principles: Finance in Motion is a signatory to the Principles for Responsible Investment's Principles for Investors in Inclusive Finance and has endorsed the Smart Campaign's Client Protection Principles. Finance in Motion uses these principles to guide general fund management, risk management, investment management, and technical assistance management services to alleviate its clients of many vitally important day-to-day tasks.

European Fund for Southeast Europe (EFSE): Initiated by KfW Entwicklungsbank with the support of various donors and international finance institutions, EFSE is one of the world's largest development finance investment funds. EFSE's main investment activity is the refinancing of selected partner lending institutions in the target region of Southeast Europe and the European Eastern Neighborhood Region with senior or subordinated credit lines, whereby the borrower obliges himself or herself to onlend the funds to the final target groups, including micro and small enterprises and low-income private households. More information: http://finance-in-motion.com/Mandates---site.index.html_dir_nav.23_likecms.html

Norwegian Microfinance Initiative's Professional Assistance Facility: The Norwegian Microfinance Initiative (NMI) is a public-private partnership initiative that invests in microfinance institutions in developing countries. NMI portfolio companies receive capacity-building support, including training and skills development in various areas, ranging from business and strategic planning to product



development, risk management, and social performance management training and capacity building. NMI has mandated Finance in Motion as the advisor for the Professional Assistance Facility. As part of its advisory role, Finance in Motion is providing assistance in setting up and managing the facility. More information: http://finance-in-motion.com/NMI-Professional-Assistance-Facility-site.index.html_dir._nav.97_likecms.html

FMO: THE DUTCH DEVELOPMENT BANK

Country: The Netherlands

Type of organization: Private/public, DFI

Introduction: FMO is the Dutch Development Bank, which supports sustainable private sector growth in developing and emerging markets by investing in ambitious companies. FMO believes a strong private- sector leads to economic and social development, empowering people to employ their skills and improve their quality of life. FMO specializes in sectors where contributions can have the highest long-term impact, that is, financial institutions, energy and agribusiness, food, and water.

Responsible Finance Initiatives: Responsible Practices by Financial Providers

FMO uses environmental and social performance and governance (ESG) goals, which incorporate principles similar to those of responsible finance. FMO incorporates ESG opportunities into business models, believing it is essential for both mitigating risk and creating development impact by working closely with clients throughout the entire process to help them reach ESG goals. They embed ESG criteria in new investments, and their investment process adds value to their clients' businesses by assessing, implementing, and monitoring ESG practices. More information: <http://www.fmo.nl/integrating-sustainability>

FMO has signed the Principles for Investors in Inclusive Finance. The principles stimulate investors or fund managers to invest in inclusive finance and act in the long-term interests of their clients. While upholding their fiduciary responsibility, by signing the principles, they commit to adhering to and promoting principles on the following topics: range of services, client protection, fair treatment, responsible investment, transparency, balanced returns, and global standards. More information: http://www.unpri.org/files/2011_01_piif_principles.pdf

FORD FOUNDATION

Country: United States, with grants internationally

Type of organization: Private, Foundation

Introduction: Established in 1936, the Ford Foundation is an independent, global organization with a legacy of commitment to innovative leaders on the frontlines of social change. The foundation provides grants to organizations in the United States, Latin America, Africa, the Middle East, and Asia. More than \$16.3 billion in grants have been distributed worldwide with 40,000 proposals received annually and about 1,400 grants made each year.

Responsible Finance Initiatives: Responsible Practices by Financial Providers

Improving Access to Financial Services: The goal of this grant initiative is to improve access to and the infrastructure for innovative financial products and services for low-income people. It focuses on helping financial institutions serve poor households by helping microfinance institutions develop social performance management (SPM) systems that improve their ability to serve poor and low-income people, by strengthening the capacity of financial institutions to use SPM systems, and by identifying new ways to reach very poor households. More information: <http://www.fordfound.org/issues/economic-fairness/improving-access-to-financial-services>

Building Economic Security over a Lifetime: The goal of this program promotes social protection programs that help low-income families achieve economic stability. This grant initiative promotes public support for policies that create universal and progressive savings accounts as well as Social Security reforms that increase benefits for low-wage workers.

Internationally, the Ford Foundation concentrates on helping people accumulate savings through programs that combine matched savings services with conditional cash transfer programs (which reward low-income families for adhering to the requirements of a "social contract") to create permanent financial assets for poor households. More information: <http://www.fordfound.org/issues/economic-fairness/building-economic-security-over-a-lifetime>

BILL & MELINDA GATES FOUNDATION

Country: United States, with international projects

Type of organization: Private, Foundation

Introduction: The Gates Foundation is a private trust by Bill and Melinda Gates that works on improving people's health and giving them the chance to lift themselves out of hunger and poverty. It addresses problems that have a major impact on people in the developing world. The Gates Foundation works closely with many partners in the nonprofit, business, and governmental sectors to whom it make grants.

Responsible Finance Initiatives: Responsible Practices by Financial Providers

Digital Payment Systems at Scale Initiative: In countries that have a minimum level of connectivity in poor and rural areas, the Gates Foundation aims to work with a range of providers to extend the reach of digital payment systems into poor and rural communities and to encourage poor people to adopt these systems through a mobile phone or other digital interface. This initiative works with country partners to help catalyze demonstration models. Early evidence indicates that access to payment systems can deliver substantial benefits to poor households, but poor people also need access to other financial services, such as, savings, credit, and insurance, to better manage their lives. In countries that have extended digital payment systems into poor and rural communities, the foundation works with banks, insurance companies, and other providers to increase the range of financial services that poor people can access in digital form.

Global Partnership Alignment: This initiative works at the global level with governments, donors, global standards-setting bodies, and the private sector to maximize collective impact on poor people's access to financial services.

Research and Innovation: The Gates Foundation is committed to active data collection to rigorously measure the impact of grants and interventions and to supply various market players and local stakeholders with the data they need to make better decisions. It believes that fundamental research and technology innovation will help unlock greater financial inclusion in the long run. Under this initiative, data is collected to track impact and to inform key stakeholders'

decisions in the short run. Research is also conducted and innovations are nurtured that could—in the medium to long term—create a step-change improvement in delivering digital financial services at scale. More information: <http://www.gatesfoundation.org/financialservicesforthe poor/Documents/fsp-strategy-overview.pdf>

Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH

Country: Germany, with international work

Type of organization: Public

Introduction: The services offered by the German Agency for International Cooperation (Deutsche Gesellschaft für Internationale Zusammenarbeit; GIZ) are based on a wealth of regional and technical expertise and on tested management know-how. This German federal enterprise offers workable, sustainable, and effective solutions in political, economic, and social change processes. Most of its work is commissioned by the German Federal Ministry for Economic Cooperation and Development (BMZ). However, GIZ also operates on behalf of other German ministries and public and private bodies in Germany and abroad, including governments of other countries, the European Commission, the United Nations, and the World Bank. GIZ is equally committed to helping its private sector clients attain their goals. More information: <http://www.giz.de>

Responsible Finance Initiatives: Regulation for Consumer Protection, Responsible Practices by Financial Providers, and Financial Capability

GIZ's understanding of responsible finance as well as its way of implementing related measures is based on the concept of the three mutually reinforcing pillars—consumer protection regulation and supervision, industry self-regulation, and financial capabilities—all of which contribute to strengthening, protecting, and empowering consumers of financial services

On behalf of the BMZ, GIZ is advising partners in China (see case in Chapter 3), the Democratic Republic of Congo, the Arab Republic of Egypt, Ghana (see case in Chapter 3), India, Jordan, Lao PDR, Namibia, Nigeria, Uganda, the West Bank and Gaza, Tajikistan, Tunisia, Uzbekistan,



and Yemen applying an integrated approach based on the three pillars of responsible finance. Among the partners are central banks, ministries of finance, consumer protection agencies and a wide range of stakeholders in the area of consumer protection and financial education including microfinance associations, banks and insurers.

On behalf of BMZ, GIZ supports the partnership, Making Finance Work for Africa (MFW4A). Following the 2009 MFW4A conference on financial capability and consumer protection, responsible finance diagnostic studies on consumer protection regulation, self-regulation and financial capability were conducted in Ghana, Kenya, Tanzania, and Uganda. The studies reviewed diagnostics, identified interesting practices, and concluded with thoughts for the future of responsible finance in Africa. MFW4A supported a regional exchange, hosted by the Bank of Ghana, among policy makers from Namibia, Ghana, and Nigeria in 2013 in cooperation with CGAP.

GRAMEEN FOUNDATION

Countries: Bangladesh, United States

Type of organization: Private, Foundation

Introduction: Grameen Foundation helps the world's poorest, especially women, improve their lives and escape poverty by providing access to appropriate financial services (such as small loans and savings accounts), new ways to generate income, and important information about their health, crops, and finances. By helping local microfinance institutions and other poverty-focused organizations become more effective, and by providing the poor with innovative mobile-phone-based solutions, the foundation helps millions pull themselves out of poverty.

Responsible Finance Initiatives: Responsible Practices by Financial Providers

Bankers without Borders is Grameen Foundation's volunteer program that connects individuals and companies with opportunities to mobilize their skill sets and use their industry expertise to offer innovative solutions to help break the cycle of poverty. As a global reserve corps of business professionals from a variety of fields— from finance and technology to human resources and marketing— these professional volunteers support microfinance

and technology developments. More information: <http://www.grameenfoundation.org/take-action/volunteer>

Grameen Capital India: Grameen Foundation created an intermediary body to support the growth of microfinance institutions in India. In 2008, Grameen Foundation, IFMR Trust, and Citicorp Finance India Ltd., formed Grameen Capital India Ltd. (GCI), which aims to tap affordable capital for microfinance institutions through groundbreaking financing initiatives. GCI's success has surpassed expectations. In less than two years, it has generated more than US\$100 million in financing for Indian microfinance institutions that will fund more than 800,000 microloans for poor people in that country. More information: <http://www.grameenfoundation.org/what-we-do/initiatives/grameen-capital-india>

Grameen–Jameel Microfinance Ltd.: Since 2003, Grameen Foundation has supported microfinance across the Middle East and North Africa region as a means of creating opportunities for the area's poorest, especially women. In 2007, the foundation, collaboration with Bab Rizq Jameel Ltd., a subsidiary of the Abdul Latif Jameel Group (ALJ), founded Grameen–Jameel Microfinance Ltd., a joint venture company that oversees all regional activities for Grameen Foundation. Modelled after the social business concept championed by Professor Muhammad Yunus, the company reinvests profits into the business rather than distributing dividends, which keeps capital flowing into the hands of borrowers who need it. More information: <http://www.grameenfoundation.org/what-we-do/initiatives/grameen-jameel-microfinance-ltd>

Grameen Foundation India (GFI), established in 2010, is a social business that strengthens double-bottom-line organizations that serve the poor, working to help organizations measure their social results, strengthen their human-resources practices, and demonstrate sustainable models for serving the poorest. GFI is also exploring ways to leverage mobile phones to deliver information and other services to the poor. More information: <http://www.grameenfoundation.org/what-we-do/initiatives/grameen-capital-india>

GRASSROOTS CAPITAL MANAGEMENT (GCM)

Country: United States, India

Type of organization: Private, Investor

Introduction: Grassroots Capital Management (GCM) is an impact investment manager based in the United States. Together with its India-based partner, Caspian Advisors, GCM and its predecessors have launched five microfinance funds since 2003. Currently GCM and Caspian manage four microfinance funds. Caspian and GCM work closely on project development and management, sharing staff and resources between their New York, Massachusetts, Hyderabad, and Delhi offices.

Responsible Finance Initiatives: Responsible Practices by Financial Providers Repositioning Microfinance with Impact Investors: Codes of Conduct and “social first” Microfinance Institutions.

Investor interest in microfinance continues despite questions raised by recent repayment issues and by more sceptical assessments of social impact, but investor scrutiny has intensified. The industry can take the opportunity to more clearly articulate its social and financial objectives and the way it will achieve them. An important part of this clarification is to acknowledge that not all investors or microfinance institutions share an identical mix of social and financial objectives, and on occasion choices among objectives will have to be made. A differentiation between “financial first” and “social first” companies can give investors greater confidence that investors, directors, and managers are fully aligned in pursuit of the same set of priorities. With this clarity, enhanced capital flows can have a major impact in achieving microfinance’s social objectives through expanding scale and outreach in total numbers, while enhanced “social first” microfinance will push the envelope and set the evolving standard on improving microfinance’s effectiveness in achieving its social objectives. More information: http://www.grmpact.com/wp-content/uploads/2011/11/GRM_31.pdf

Integrating Social Performance Measurement and Microfinance Investment: Many socially minded investors believe that integrating social performance into the investment process can help preserve the character of double-bottom-line institutions. For Grassroots

Capital Management, social and financial performances are intertwined into its day-to-day activities, including a framework for evaluating the social impact of current and potential investee microfinance institutions. As primarily an equity investor, GCM participates on the boards of nearly all investee companies and works with them to develop financial literacy efforts appropriate to their clients and markets.

Encouraging participation in codes of conduct and standards: As an investment manager and advisor in the microfinance and impact investing spaces, GCM encourages investors, investees, and co-managers to participate in industry codes of conduct and reporting initiatives, such as Smart, Global Impact Investment Rating System (GIIRS), PIIF, and SPTF standards. GCM provides targeted technical assistance and capital support to companies that commit to explicit and measurable social performance objectives, and strongly encourages participation in the CPP using in-house capability to undertake CPP assessments on the basis of training provided by CFI.

Leadership role: GCM participates in steering committees or executive committees of the leading industry self-regulatory bodies, including the Council of Microfinance Equity Funds (CMEF) and the PIIF. It is also active on numerous industry working groups, including AVOID and Responsible Covenants, India, 2012. It completed GIIRS rating of its entire portfolio of Indian companies. As a GIIRS Pioneer Manager, GCM assisted the GIIRS team in refining and improving its processes and surveys, devoting staff to the initiative for half a year, and between its India portfolio and other portfolio companies elsewhere, accounted for a significant number of the GIIRS-rated companies worldwide.

Social performance reports: For each GCM funds under management, an in-house social performance manager is responsible for overseeing preparation of quarterly and annual social performance reports. These reports specify the social performance objectives of each company, the rationale for these objectives and the metrics to be used in tracking progress against these goals.

GCM’s Latin American equity fund, Prospero, is building a portfolio of microfinance institutions and in each case, identifying the system upgrades necessary to strengthen



and refine social performance management, participate in CPP assessments, and set goals and metrics for financial and nonfinancial interventions.

HOUSING DEVELOPMENT FINANCE CORPORATION (HDFC)

Country: Maldives

Type of organization: Private, housing finance institution

Introduction: The Housing Development Finance Corporation Maldives (HDFC-M) was privatized in 2008 with the signing of a shareholders' agreement for privatization between the Government of Maldives, IFC, ADB, and HDFC Investments Ltd., India. HDFC Maldives' vision is to provide decent and affordable homes in a safe and healthy environment, and work towards uplifting the living standards of all Maldivians so as to become the market leader for financial services in the Maldives. To achieve this goal, the mission is to offer financial and social strength to all Maldivians by providing home loans and other savings and investment products managed professionally and profitably to the highest international standards and to the satisfaction of stakeholders.

Responsible Finance Initiatives: Regulation for Consumer Protection, Responsible Practices by Financial Providers

Island Outreach Program: HDFC-M's outreach program is intended to go down market. HDFC conducted a market scan to identify potential islands for housing finance. Information (on demographic and economic aspects) for different regions (the inhabited islands) was collected on all 19 atolls. The main criteria for selection of islands considered economically viable were: a minimum overall population of 5,000 people; presence of a State Bank of Maldives (BML) branch on the island; availability of basic facilities such as , post offices, schools for secondary education, and health centres/hospitals. The presence of an airport is an indicator that the island is well-connected and that there is a healthy inflow and outflow of population. The past credit history of the island, based on HDFC's pre-privatization experience of making 500 loans, and the social housing program are also important. On the basis of these criteria, HDFC selected 12 islands in five atolls for coverage under the outreach program.

Islamic Home Finance Window at HDFC: Islamic finance is everywhere in the world today. Both Muslims and non-Muslims, irrespective of faith convictions have adopted it. The aim of HDFC is to help customers build their dream homes through sharia'h-compliant financial products.

“Rent Option” product: Rent Option is a home loan product in which more than one-third of the property is permitted for use in commercial activity and where an income from business rent, trading, or manufacturing can enhance the repayment capacity. It can be an affordable and sustainable financial solution to housing. The focus of this product is to provide access to finance to an underserved market. Mortgage finance is made available to individuals and property developers for completion of construction that would provide primarily housing, but also commercial or rental- income generating potential.

HDFC Maldives' Environmental and Social Management System (ESMS): ESMS is a tool to ensure that environmental and social policies are implemented. HDFC-M has adopted the an environmental and social policy statement that upholds strict standards and practices to protect the environment, such as avoiding construction in the absence of sustainable infrastructure or on ecologically sensitive areas, complying with national and local environmental and social laws and regulations, and complying with environmental and social monitoring and reporting requirements, thus, ensuring transparency and commitment to continual improvement of the ESMS. More information: http://www.hdfc.com.mv/hdfc/sites/default/files/HDFC%20Q2_2013.pdf

INTER-AMERICAN DEVELOPMENT BANK (IDB)

Country: Headquarters in Washington, D.C., with country offices in 26 borrowing countries, plus a regional office in Asia and an office in Europe

Clients: Central governments, provinces, municipalities, private firms, and nongovernmental organizations

Type of organization: DFI

Introduction: The IDB Group is composed of the Inter-American Development Bank (IDB), the Inter-American Investment Corporation (IIC), and the Multilateral

Investment Fund (MIF). (Also see Multilateral Investment Fund listing, below.) The IDB supports efforts by Latin America and the Caribbean countries to reduce poverty and inequality in a sustainable, climate-friendly way. The IIC focuses on support for small and medium-size businesses, while the MIF promotes private sector growth through grants and investments, with an emphasis on microenterprise. Established in 1959, IDB is the largest source of development financing for Latin America and the Caribbean, with a strong commitment to achieving measurable results, increased integrity, transparency, and accountability. Besides loans, IDB provides grants, technical assistance and research.

Responsible Finance Initiatives: Responsible Practices by Financial Providers

- The IDB, through the MIF, focuses on ensuring transparency in microfinance operations. Over the past two decades the MIF has underwritten the expansion of leading microfinance networks and fostered many of the innovations that enabled the development of this dynamic industry. To increase financial inclusion, the IDB and the MIF are now helping the microfinance industry address challenges, such as, reaching underserved rural and marginal urban areas, expanding into “frontier markets” where it has least developed, and ensuring transparency in its operations.
- IDB and MIF focus on promoting best practices and encouraging microfinance institutions to adopt standardized tools to measure their financial and social performance. The information derived from such tools can help regulators better assess risks and serve as guides to potential funders. For microlenders themselves, enhanced monitoring can yield feedback for cutting costs and improving products and services. For microfinance institutions clients, greater transparency will lead to stronger trust and better-informed decisions. The MIF in particular is contributing to the development of robust and cost-effective monitoring tools for the microfinance industry. It has raised awareness of their importance through the annual Inter-American Microfinance Forum (Foromic), the funding of credit ratings for microlenders, the microscope index of microfinance business conditions in individual countries, and the promotion of regional principles for microfinance

regulation. Through diverse activities, the MIF aims to have at least 450 microfinance institutions in the region reporting both standardized financial information and social performance indicators by 2015.

More information: <http://www.iadb.org/en/about-us/about-the-inter-american-development-bank,5995.html>

INTERNATIONAL FINANCE CORPORATION

Country: United States, headquartered in Washington, D.C., with offices in over 80 countries.

Clients: Financial institutions, industry networks, and associations

Type of organization: Investor, DFI

The International Finance Corporation (IFC), a member of the World Bank Group, focuses on the private sector to promote growth, reduce poverty, and improve peoples’ lives in developing countries. With a network of over 1,000 clients in 100 countries, IFC is the world’s largest multilateral financier for companies that do business in emerging markets. IFC finances and advises clients to support profitable and sustainable business development in these markets. IFC’s Access to Finance Advisory Services (A2F) increases the availability and affordability of financial services for individuals and micro, small, and medium enterprises. Responsible finance, part of the A2F Advisory offer, is defined as a set of operational practices that focuses on the needs of end-clients, encompassing issues of transparency, disclosure, fairness of pricing, dignified treatment of customers, and product and services quality to ensure sound provision of financial services.

Responsible Finance at IFC

IFC implements responsible finance with financial institutions, through advancing three dimensions:

Consumer protection regulation: Supporting industrywide customer protection regulation around principles of transparency, responsible pricing, fair and respectful treatment of clients, privacy of client data, mechanisms for complaint resolution, and financial education and awareness programs.



Financial institutions self-regulation: Embedding responsible finance practices into business functions across strategy and governance, customer acquisition and relationship management, product design and delivery channels, processes and risk management, and financial education.

Financial education: Building capacity of end-clients through broad-based financial awareness, financial literacy, and financial education programs at the sector level and through financial institutions.

IFC's investment and advisory operations integrate responsible finance to help strengthen institutions' long-term sustainability and growth through (1) joint appraisals on responsible finance principles using IFC's responsible finance diagnostic tool and key recommendations highlighted at investment review meetings; (2) legal agreements that incorporate emerging global standards in responsible finance; and (3) structuring solutions around key areas, including reasonableness of interest-rate levels, transparency, trends in staff behavior, mechanisms of grievance redress, and corporate governance. Responsible finance spans the financial sector, beyond microfinance, to insurance, housing finance; mobile banking; micro, small, and medium businesses finance; and other industries to create a sound and harmonized financial sector. Since 2009, IFC has deepened its role in responsible finance through direct responsible finance strategies and implementation with over 75 financial institutions worldwide, through more than 50 projects and programs to implement responsible finance solutions.

IFC's Responsible Finance Advisory plays a global convening role and brings together participants from the financial sector, bilateral and multilateral donors, and broader international community through the G-20 Global Partnership for Financial Inclusion. IFC is cofounder of Global Responsible Finance Forum and actively participates in investor/DFI global consultations on responsible finance, including endorsement of the Smart Campaign.

More information: www.ifc.org/responsible-finance

KfW ENTWICKLUNGSBANK

Country: Germany, with offices in more than 100 countries

Type of organization: DFI

Clients: KfW Entwicklungsbank's main client is the German Federal Ministry for Economic Cooperation and Development (BMZ). It also works for other ministries, such as the Federal Foreign Office (AA), the Federal Ministry of the Environment, Nature Conservation and Reactor Safety (BMU), and the Federal Ministry of Education and Research (BMBF). The European Commission and the governments of other countries also commission it to implement their development cooperation programs and projects.

Introduction: KfW Entwicklungsbank is Germany's leading development bank and is an integral part of KfW Bankengruppe. It carries out 1,900 programs and projects in more than 100 countries, with an emphasis on microfinance.

Responsible Finance Initiatives: Responsible finance is an important overarching topic for financial systems development at KfW Entwicklungsbank. The bank can draw on many years of cooperation with financial intermediaries in developing and transition countries, in which it has gathered vast experience in responsible finance. It encourages the financial institutions it supports to adopt fair and transparent practices with their customers and good corporate governance, as board members of such institutions. It focuses on supporting professional microfinance institutions that implement responsible finance practices in their own interest. KfW also looks explicitly at sector developments and refrains from investing in overheated environments.

Various facets show the role of KfW in the area of responsible finance:

Systemic approach: KfW's activities focus on different levels of intervention (micro, medium, and macro levels) and pursue a comprehensive and systemic approach to financial system development ("building inclusive financial systems"). KfW regards itself as a partner that contributes to development at the various levels of intervention with a long-term perspective.

Mainstreaming responsible finance through a due diligence checklist: KfW designed a due diligence checklist for its staff in an effort to mainstream responsible finance within its own institution and to promote a dialogue with its partner financing institutions to help put good practice principles into reality. Such checklists are relevant for all financial sector projects of KfW.

Inserting a responsible finance contract clause: KfW established a responsible finance contract clause that is now part of the specimen financing agreement for all its financial sector projects. The clause basically says that the borrowers should commit to responsible practices in terms of fair and transparent treatment and refrain from unfair collection practices.

Selecting the “right” partners: KfW provides funding and equity to financial institutions that regard responsible banking as an integral element of their business model and have appropriate strategies to achieve it. Banks that make their lending terms transparent and customer friendly are among the preferred partners of KfW Entwicklungsbank.

KfW’s long-term commitment as an investor in microfinance funds and microfinance institutions plays an important role in setting up and promoting funds. With a seat and vote in supervisory boards, KfW contributes to disseminating standards applicable to responsible finance.

Additionality for socially motivated investors (such as, private foundations): They can rely on KfW’s country, sector, and target-group expertise to ensure that their funds are employed in institutions that are acting responsibly and that their investment is consistent with their risk preferences. Examples include structured finance operations in the microfinance sector.

Responsible finance workshops in partner countries: In a number of Eastern European/Caucasus countries, KfW, the European Fund for Southeast Europe, and central banks have organized workshops to sensitize the local banking sector to responsible finance practices and promote dialogue on these topics.

More information: http://www.kfw.de/kfw/en/Development_Finance/index.jsp

MASTERCARD FOUNDATION

Country: Canada, headquarters in Toronto, projects worldwide

Type of Organization: Private, Foundation

Introduction: The MasterCard Foundation advances microfinance and youth learning to promote financial inclusion and prosperity. Through collaboration with committed partners in 48 developing countries, the MasterCard Foundation is helping people living in poverty to access opportunities to learn and prosper.

Responsible Finance Initiatives: Responsible Practices by Financial Providers

The MasterCard Foundation supports the development and growth of responsible finance practices through strategic partnerships with key players. In particular, the MasterCard Foundation is working to strengthen the microfinance sector in two areas: supporting management information systems to increase the efficiency of microfinance providers and promoting global standards to measure performance, protect clients, and ensure transparency. Its programs seek to promote financial responsibility by promoting the adoption of standards and best practices in transparency, and by facilitating the adoption of client protection principles.

The MasterCard Foundation partnered with the organizations below to launch major projects.

With the SEEP Network, it launched a new \$7.6 million, four-year partnership to strengthen and develop the capacity of microfinance industry associations in Sub-Saharan Africa. This partnership will enable African microfinance associations to mainstream client protection principles across the industry, so that clients benefit from the responsible delivery of financial services. Through this partnership, eight microfinance associations with a membership of nearly 500 microfinance institutions (serving 6 million clients) will improve their core management capacity. The project will also advance financial transparency and consumer protection principles among microfinance institutions, and share learning with associations across Sub-Saharan Africa to scale and sustain industry growth.



With IFC, it launched a \$37.4 million partnership to help microfinance banks expand more rapidly and develop new products and cost-effective delivery channels, while expanding coverage in new, often hard-to-reach locations. The project will also help providers deliver low-cost mobile financial services to low-income customers. The projects will embed responsible finance core principles.

With ACCION International, it launched a \$1 million partnership over two years to support the industry's promotion and implementation of client protection principles among microfinance networks.

With Aflatoun, it launched a \$3.8 million partnership over five years to pilot and roll out a social and financial education program to disadvantaged youth in developing countries.

With Camfed, it launched a \$10.1 million-five year partnership to scale secondary and financial literacy education for adolescent girls and young women in Ghana and Malawi.

With Catholic Relief Services MISION Africa, it launched a \$1.7 million, three year partnership to expand social performance management in Kenya, Uganda, Ethiopia, Benin, Burkina Faso, and Senegal.

With Microfinance Information Exchange Inc. (MIX), it launched a US\$2 million, three-year partnership to increase transparency in the microfinance industry and expand coverage in Africa.

With Microfinance Transparency, it launched a \$1.2 million, two-year partnership to improve pricing transparency in Africa.

More information: <http://mastercardfdn.org/about-us/projects-at-a-glance>

MICHAEL AND SUSAN DELL FOUNDATION

Country: United States, India, and South Africa

Type of organization: Private, Foundation

Introduction: The Michael and Susan Dell Foundation has committed more than \$700 million to assist nonprofit organizations working in major urban communities in the United States, South Africa, and India. It focuses on opportunities with the greatest potential to directly and measurably transform the lifelong outcomes of impoverished urban children around the globe.

Responsible Finance Initiatives: Responsible Practices by Financial Providers

Family Economic Stability Program: To promote family economic stability in India's impoverished slums, it committed more than \$25 million in grants and equity investments to urban microfinance institutions working in urban neighborhoods. These institutions follow several tracks: they collaborate with microfinance organizations to responsibly scale a range of services that includes microloans, microcredit, microtransfer and microsavings services, microinsurance, micropensions, financial awareness and planning, and financing for affordable housing.

It also supports the ongoing global initiative to identify rigorous methodologies and standardized metrics for evaluating the success of microfinance institutions' programs in terms of their financial and social performance.

More information: <http://www.msdf.org/programs/family-economic-stability>

MICROCREDIT ENTERPRISES

Country: United States, based in San Francisco with projects in 19 countries

Type of organization: Nongovernmental organization (NGO)

Introduction: MicroCredit Enterprises aims to help the rural poor in developing countries to build cottage businesses and ultimately to provide food security for millions. Its mission is to mobilize private investment capital to finance microbusinesses of poor families throughout the developing world. It uses a unique guarantor model that uses the financial capital and good credit of high-net-

worth individuals and institutions to guarantee microloans that lead to sustainable communities and social good. MicroCredit Enterprises gears its entrepreneurial results to produce jobs, sustain microbusinesses, and improve human lives. Launched in 2006 with seven guarantors, MicroCredit Enterprises now has over 55 guarantors backing loans to a globally diversified portfolio of local finance organizations.

Responsible Finance Initiatives: Responsible Practices by Financial Providers

MicroCredit Enterprises looks at how microfinance institutions incorporate responsible finance during their appraisal and due diligence processes before making any lending decision.

More information: <http://www.mc enterprises.org/home.html>

MULTILATERAL INVESTMENT FUND (MIF)

Country: United States, working in Latin America and the Caribbean

Type of organization: DFI

Introduction: The Multilateral Investment Fund (MIF), part of the Inter-American Development Group (see listing, above), supports economic growth and poverty reduction in Latin America and the Caribbean by 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. MIF is the largest international technical assistance provider to the private sector in Latin America and the Caribbean and always works with local, mostly private partners to help fund and execute projects including civil society organizations, industry associations, foundations, universities, cooperatives, companies, and financial institutions. Every dollar approved by the MIF leveraged more than US\$2.5 from partners in 2011.

Responsible Finance Initiatives: Responsible Practices by Financial Providers

The MIF focuses on advancing responsible microfinance as it believes microfinance institutions should be held accountable for the achievement of financial and social goals. There are several initiatives aiming to develop widely acceptable tools and standards that seek to improve microfinance operations (cost-effectiveness, improved services, feedback from clients, among others). However, there is no consolidated ecosystem that nurtures the provision of microfinance services in a responsible manner. The MIF thus aims to advance responsible finance practices by building an ecosystem that promotes the achievement of sound financial and social goals in microfinance. It aims to do so (1) by supporting the refinement, piloting, and adoption of leading tools and industry standards in three core areas: transparency, client protection, and corporate governance; and (2) by advancing the discussion and participation of the region in the refinement of a sound financial and social performance framework for microfinance.

The MIF ultimately aims to implement a set of tools and standards in the areas of transparency, client protection, and corporate governance in a significant number of microfinance institutions; internalize responsible finance practices among microfinance institutions and industry actors; establish new tools and standards in responsible finance; and increase microfinance institution reporting and benchmarking of social and financial performance.

More information: <http://www5.iadb.org/mif/>

OIKOCREDIT INTERNATIONAL

Country: The Netherlands, headquartered in Amersfoort, with 37 offices around the globe.

Type of organization: Private, Investor

Introduction: Oikocredit International, is a private 35-year-old global development financing institution that responds to the needs of businesses that create income for financially disadvantaged people and contribute to local community development. Oikocredit's primary goal is to provide credit to organizations that may otherwise not have access to funding. The largest part (80 percent) of Oikocredit's total development financing portfolio is allocated to intermediary microfinance institutions. Microfinance institutions use Oikocredit's capital to provide small loans (microcredit) and other financial services to individual entrepreneurs and small and medium-sized companies.



Oikocredit also provides loans and equity investments to businesses and organizations in sectors such as agriculture, fair trade, manufacturing, health care, and education.

Responsible Finance Initiatives: Responsible Practices by Financial Providers

Oikocredit supports social performance and client protection. Oikocredit's work in **social performance and impact measurement** focuses on five areas: (1) choosing the right project partners; (2) monitoring social performance indicators; (3) holding partners accountable to their social objectives; (4) providing capacity building; and (5) seeking feedback from partners to further develop Oikocredit products and services. Oikocredit uses tools such as Progress out of Poverty Index (PPI) and Social Performance Indicators (SPI) to assess the social performance of the organizations financed.

Oikocredit endorsed the Smart Campaign's **Client Protection Principles (CPPs)** in September 2008 and circulated the principles to all local offices with the request they be shared with partners. Oikocredit has also collaborated with other investors to put the principles into practice and help microfinance institutions ensure that their operations become fully compliant. In 2011, Oikocredit was involved in more than 20 workshops, conferences, and training courses aimed at educating investees on the CPPs, reaching more than 100 microfinance partners around the world. Moreover, Oikocredit has fully integrated the CPPs into its social due diligence tool and includes compliance as a contractual obligation for microfinance institution borrowers. Oikocredit encourages partner microfinance institutions to conduct client satisfaction surveys so that they can serve clients better and with more tailored products. Support is also offered in training staff, developing codes of ethics, and reviewing human resource regulations and incentive systems.

In Bosnia and Herzegovina, Oikocredit joined other funders in the establishment of a **financial literacy center**.

More information: <http://www.oikocredit.org/socialperformance/en/home>

OVERSEAS PRIVATE INVESTMENT CORPORATION (OPIC)

Country: United States, works in developing countries

Type of organization: U.S. Government Agency

Introduction: The Overseas Private Investment Corporation (OPIC) mobilizes private capital to help solve critical development challenges and in doing so, advances U.S. foreign policy. Because OPIC works with the U.S. private sector, it helps U.S. businesses gain footholds in emerging markets, catalyzing revenues, jobs, and growth opportunities both at home and abroad. OPIC achieves its mission by providing investors with financing, guarantees, political risk insurance, and support for private equity investment funds. Established as an agency of the U.S. Government in 1971, OPIC operates on a self-sustaining basis at no net cost to American taxpayers. OPIC services are available for new and expanding business enterprises in more than 150 countries worldwide. OPIC projects have generated \$74 billion in U.S. exports and supported more than 275,000 American jobs.

Responsible Finance Initiatives: Responsible Practices by Financial Providers

OPIC focuses on ensuring responsible finance practices through its own operations and its partners, in particular, it aims at ensuring transparency and adequate due diligence screenings.

OPIC recognizes that transparency is a critical factor in securing both fiscal accountability and public trust and is committed to making its operations as transparent as possible. OPIC recently completed an agencywide series of improvements to its transparency to make available to the public an unprecedented degree of information about the projects the agency supports and to encourage a new level of public involvement in the development of those projects. These upgrades concern OPIC operations in four areas: (1) public disclosure of detailed information of all projects to be considered by the OPIC Board of Directors and about all the projects OPIC supports; (2) coordination of project development with concerned stakeholders, particularly locally affected communities in host countries; (3) due diligence screening of project sponsors and potential impacts; and (4) OPIC compliance with protocols, such as,

the Extractive Industries Transparency Initiative (EITI) and OPIC's own Anti-Corruption Handbook.

More information: <http://www.opic.gov/>

RESPONSABILITY

Country: Switzerland

Type of organization: Private, Investor

Introduction: With assets under management of US\$ 1 billion, responsAbility is one of the world's leading social investment companies. Its areas of focus include microfinance, small and medium enterprises financing, fair trade, and independent media. responsAbility's investment solutions give people in developing and emerging economies access to markets, information, and other services crucial to their development; they enable private and institutional investors to earn a financial return while making a positive social impact. Founded in 2003, responsAbility operates as an independent asset manager. The assets managed by responsAbility are currently invested in 372 companies and 70 countries.

Responsible Finance Initiatives: Responsible Practices by Financial Providers

ResponsAbility focuses on social performance management, always reporting on social return and accounting for social and development results of investment activities. Using responsAbility's **social performance reporting**, the company analyzes how successful it is in reaching social goals. For every investment theme, responsAbility defines several social performance indicators. For microfinance investments, for example, responsAbility checks how many women receive assistance from a microfinance institution and whether more urban or rural customers have access to financial services. responsAbility looks at the loan structure (group or individual loans) and whether customers are also able to open a savings account. These and other indicators make a direct or indirect statement about development-relevant effects.

ResponsAbility uses a proprietary **Development Effectiveness Rating (rADER)** to measure and report on the social performance criteria of its investments and integrates the PIIF principles. responsAbility evaluates the social performance of its portfolio using 10 indicators;

for example, the total amount of clients' savings under management and data regarding microfinance clients by gender and location, several of which are indicators of progress regarding the range of services offered by the microfinance institution. The data are analyzed against other data points, with summary results presented in the responsAbility annual Social Performance Report. By the end of 2011, responsAbility had used rADER to assess 100 per cent of the microfinance institutions in its portfolio.

More information: http://www.responsability.com/site/index.cfm?id_art=44173&vsprache=EN

SAVINGS BANKS FOUNDATION FOR INTERNATIONAL COOPERATION (SBFIC)

Country: Germany

Type of organization: Private, Foundation

Introduction: In 1992, Germany's Sparkassen-Finanzgruppe (Germany's largest provider of financial services) established the Sparkassenstiftung für internationale Kooperation (Savings Banks Foundation for International Cooperation [SBFIC]). Since then, SBFIC has actively supported financial institutions, promoting a sustainable economic and social development at a local, regional, or national level by offering banking services that are tailored to the needs of the target groups.

SBFIC aims to enhance the professional capacity of its partner institutions, empowering them to offer their customers (primarily micro and small enterprises and small income holders) a permanent access to financial services. Focusing business operations on these target groups actually benefits the partner institutions themselves: serving small businesses and private clients in a responsible manner allows generation of stable and sufficient profits on a sustainable basis as savings banks in Germany impressively show. There is strong evidence that those financial institutions did well during and after the global financial crises that had a strong link with the real (and local) economy and with a business model that has an explicit responsible finance and ethical component.

Responsible Finance Initiatives: Regulation for Consumer Protection, Responsible Practices by Financial Providers, Financial Capability



SBFIC helps central banks and other regulators develop and implement consumer protection principles (for example, in Azerbaijan, Georgia, and Zambia) including training staff to improve on the overall organization of financial institutions. In several countries (such as Lao PDR, the Republic of the Union of Myanmar, and Bhutan), SBFIC has supported the adoption of regulation for microfinance institutions incorporating the principles of consumer protection.

SBFIC offers financial services in a responsible manner and as a guiding principle, uses partner selection criteria as in the German Azerbaijanian Fund, and “cajas” in Mexico. SBFIC also provides capacity building in business and strategic planning, product development, risk management, and management, also emphasizing responsible treatment and preventing over-indebtedness.

SBFIC supports partners in improving financial literacy of their clients to better manage personal and household finances and become informed and effective consumers of financial services. Projects also focus on children and young people, thus laying the ground for future financial success (such as in the regional projects in Latin America, Armenia, Rwanda, and Burundi). In many countries (such as the Democratic Republic of Congo and Georgia), SBFIC has helped to implement the World Savings Day that specifically targets children and young people. Training in basic budget planning also forms part of SBFIC’s support to microfinance Institutions (such as in the Lao PDR, the Republic of the Union of Myanmar, and Bhutan, as well as business training via board games to build business skills (Uzbekistan). A board game (as well as computer-based business simulations) is used to train staff of financial institutions at all levels in China, Nepal, and Ghana. Together with various stakeholders, in particular the central banks, in Azerbaijan and Georgia, SBFIC develops and implements guidelines on financial literacy, thus enabling financial institutions to increase financial capability of their clients.

More information: <http://www.sparkassenstiftung.de/en/projects.html>

SHOREBANK INTERNATIONAL (SBI)

Country: Global, offices in Washington D.C., Chicago, London, and Islamabad.

Type of organization: Private, Investor, Service provider

Introduction: Since 1988, Shorebank International (SBI) has delivered services and solutions that extend access to capital, information, and services to underserved individuals, households, and entrepreneurs globally. Many SBI current engagements focus on moving beyond access to credit to expanding the range of financial services and products for the underbanked and people who have no access to financial services. SBI has designed and delivered savings products for low- to moderate-income people by: tapping new technologies to extend access to financial services and products; exploring financial services to promote renewable energy and energy efficiency; expanding access to housing finance, including traditional mortgages and housing microfinance; and building successful small business banking units in the Middle East, Africa, and South Asia, as well as in other parts of Asia, Eastern and Central Europe, Latin America, and the Caribbean. Triodos Ventures BV, the innovative arm of Triodos Bank, is the anchor shareholder of SBI. Triodos Bank is one of the world’s leading sustainable banks with a mission to make money work for positive social, environmental, and cultural change.

Responsible Finance Initiatives: Responsible Practices by Financial Providers

Shorebank International is committed to advancing responsible finance inclusion through supporting microfinance institutions in expanding their products to reach the lower-income groups. SBI assists its partners achieve measurable results in the creation and deployment of affordable financial services.

More information: <http://www.sbksbi.com/>

SNS IMPACT INVESTING

Country: The Netherlands

Type of organization: Private, Investor

Introduction: SNS Impact Investing is the development investment department of SNS Asset Management. SNS Impact Investing creates value for clients, investees, and society by developing, promoting, and/or distributing impact investment solutions. They are typically accomplished by way of funds but may also include mandates and advisory services. SNS clients are professional investors, such as pension funds, foundations, insurance companies, development finance institutions, and high-net-worth individuals. SNS focuses on major European markets. SNS Asset Management, by way of its Impact Investing department, has established two institutional microfinance funds: SIMF I in 2007 and SIMF II in 2008. The funds are closed-end mutual funds, open only to professional investors. Through investments in microfinance institutions the funds contribute to the provision of loans to microentrepreneurs and farmers in developing and transition countries.

Responsible Finance Initiatives: SNS Impact Investing is committed to creating Responsible Finance measures and disclosing the impact of their investments.

More information: <http://www.snsimpactinvesting.com/funds/sns-institutional-microfinance-fund-simf/>

TRIODOS INVESTMENT MANAGEMENT

Country: The Netherlands

Type of organization: Private, Investor

Introduction: Triodos Investment Management is a 100 percent subsidiary of Triodos Bank, one of the world's leading sustainable banks. Triodos Investment Management manages direct investments ranging from sustainable energy infrastructure to microfinance institutions, and is currently managing 20 funds investing in both Europe and emerging markets with different risk-return profiles and financial instruments, four of which are specialized microfinance funds. Triodos Investment Management's vision is to develop microfinance – ranging from credit facilities and savings accounts to payment services and microinsurance – into a fully fledged, integral part of the financial sector

in developing countries. Triodos Microfinance Fund is open for institutional investors across Europe and Australia and offers a combination of solid long-term financial returns and significant social benefits.

Responsible Finance Initiatives: Responsible Practices by Financial Providers

In 2009, Triodos Investment Management developed a “sustainable banking assessment tool” to meet the growing need for standardized reporting and evaluation in the microfinance sector. This tool assesses an organization's mission, vision, and intentions, along with its products, services, processes, and systems. The tool brings together indicators aligned with sector initiatives, such as, the Social Performance Task Force, the Smart Campaign, MIX Market, and MFTransparency.

Triodos Investment Management has sought to promote sustainability reporting in microfinance by applying this standardization to its investments in microfinance. Every year, it organizes a workshop that brings together the senior management and board members of its equity investees. During the 2004 workshop, Triodos Bank and the Global Reporting Initiative (GRI) launched the Transparency and Sustainability in Finance (TSF) project in cooperation with six leading retail providers from Cambodia, Bolivia, Nicaragua, Ecuador, Uganda, and Kenya. Focusing on leaders in the field of microfinance contributes to the development of best practices that can be followed by other organizations in the same countries and regions. Having developed its own integrated sustainability management system, one of the participants, ACLEDA Bank (Cambodia), used the experience to replicate the system in ACLEDA Bank Lao (Lao PDR).

More information: http://www.unpri.org/files/PIIF_case_study_compendium.pdf and <http://www.triodos.com/en/institutional-investors/microfinance/?osc=bb-ii-right-microfinance>



TRIPLE JUMP

Country: The Netherlands, Amsterdam

Type of organization: Private, Social investment manager

Introduction: Triple Jump is a responsible investment manager based in Amsterdam, the Netherlands. Triple Jump manages and advises investment funds that target investments in developing countries. It specializes in managing and advising microfinance investment funds, each with a specific target group and different risk and return objectives. This mix of funds allows Triple Jump to serve financial intermediaries throughout their entire life cycle. Clients range from NGO's receiving their first nonsubsidized loans to regulated banks that mediate savings and serve hundreds of thousands of borrowers. Triple Jump also offers advisory services to help young financial intermediary organizations, often microfinance institutions, "jump" to the next level by providing capacity-building services on a cost-sharing basis. Its service areas focus on strengthening governance, technology (mobile banking, management information systems), product development, and social performance management. Triple Jump currently has over 288 investments with 166 microfinance institutions in 57 countries, for a total invested capital of over € 270 million.

Responsible Finance Initiatives: Responsible Practices by Financial Providers

Triple Jump provides advice to investors to successfully tap into the benefits of the microfinance market. Investments are subject to a solid set of investment policies and guidelines to ensure a sound portfolio structure, including social performance.

Responsible Pricing Tool: To assess whether a microfinance institution will provide an appropriate balance between social and financial returns, social investors should determine if the microfinance institution is practicing responsible pricing. Triple Jump believes responsible pricing to be pricing, terms, and conditions that are both affordable to clients and sustainable for financial institutions. To tackle this challenge, Triple Jump developed its own approach in 2010. The "interest traffic light" is a tool designed to assess, in a systematic way, whether the interest rates charged by microfinance institutions are justified and

warrant investment from Triple Jump. The tool proposes a framework to assess a balanced return from the perspective of the end-client, the operator (microfinance institution), and the investor. It considers absolute rates as well as a set of underlying factors that determine what institutions need to charge their clients in order to provide sustainable financial services.

More information: <http://www.interesttrafficlight.org/>
<http://www.triplejump.eu/page/Investment+Management/1858/>

UNITED NATIONS CAPITAL DEVELOPMENT FUND (UNCDF)

Country: Global

Type of organization: UNCDF was created in 1966 by the UN General Assembly. It is an autonomous, voluntarily funded UN organization affiliated with the United Nations Development Programme (UNDP).

Introduction: The UN Secretary General Special Advocate for Inclusive Finance for Development, Her Royal Highness Queen Máxima, is an active global voice on the importance of inclusive finance for reducing poverty and achieving development goals. Queen Máxima plays a leading role in promoting best practices and policies that increase access to finance, advance consumer protection, and enhance financial literacy. In highlighting the shared benefits of bringing more people into the financial system, Queen Máxima underscores how financial inclusion, integrity, and stability are mutually reinforcing in vibrant financial systems.

Responsible Finance Initiatives: The United Nations Capital Development Fund (UNCDF) has joined with other donors and investors to encourage financial services providers to adhere to sound practices and builds provider capacity to operationalize sound client protection principles.

UNCDF was one of the founding members and is on the board of the Smart Campaign, a global effort to embed client protection practices into the institutional culture and operations of the microfinance industry. It helped develop the "Principles for Investors in Responsible Finance," which provide a framework for responsible investment in inclusive finance. In addition, UNCDF has incorporated client protection into its performance-based

agreements with partners, and programs support training of financial services providers, government officials, and other stakeholders on implementation of principles of client protection. UNCDF has also supported a high-level forum on disclosure and pricing disclosure in Africa and in several countries, UNCDF is working with the government and private sector to develop and test strategies for building financial capability at the client level.

More information: <http://www.uncdf.org/en/advocacy>

UNSGSA

Her Majesty Queen Máxima of the Netherlands, the United Nations Secretary-General's Special Advocate for Inclusive Finance for Development (UNSGSA)

Country: Global, based in the Netherlands

Type of organization: Special advocate as part of a multilateral organization

Introduction: Queen Máxima is an active global voice on the importance of inclusive finance for achieving development and economic goals. Designated in 2009 by the UN Secretary-General as his Special Advocate for Inclusive Finance for Development, Queen Máxima encourages universal access for individuals and enterprises, at a reasonable cost, to a wide range of financial services, provided by diverse responsible and sustainable institutions. Such services include savings accounts, loans, insurance, payments and other products that can help individuals, families and enterprises generate income, build assets, manage cash flow, invest in opportunities and strengthen resilience to setbacks. In this way, inclusive financial systems are essential infrastructure in a given country, just like roads. They enable and accelerate progress towards numerous national priorities such as job creation, equitable growth, poverty alleviation, women's empowerment, food security and more.

In 2011, she also became Honorary Patron of the G-20 Global Partnership for Financial Inclusion. She works in partnership with stakeholders locally to raise awareness, encourage leadership, and foster action toward financial inclusion. Queen Máxima emphasizes the importance of complementarity and cooperation among global and country-led initiatives, and of engaging all relevant stakeholders in the process. She advocates for responsible

finance, consumer protection, enhanced financial literacy, and for high-quality data that sheds light on how households and enterprises use and benefit from inclusion in the formal financial system.

In her own country, Queen Máxima is a member of the Committee for Entrepreneurship and Finance and Honorary Chair of the Dutch Money Wise Platform.

Responsible Finance advocacy: The UNSGSA was instrumental in creating the Principles for Investors on Inclusive Finance in 2011, which provide a framework for responsible investment in inclusive finance and are now housed within the UN-backed Principles for Responsible Investment.

More information: <http://www.unsgsa.org>

WORLD BANK GROUP

Country: Global, headquartered in Washington D.C.

Type of organization: DFI

Introduction: The World Bank Group takes a comprehensive approach to achieving financial inclusion, working with government and regulator partners to increase access to a range of financial services and institutions through low-cost delivery mechanisms. The World Bank has an active lending portfolio for access to finance of over \$3.5 billion and inclusive finance and financial infrastructure projects in more than 60 countries.

Responsible Finance Initiatives: Regulation for Consumer Protection, Financial Capability

The Financial and Private Sector Development Group at the Bank seeks to advance the financial inclusion agenda by (1) working with governments and regulators to design and implement financial inclusion strategies that increase access to financial services for households and enterprises; (2) supporting responsible financial inclusion by promoting financial capability and strengthening financial consumer protection frameworks; (3) providing expert technical support and financing for policy initiatives, legal reforms, and programs that support micro and small and medium enterprises finance, trade finance, agricultural finance, innovative delivery mechanisms, alternative financial products, state- and member-based financial institutions,



and (4) producing knowledge and diagnostic tools that build capacity and global expertise in support of country-led financial inclusion actions and the G-20 financial inclusion agenda.

In November 2010, the World Bank launched a Global Program on Consumer Protection and Financial Literacy (CPFL) to help countries achieve measurable improvements in consumer protection in financial services. This program focuses on making financial information easy to understand and comparable so that consumers can shop for the best deal, improving business practices to ensure that abusive and predatory practices are prohibited, and that intermediaries are regulated, giving consumers a way to get quick and easy redress when their financial institutions have made a mistake, and helping consumers learn to use financial services with confidence.

The CPFC program supports low- and middle-income countries in their efforts to strengthen financial consumer protection frameworks. It offers a wide range of products that contribute to more efficient and transparent financial markets. The CPFC Program focuses on six areas (1) a strong legal and regulatory framework for financial consumer protection; (2) a clear and effective institutional structure for financial consumer protection; (3) making financial information easy to understand and comparable so that consumers can shop for appropriate products and services; (4) ensuring fair, noncoercive, and reasonable business practices in the selling and advertising of financial products and services; (5) providing inexpensive and speedy mechanisms to address complaints and resolve disputes; and (6) empowering consumers to learn to take sound financial decisions and to choose and use financial services knowledgeably.

CPFL diagnostics reviews have been replicated in over 16 countries. The reviews catalyze and inform public- and private-sector actions to improve responsible finance by assessing the legal/regulatory and institutional frameworks for financial consumer protection in a country, identifying key measures in strengthening financial consumer protection to help build consumer trust in the financial sector and expand the confidence of households to use financial services.

The financial capability survey has been implemented in 19 countries. Its main objectives are to identify the behaviors, attitudes, skills, and knowledge associated with financial capability and to provide information to strengthen existing consumer protection frameworks.

Key Publications: *Good Practices for Financial Consumer Protection*

More information: <http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTFINANCIALSECTOR/0,,contentMDK:22761006~pagePK:148956~piPK:216618~theSitePK:282885,00.html>

International Support Networks

ALLIANZ SE

Country: Indonesia

Type of organization: Private, insurance company

Responsible Finance Initiatives: Financial education

Introduction: Allianz Care Foundation Indonesia's adult financial literacy program is brought to microinsurance customers through training-of-trainers and training-of-customers approaches. Trainings-of-trainers are carried out voluntarily by Allianz staff for distributor staff as part of Allianz Indonesia's Employee Engagement Program, which is free of charge. Later, trainings-of-customers are implemented by trained distributors' staff. In 2012, about 50 microfinance institution staff and 500 customers were reached. The target for 2013 is 10,000 customers. The program is run by the Allianz Care Foundation Indonesia and carried out in coordination with the International Labour Organisation (ILO) Jakarta office, which has provided most of the training material, with Allianz contributing the insurance module. Trainings were done in close coordination with the microinsurance business department of Allianz Indonesia, which uses the adult financial literacy program as an "added value" when approaching new distribution partners. The business division reports good success with that approach. Sustainability of the program is guaranteed by (1) being an integral part of Allianz Indonesia's Employee Engagement Program, (2) promoting social impact, and (3) winning more distribution partners for Allianz.

Some challenges include: (1) the lack of proof that responsible (microinsurance) finance leads to better financial results, as there is a relatively high cost of customer education relative to premiums and profit, and (2) the importance of carefully selecting reputable microinsurance distribution partners.

CENTER FOR FINANCIAL INCLUSION at ACCION – SMART CAMPAIGN

Country: United States, Washington D.C., with international programs

Type of organization: Private, NGO, research, advocacy, and industry support

Introduction: Accion is a private, nonprofit organization with the mission of giving people the financial tools they need to improve their lives. Accion's vision is to build a financially inclusive world with access to economic opportunity for all. The Center for Financial Inclusion (CFI) helps to bring about the conditions to achieve full financial inclusion around the world. CFI contributes to full inclusion by collaborating with sector participants to tackle challenges beyond the scope of any one actor, using a toolkit that moves from thought leadership to action.

The Smart Campaign is a global effort to unite microfinance leaders around a common goal: to keep clients first, as the driving force of the industry. The Smart Campaign works with microfinance leaders from around the world to provide microfinance institutions with the tools and resources they need to deliver transparent, respectful, and prudent financial services to all clients. By putting clients first and collaborating, CFI hopes to strengthen the microfinance industry and elevate it as a model of responsible banking around the world.

Responsible Finance Initiatives: Regulation for Consumer Protection, Responsible Practices by Financial Providers, Financial Capability

Investing. In the area of investing, Accion provides early-stage equity, quasi-equity financing, and loan guarantees to help microfinance institutions become independent of donor funds, build their capital base, attract deposits, and attain financial leverage to expand their reach. More information: <http://www.accion.org/page.aspx?pid=225>

Extending finance to rural areas of Latin America. Accion is partnering with the Inter-American Development Bank and microfinance institutions, Finamérica (Colombia), Mibanco (Peru), Banco ADEMI (Dominican Republic), Financiera FAMA (Nicaragua), and CREDIFE (Ecuador) to bring loans, savings accounts, credit, and financial education to 200,000 people living in poverty in rural areas of Latin America. More information: <http://www.accion.org/page.aspx?pid=523>

Financial Education. Accion has two major initiatives for client education: (1) financial literacy modules to help low-income clients better manage their personal and household finances and become informed and effective consumers of financial services, and (2) business training through its "Dialogue on Business" program, a set of award-winning modules that focus on building the skills of microentrepreneurs. More information: <http://www.accion.org/page.aspx?pid=268>

CERISE (Comité d'Echanges de Réflexion et d'Information sur les Systèmes d'Épargne-crédit)

Country: France

Type of organization: Private, knowledge network, Research and Industry Support

Introduction: CERISE (Comité d'Echanges de Réflexion et d'Information sur les Systèmes d'Épargne-crédit), is a knowledge exchange network for microfinance practitioners. CERISE aims to bring together a variety of practitioners, researchers, donors, and investors from the North and South. CERISE comprises five leaders in French microfinance with over 20 years of experience providing technical assistance to microfinance institutions around the world: three NGOs, CIDR (Centre International de Développement et de Recherche, Autrêches), GRET Groupe de Recherche et d'Echanges Technologiques, Paris, and Iram (Institut de recherches et d'applications des méthodes de développement); a public research institute CIRAD Centre de Coopération Internationale en Recherche Agronomique pour le Développement, Montpellier; and the academic institution IRC (International Rescue Committee). Its work is focused on four themes: impact and social performance, agricultural and rural finance, governance and social viability, and intervention methods.



Responsible Finance Initiatives: Regulation for Consumer Protection

Good practices. Through a series of peer reviews, CERISE has fostered mutual learning among its members and collectively defined a series of “good practices” for practitioners. CERISE facilitates discussions with French NGOs working in microfinance, public cooperation agencies, and networks of international solidarity organizations.

Social Performance Indicators (SPI). CERISE and its partners were the first to pioneer a social performance assessment tool for microfinance, in 2001. Developed in collaboration with networks from the North and South, the SPI is one of the most widely used social audit tools in the sector today. CERISE has also developed innovative methodologies for assessing impact.

The CERISE SPI tool, available for free, was designed using an open, collaborative and transparent approach. Used by more than 500 microfinance institutions worldwide, the CERISE SPI tool is the premier social performance audit tool for institutions committed to improving the lives of their clients. Since 2011, several CERISE partner organizations have successfully completed or have started undergoing the CERISE-SPI certification process, producing a significant network of external auditors for microfinance institutions to validate their SPI results.

More information: www.cerise-microfinance.org/-impact-and-social-performance-

CONSULTATIVE GROUP TO ASSIST THE POOR (CGAP)

Country: Global, headquartered in Washington D.C.
Type of organization: Public, multidonor trust fund focused on industry support, research, and advocacy

Introduction: CGAP is an independent policy and research centre dedicated to advancing financial access for the world’s poor. It is supported by more than 30 development agencies and private foundations who share a common mission to alleviate poverty. Housed at the World Bank, CGAP provides market intelligence, promotes standards, develops innovative solutions, and offers advisory services to governments, financial service providers, donors, and investors.

Responsible finance initiatives: regulation for consumer protection, responsible practices by financial providers, financial capability

Without basic protective measures, inexperienced consumers are more vulnerable to abusive sales and collections practices and to being sold inappropriate or even harmful products. That is why it is vital that consumer protection regimes take into account the particular needs and challenges faced by low-income and inexperienced consumers. Public- and private-sector actors can also coordinate to design and enforce consumer protection regimes, using delegated supervision and self-regulation when appropriate. Capacity limitations must not discourage action on the part of providers, policy makers, and other consumer advocates. Consumer protection can be implemented gradually and improved over time and still have an important positive impact in promoting responsible financial inclusion. CGAP has many projects and initiatives on consumer protection. More information: <http://www.cgap.org/topics/consumer-protection>

The responsible finance movement in the microfinance sector consists of a series of well-coordinated initiatives to enhance client protection, strengthen social performance management, and define acceptable behavior for microfinance investors and donors. The most important of these are the Smart Campaign (<http://www.smartcampaign.org/>), which has mobilized almost 1,000 retail providers, dozens of networks and associations, and well over 100 funders to improve products and practices, the Social Performance Task Force (<http://sptf.info/>), which has just launched industry-consensus standards on social performance management, and the Principles for Investors in Inclusive Finance (<http://www.unpri.org/areas-of-work/piif/>), which more than 50 investors have signed to express their commitment to responsible finance. CGAP supports and codeveloped these industry self-regulations on responsible finance. More information: <http://www.cgap.org/topics/responsible-finance>

Informed and capable clients are at the center of CGAP’s vision for financial inclusion. Clients who have the combination of knowledge, skills, and behavior to manage their money well and make the best financial decisions possible, given their economic and social circumstances, play an active role in improving access and the quality of services

they receive. There is significant new experimentation and research around financial capability. Policy makers are creating national financial education strategies in several countries. A slew of impact evaluations are due out soon on financial capability projects that CGAP has supported.

More information: www.cgap.org/topics/financial-capability

DÉVELOPPEMENT INTERNATIONAL DESJARDINS (DID)

Country: International, based in Canada
Type of organization: International NGO

Introduction: DID works closely with regulators, offers technical assistance, and invests in education and capacity building. Its advisory services are focused on control of the financial statement and include financial consumer protection and building the reliability of the microfinance institution. DID offers training to increase the capability of consumers but also focuses on the employees of financial service providers who serve them. DID offers advisory services to regulatory authorities and works with microfinance institutions and insurance companies to enable them to comply with regulatory standards.

Responsible Finance Initiatives: Responsible Practices by Financial Providers, Financial Capability

In Sri Lanka (2009–13), DID is implementing an indexed crop insurance plan for paddies in different regions of the country. The program is almost sustainable. The product is based on the rain index, and many actions have been undertaken to provide educational services to the population and the agents.

In Senegal, DID is implementing a health insurance program. An insurance information leaflet provides insurance protection details and additional assistance is given to calculate the insurance benefits to the insured. Some the challenges include low member interest and low literacy. In addition, some microfinance institutions agree to the principles of good practice but do not always ensure actions meet the standards of the principles.

More information: <http://did.qc.ca/en/>

FINMARK TRUST

Country: United Kingdom with focus on Southern Africa
Type of organization: Public, Research and Advocacy Group

Introduction: FinMark Trust was established in March 2002 with funding from the U.K. Department for International Development (DFID). FinMark Trust is an independent trust whose business is controlled by seven trustees from countries in Southern Africa. FinMark Trust's purpose is "Making financial markets work for the poor by promoting financial inclusion and regional financial integration." It does this by conducting research to identify the systemic constraints that prevent financial markets from reaching out to these consumers and by advocating for change on the basis of research findings. FinMark Trust aims to promote and support policy and institutional development toward the objective of increasing access to financial services by the unserved and underserved in Africa. It is a facilitation and advocacy organization that integrates the concepts of responsible finance into all areas. It drives regulators to enact consumer protection strategies.

Responsible Finance Initiatives: Regulation for Consumer Protection, Responsible Practices by Financial Providers, Financial Capability

Access to Insurance Initiative (A2ii): FinMark Trust managed a multicountry study on behalf of the Regulation, Supervision, and Policy Working Group of the Microinsurance Network (previously the IAIS/CGAP Joint Working Group on Microinsurance) aimed at establishing global principles for the regulation of microinsurance. This study culminated in the launch of the Access to Insurance Initiative, a global program designed to strengthen the capacity and expertise of insurance supervisors and to facilitate their role in expanding access to insurance markets. More information: http://www.finmarktrust.org.za/pages/About-Us/Research-and-Dissemination.aspx?randomID=5088f6eb-bcd0-4a9c-afc9-0500d0ad4777&linkPath=2&IID=2_6

Tax incentives for small-business investment: FinMark Trust identified that there was no fiscal support in South Africa for equity investors in small business. It conducted research that identified an equity gap and



proposed the design of an appropriate tax incentive, based on the U.K. model. The budget speech in February 2008 confirmed National Treasury's commitment to introducing such incentives. More information: http://www.finmarktrust.org.za/pages/About-Us/Research-and-Dissemination.aspx?randomID=5088f6eb-bcd0-4a9c-afc9-0500d0ad4777&linkPath=2&IID=2_6

Government of Zambia: A key indicator from FinScope is being used by the Government of Zambia for its "performance assessment framework indicator," an annual monitoring of its performance toward building more inclusive financial markets. More information: http://www.finmarktrust.org.za/pages/About-Us/Research-and-Dissemination.aspx?randomID=5088f6eb-bcd0-4a9c-afc9-0500d0ad4777&linkPath=2&IID=2_6

Bank Windhoek: FinScope surveys have been used by several financial service providers. Bank Windhoek used the Namibian survey to develop a successful low-income savings product called EasySave. More information: http://www.finmarktrust.org.za/pages/About-Us/Research-and-Dissemination.aspx?randomID=5088f6eb-bcd0-4a9c-afc9-0500d0ad4777&linkPath=2&IID=2_6

Absa Bank: In South Africa, Absa Bank is using the spatial mapping of the "business sophistication measure" from the FinScope Small Business Survey to optimize the location of new service centers for its microenterprise activities. More information: http://www.finmarktrust.org.za/pages/About-Us/Research-and-Dissemination.aspx?randomID=5088f6eb-bcd0-4a9c-afc9-0500d0ad4777&linkPath=2&IID=2_6

In Swaziland, in 2012–13, FinMark Trust began helping the Swazi government develop a National Credit and Consumer Protection Bill. Initially, it developed a framework by undertaking research to provide an understanding of the economic and legal implications of the consumer credit market. The project is currently in the drafting phase. FinMark is providing advisory services for the drafting of the legislation.

Industry Self-Regulation Industry self-regulation is highly developed in South Africa, FinMark works with stakeholders in driving the "making financial markets work for the poor" strategy.

Financial Capability: A study is intended to evaluate the current financial education material and delivery strategy in rural and peri-urban areas. The study aims to understand the specific needs for financial education content and whether the current material is suitable to meet these needs, taking into consideration different categories of members. The research also will explore whether the current delivery strategy is the most suitable given the context, and the effectiveness of the program in terms of behavior change. The study will help develop a list of indicators and tools to be used for monitoring the quality of the training and its impact on people's lives. From the analysis, FinMark will develop a toolkit to inform the design and delivery of financial education programs to community financial organizations. One challenge is the lack of evidence of the success of financial education initiatives.

GLOBAL IMPACT INVESTING NETWORK (GIIN)/ IMPACT REPORTING AND INVESTMENT STANDARDS (IRIS)

Country: Global

Type of organization: NGO

Clients: Impact investors

Introduction: The Global Impact Investing Network (GIIN) is a nonprofit organization dedicated to increasing the scale and effectiveness of impact investing. Impact investments are direct investments, including those into funds, made with the intention of generating measurable social and environmental impact alongside a financial return. GIIN addresses systemic barriers to effective impact investing by building critical infrastructure and developing activities, education, and research that attract more investment capital to poverty alleviation and environmental solutions.

Responsible Finance Initiative: One of the major projects of GIIN's infrastructure development initiative is called the **Impact Reporting and Investment Standards (IRIS)**. IRIS was initiated by The Rockefeller Foundation, Acumen Fund, and B Lab, to create a common framework for defining and reporting the performance of impact capital. Acknowledging that significant progress had been made in sectors like microfinance where standardized measures, data aggregation, and rating tools were developed, the IRIS founders mandated that the IRIS initiative would build on these sector-specific efforts. As a result, the common

language encompassed by the IRIS framework is designed to enable comparison and communication across the breadth of organizations that have social or environmental impact as a primary driver.

IRIS provides a set of standardized metrics that can be used to describe an organization's social, environmental, and financial performance. IRIS metrics span an array of performance objectives and include sector-specific metrics for areas such as financial services, agriculture, and energy among others. IRIS aims to increase the value of nonfinancial data by enabling performance comparisons and benchmarking, while streamlining and simplifying reporting requirements for companies and their investors. Like financial accounting standards, IRIS provides a basis for performance reporting and organizations need only use relevant metrics from the IRIS library.

More information: <http://iris.thegiin.org/>

MF TRANSPARENCY

Country: Global, headquartered in United States

Type of organization: NGO, industry support, education

Introduction: MicroFinance Transparency was established to promote the welfare of poor microentrepreneurs and to promote the integrity of microfinance as a poverty alleviation practice. The microfinance industry continues to grow into a dynamic and far reaching industry; it has spread around the world in many creative forms and with the participation of many types of stakeholders. MFTransparency believes there is a need to present information on credit products and their prices clearly and consistently. At the same time, MFTransparency sees an opportunity to provide education on the considerations microfinance institutions face regarding interest rates and product pricing.

Responsible Finance Initiatives: MFTransparency represents an industry movement toward responsible pricing practices. It adopts a multipronged approach to promote the development of best practices within the consumer protection sphere. Through this methodology, MFTransparency seeks to further sustainable microfinance and improve the quality of microfinance services for the poor. Its work centers around four core components:

Pricing disclosure: enables transparent communication among market players on the prices of microcredit products. Information on credit products and their prices are presented in a clear and consistent fashion so that all microfinance stakeholders can work with a full understanding of the true prices paid by clients.

Training and education: provides training and education to the broad range of stakeholders to ensure that transparency leads to a strengthening of the microfinance industry. Straightforward educational materials enable all microfinance stakeholders to better understand the concept and function of interest rates and product pricing.

Policy advisory: works with regulators and policymakers of microfinance markets to support the development of effective policies for pricing disclosure and client protection.

Industry voice for transparent pricing: partners with initiatives such as the Social Performance Task Force, the MIX Social Performance Reporting Initiative, and the Smart Campaign to further industry discussion on transparency and client protection.

More information: <http://www.mftransparency.org/>

MICROINSURANCE NETWORK

Country: International, headquartered in Luxembourg

Type of organization: Network

Introduction: The Microinsurance Network believes that effective insurance is an essential risk-management tool for promoting sustainable development. Its vision is for a world where people of all income levels are more resilient and less vulnerable to daily and catastrophic risks. The network provides a multistakeholder platform for microinsurance experts to work together and focus on key areas for sector development, identify gaps, and facilitate knowledge generation and dissemination to increase access to effective microinsurance to billions of people.

Responsible Finance Initiatives: Consumer Protection Principles

Challenges and good practices: The Consumer Protection Task Force of the Microinsurance Network is looking at



the issue of protection of microinsurance consumers while encouraging markets to develop. Its publication, “Pure Intentions and Practice: Challenges and Good Practices,” proposes an analytical framework for assessing case studies. A next step will involve looking at principles and adapting them to microinsurance. More information: <http://microinsurancenetwork.org/workinggroup/Consumer-Protection/15.php>

Social performance indicators and client value: The Performance Working Group’s handbook, “Social Performance Indicators for Microinsurance,” published in 2013, following a two-year sectorwide consensus-building process, maps out a social performance framework from which practitioners can manage their social performance. This framework is seen in the larger context of client value approaches and responsible insurance mechanisms. More information: <http://microinsurancenetwork.org/workinggroup/Performance/9.php>

More information: <http://microinsurancenetwork.org>

MICROFINANCE INFORMATION EXCHANGE INC. (MIX)

Country: Global, based in United States, Washington D.C.

Type of organization: NGO, industry support network

Introduction: As a mission-driven organization, MIX is relentlessly committed to financial inclusion and transparency in the microfinance industry. It is considered the premier source for objective microfinance data and analysis; providing unparalleled access to financial and social performance information, including quarterly results, on more than 2,000 microfinance institutions in the developing world and covering 92 million borrowers.

Responsible Finance Initiatives: MIX is dedicated to bringing social performance management to the forefront of the microfinance industry. As an active member of the Social Performance Task Force (SPTF), an international group composed of investors, donors, microfinance institutions, and microfinance networks, research agencies, and other stakeholders united in the goal of defining, measuring, and improving the social performance of microfinance institutions, MIX takes part in the steering committee and

leads the working groups on social performance indicators. MIX and the Social Performance Task Force have developed 11 indicators by which to measure the social performance of microfinance institutions. These specific indicators are used to collect social performance data from microfinance institutions around the world and provide a platform for benchmarking and analysis.

MIX’s primary objective is to increase transparency in the microfinance industry through data collection and analysis. Hence, MIX will focus on those indicators that are clearly and directly linked to results, have quality that can be tested and benchmarked, and can be easily validated by third parties.

More information: <http://www.themix.org/social-performance#ixzz26GivO6ZC>

SEEP NETWORK

Country: United States, based in Washington D.C. with members around the world

Type of organization: Microfinance practitioner network

Introduction: The SEEP Network is a global network of over 130 international practitioner organizations dedicated to combating poverty through promoting inclusive markets and financial systems. SEEP represents the largest and most diverse network of its kind, composed of international development organizations and global, regional, and country-level practitioner networks that promote market development and financial inclusion. Members are active in 170 countries and support nearly 100 million entrepreneurs and their families. SEEP is dedicated to supporting proven market-based solutions that facilitate replication, scale, and sustainable impacts for the poor.

Responsible Finance Initiatives: The SEEP Network launched several Association Development Programs to promote social performance management and client protection.

Responsible Finance through local leadership in Sub-Saharan Africa: The SEEP Network and the MasterCard Foundation have launched a new four-year partnership to improve management capacity of microfinance associations, advance financial transparency, and promote consumer

protection to further the goal of strengthening microfinance institutions in Africa. Resulting knowledge and experience will be shared with associations across Sub-Saharan Africa to scale and sustain industry growth.

Social Performance Working Group for Networks: The Social Performance Working Group for Networks was created to help associations leverage their unique strengths in promoting the social goals of microfinance. The working group serves as a platform for collective action among 50 microfinance associations across five regions and seeks to create and promote common standards for social performance reporting and practice throughout Africa, Asia, Eastern Europe and Central Asia, Latin America and the Caribbean, and the Middle East and North Africa. Regional facilitators lead their members in each of these regions, coordinating capacity-building activities, promoting reporting on social indicators, and supporting the creation of relevant publications.

Network Strengthening for Client Protection: Funded by the U.S. Agency for International Development Microenterprise Development Office, the Network Strengthening for Client Protection initiative is a joint effort between SEEP and the Smart Campaign to build the capacity of 20 microfinance networks to train their member institutions on client protection best practices.

More information: <http://www.seepnetwork.org/initiatives-pages-5.php>

SOCIAL PERFORMANCE TASK FORCE (SPTF)

Country: Global

Type of organization: Service provider, international industry support network

Introduction: For various social performance initiatives in the microfinance industry to come to agreement on a common social performance framework and to develop an action plan to move social performance forward, two working groups were formed following a meeting of a Social Performance Task Force and a CGAP Donor Working Group on Social Performance. Today, the Social Performance Task Force (SPTF) consists of over 1,000 members from around the world and from every microfinance stakeholder group: practitioners, donors, and investors (multilateral, bilateral,

and private), global, national and regional associations, advisory service providers, rating agencies, academics and researchers, and others.

Responsible Finance Initiatives: The mission of SPTF is to engage with microfinance stakeholders to develop, disseminate, and promote standards and good practices for social performance management and reporting.

SPTF created a wide variety of **tools and resources** available to help stakeholders measure and improve their social performance. These include audit tools, rating tools, client protection tools, and poverty assessments tools. In particular SPTF: Created a toolkit for microfinance institutions: <http://inthiseconomy.org/SPTF/>
Created a toolkit for investors/donors: <http://inthiseconomy.org/SPTF/investors-map.html>

Is developing a toolkit for associations, Developed the Universal Standards for Social Performance Management (USSPM), through broad industry consultation. **These** management standards apply to all microfinance institutions pursuing a double bottom line. Meeting the standards signifies that an institution has “strong” social performance management practices.

More information: <http://sptf.info/>

TRIODOS FACET

Country: The Netherlands

Type of organization: Private, service provider

Introduction: Triodos Facet is a consultancy company specialized in promoting and developing small and medium enterprises that contribute to sustainable development. It offers consultancy and implementation services coupled with capacity building and training, thus providing access to adequate and sustainable financial services while supporting organizations rendering business development services, that is, services that result in jobs and income for entrepreneurs.

Responsible Finance Initiatives: Triodos Facet helps financial institutions and small and medium enterprise service providers internalize a focus on sustainability and develop products that enable their clients to operate in line with corporate social responsibility (CSR) principles. Many small and medium enterprises lack access to expertise in the



field of sustainability. Triodos Facet supports financial and nonfinancial institutions working with these enterprises to develop CSR capacity. It helps these institutions develop and implement practical tools that help small and medium entrepreneurs to spot opportunities, develop CSR strategies, and measure results.

Triodos Facet has developed a **CSR toolkit** for microfinance institutions and small enterprise banks. This toolkit contains training, coaching, and practical tools that help financial institutions raise awareness on the relevance of CSR for financial institutions working with the micro, small, and medium enterprise sector; integrate social and environmental risk assessment in loan cycles; recognize potential social and environmental risks by means of detailed sector fact sheets; and offer suggestions to improve environmental, health, and safety performance of the entrepreneurs. Triodos Facet has implemented this toolkit with more than 50 microfinance institutions in Africa, Latin America, Eastern Europe, and Asia.

More information: <http://www.triodosfacet.nl/content/view/34/49/lang,en/>

UN PRINCIPLES FOR RESPONSIBLE INVESTMENT (PRI) INITIATIVE

Country: Global

Type of organization: Private, network of investors

Introduction: The United Nations-backed Principles for Responsible Investment Initiative (PRI) is a network of international investors working together to put the six Principles for Responsible Investment into practice. The principles were devised by the investment community. They reflect the view that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios and, therefore, must be given appropriate consideration by investors if they are to fulfill their fiduciary (or equivalent) duty. The principles provide a voluntary framework by which all investors can incorporate ESG issues into their decision-making and ownership practices and thus better align their objectives with those of society at large. The PRI was created after the launch of the principles to help investors implement the principles. The initiative is funded by an annual subscription fee introduced for all signatories.

Responsible Finance Initiatives: The PRI Initiative works with investors to implement the Principles for Responsible Investment and align them with the broader objectives of society.

The PRI developed the Principles for Investors in Inclusive Finance (PIIF) in response to growing interest in inclusive finance and demand for investor guidance. The PIIF is an initiative of investors and Her Royal Highness Princess Máxima of the Netherlands, the UN Secretary-General's Special Advocate for Inclusive Finance for Development. The principles were launched on January 27, 2011 at the Responsible Finance Forum hosted by the Dutch Ministry of Foreign Affairs. The PIIF are housed within the PRI Initiative as a distinct work stream, as the PIIF are one way for investors in inclusive finance to implement the six Principles for Responsible Investment. As such, signatories are requested to sign the Principles for Responsible Investment as well.

In signing the principles, investors commit to: expanding the range of financial services available to low-income people; integrating client protection into all their policies and practices; treating their investees fairly, with clear and balanced contracts, and dispute resolution procedures; integrating ESG factors into their policies and reporting; promoting transparency in all their operations; pursuing balanced long-term returns that reflect the interests of clients, retail providers, and end investors; and working together to develop common investor standards on inclusive finance. Commitment is evidenced via an annual self-reporting process.

More information: <http://www.unpri.org/piif/index.php>

National Support Networks

AZERBAIJAN MICRO-FINANCE ASSOCIATION

Country: Azerbaijan

Type of Organization: Self-regulatory organization (SRO)

Introduction: This association started an 18-month project in 2013 to promote Universal Standards of Social Performance Management that are built on Smart Campaign Client Protection Principles. In 2012, the network started

development of the industrywide Code of Ethical Standards, which was expected to be finalized in 2013. The association produced three brochures targeting microfinance clients on aspects of prevention from overindebtedness, basics of financial education, and how savings can help mitigate emergency needs. These resources were offered to members and partners in financial industry.

More information: <http://amfa.az/sehife.php?lang=eng&page=08>

MICRO FINANCE INSTITUTIONS NETWORK (MFIN)

Country: India

Type of Organization: Self-regulatory organization (SRO)

Introduction: Micro Finance Institutions Network (MFIN) is the self-regulatory organization (SRO) for the Indian microfinance industry. It was established in 2009 to promote the key objectives of microfinance in India and establish guidelines for responsible lending and client protection in the microfinance industry. MFIN seeks to work closely with regulators and other key stakeholders to achieve larger financial inclusion goals through microfinance. Currently, MFIN member organizations consist of 46 of the leading non bank finance company NBFC/microfinance institutions whose combined business constitutes over 80 percent of the Indian microfinance sector. Its mission is to provide inclusive financial services to 100 million low-income households by the year 2020, in a responsible and transparent manner, thereby helping them build sustainable livelihoods.

Responsible Finance Initiatives: As a step towards more stringent self-regulation, MFIN has defined a code of conduct for its members, which focuses on fair practices with borrowers and among member organizations. The MFIN code of conduct establishes limits on overall lending at the client level and guidelines for fair collection practices to promoting transparency and standardize recruitment and training practices for member microfinance institutions. The code of conduct encourages data sharing among members and has established mechanisms for promoting transparency in the industry, such as setting up help lines and formulating a whistle-blowing mechanism. MFIN has four key projects aimed at increasing responsible finance.

First, MFIN is working with the leading credit bureaus in the country to set up a credit bureau for microfinance clients. Information on about 25 million loan accounts has been submitted to these bureaus and fully functional credit bureaus for the microfinance industry are operational. Second, MFIN has started to put in place a helpline for microfinance clients that will function as an independent client grievance mechanism. Third, MFIN has set-up state and regional chapters to provide a common forum to microfinance institutions to resolve state-level operational issues and deal with local matters relevant to the industry. Fourth, MFIN has cosponsored the “transparency pricing initiative in India” for microfinance transparency. Under this study, effective interest rates of all MFIN member organizations will be calculated and made available in the public domain.

More information: <http://www.microfinanceinstitutionnindia.org/about-us>

Research, Advocacy and Consulting Organizations

CHEMONICS INTERNATIONAL

Country: Based in United States with clients worldwide

Type of organization: Private, consulting firm

Under the previous Rural Bankers Association of the Philippines and the Microenterprise Access to Banking Services (RBAP-MABS), Chemonics worked on financial education as well as best practices in self-regulation, that is, voluntary commitments to comply with the Smart campaign’s Client Protection Principles.

More information: <http://www.chemonics.com/>

ECONOMIST INTELLIGENCE UNIT (EIU)

Country: United Kingdom

Type of organization: Private, research group

Introduction: The Economist Intelligence Unit (EIU) is an independent business within the Economist Group. Through research and analysis, EIU offers forecasting and advisory services to its clients. It provides country, industry, and management analysis worldwide. It is particularly well known for its monthly country reports, five-year country economic forecasts, country risk service reports, and



industry reports. The company also specializes in tailored research for companies that require analysis for particular markets or business sectors. The Economist Intelligence Unit also produces regular reports on the “livability” and cost of living of the world’s major cities, which receive wide coverage in international news sources. The Economist Intelligence Unit’s Quality-of-Life Index is another noted report.

Responsible Finance Initiatives: Regulation for Consumer Protection.

The EIU published, together with IFC, the 2011 edition of the *Global Microscope on the Microfinance Business Environment*, which offers an in-depth analysis of the microfinance business environment in 55 countries worldwide. It tracks the conditions in 21 countries of the Latin American and Caribbean region. responsible finance indicators have been included. The report can be found at <http://www5.iadb.org/mif/Knowledge/tabid/426/language/en-US/Default.aspx?idPublication=46730>

GLOBAL ALLIANCE FOR BANKING ON VALUES (GABV)

Country: Global

Type of organization: Private, membership organization for banks

Introduction: The Global Alliance for Banking on Values (GABV) is a membership organization made up of 19 of the world’s leading sustainable banks from Asia and Latin America to the United States and Europe. The members are bound by a shared commitment to find global solutions to international problems and to promote a positive, viable alternative to the current financial system. They believe that they must improve the quality of life for everyone on the planet, recognizing that they are economically interdependent and responsible to current and future generations. GABV members must meet three criteria: (1) they are independent and licensed banks with a focus on retail customers; (2) they hold a minimum balance sheet of \$50 million; and, (3) they should be committed to social banking and the triple bottom line of people, planet, and profit.

Responsible Finance Initiatives: GABV intends to reach its goals by raising financial capital to fund the growth and

impact of sustainable banks; developing human capital so a new generation of capable, motivated sustainable bankers can productively and efficiently use the financial capital they raise; measuring the impact of their network to demonstrate the results of their work for a wide group of stakeholders from investors to clients to the general public; actively engaging in discussions on important issues so that its voice is heard, thus influencing the mainstream and supporting public policy developments that benefit the world through enhancing sustainable banking; and expanding its network of sustainable banks, thus further increasing the reach of its business models. Its work focuses on advocacy, developing human capital, expanding its network, measuring impact, and raising financial capital.

More information: <http://www.gabv.org/>

MICROCREDIT SUMMIT CAMPAIGN

Country: Global, based in Washington D.C.

Type of Organization: NGO, advocacy

Introduction: The first Microcredit Summit, held in Washington, D.C., February 2–4, 1997 with more than 2,900 participants from 137 countries, launched a nine-year campaign to reach 100 million of the world’s poorest families, especially the women of those families, with credit for self-employment and other financial and business services by the year 2005. The campaign brought together microcredit practitioners, advocates, educational institutions, donor agencies, international financial institutions, nongovernmental organizations, and others involved with microcredit to promote best practices in the field and to stimulate the interchange of knowledge.

Responsible Finance Initiatives: The Microcredit Summit Campaign has developed the **Seal of Excellence for Poverty Outreach and Transformation** in Microfinance, which is aimed at promoting client protection and social performance principles. It is a global initiative that will recognize microfinance institutions that are doing the most to help families lift themselves out of poverty. The seal has been under development since April 2010 with input from a broad range of stakeholders and is currently expanding from the concept phase to the implementation phase. The Campaign will begin awarding the seal in 2013. The seal builds on the Smart Campaign’s client protection principles and the work of the Social Performance Task Force and the

Campaign is discussing ways to implement the seal that would use the systems already developed for understanding the social performance of microfinance institutions. To be considered for the seal, an institution must meet the client protection principles set out by the Smart Campaign and the social performance management standards defined by the Social Performance Task Force as well as meet financial and organizational indicators.

The seal's indicators for client-based outcomes, are unique in that they would evaluate and certify institutions that not only protect their clients and meet double-bottom-line commitments, but also achieve results by demonstrating significant outreach to the poor (defined specifically for different countries or regions) and demonstrate a strategic approach and success in helping a portion of them move away from poverty.

More information: <http://www.microcreditsummit.org>

MICROFINANCE OPPORTUNITIES (MFO)

Country: Global, based in United States, Washington D.C.

Type of Organization: NGO, research, advocacy, client-centric research

Introduction: Microfinance Opportunities develops ideas and solutions that help the financial community better serve the low-income consumer. Its commitment as a nonprofit organization is to develop a deep understanding of the financial realities and needs of low-income households in the developing world. By partnering with financial service providers, its research and expertise promotes the design and delivery of appropriate products and services, and, as a result, attracts and retains consumers in increasingly competitive markets.

Responsible Finance Initiatives: Building Financial Capability and conducting consumer research:

Building Financial Capability: MFO believes individuals need to be empowered with the know-how and confidence to make responsible financial choices for themselves and their families. MFO designs and delivers financial literacy curricula, training, and advisory service to help consumers build their knowledge of key financial concepts and develop skills to make informed financial decisions.

MFO develops financial capability tools targeted to specific clients, such as comic books for adolescents, training manuals, educational magazines, counseling manuals, and peer-to-peer guides. More information: <http://microfinanceopportunities.org/resources/financial-education/tools-for-clients/>

Conducting Consumer Research: Microfinance Opportunities use several innovative tools and methodologies to dive deep into the investigation of why and how poor people make certain financial decisions. Bridging the gap between academia and practitioners, consumer research continues to serve as the foundation for the world's leading financial education curriculum. MFO offers client and market research, financial diaries, and studies on financial innovation to better inform its clients. More information: <http://microfinanceopportunities.org/resources/consumer-research/financial-diaries/>

More information: <http://microfinanceopportunities.org/our-work/>

Rating Agencies

M-CRIL

Country: India

Type of Organization: Rating agency

Introduction: M-CRIL is a global leader in the financial rating of microfinance institutions and in sectorial advisory services. Its goal is to stimulate sector growth and depth of outreach and impact initiatives for financial inclusion on a worldwide basis. It helps reduce microfinance institution risk and supports institutions and microenterprises to incorporate best practices into their systems. Its work directly impacts understanding of and compliance with the regulatory regime. It promotes transparency and strengthens the business proposition of development finance institutions working for those at the bottom of the socioeconomic pyramid.

Responsible Finance Initiatives: M-CRIL supports responsible finance practices through its financial and social rating initiatives. M-CRIL has played a pioneering global role in developing a systematic methodology for social rating. This methodology has been a significant step as part of M-CRIL's commitment to support the microfinance sector, reflecting



the social values associated with microfinance operations and investment, and providing a robust and relatively quick means to define and report on social performance.

Separate from, but linked to financial rating, social rating contributes to greater transparency on what microfinance is achieving in terms of the double (indeed triple) bottom line. It verifies information relevant to external social reporting, and can promote investment in microfinance institutions with strong social performance. It serves to identify strengths and weaknesses in social performance, helping microfinance institutions to think through their social goals and values and build appropriate systems to support their double bottom line. Social rating covers mission clarity; alignment of strategy and operational systems to the stated mission; social responsibility, including client protection, gender approach, responsibility to staff, communities, and the environment; Outreach results include area analysis, client profile analysis, and, quality of services, range of products, client awareness, retention, and feedback.

More information: <http://www.m-cril.com/SocialRating.aspx>

MICRORATE

Country: Based in the United States, with work in Latin America, Africa, Europe, and Central Asia
Type of organization: Rating agency

Introduction: MicroRate was the first microfinance rating agency dedicated to evaluating performance and risk in microfinance institutions, as well as evaluating microfinance investment vehicles (MIVs). MicroRate's primary goal is to promote growth in the microfinance industry by facilitating the efficient flow of money from capital markets to microfinance institutions through independent evaluation and increased transparency. Since its inception in 1997, MicroRate has conducted over 600 microfinance institution ratings throughout Latin America, Africa, Europe, and Central Asia. The entities evaluated by MicroRate span the spectrum of the microfinance industry, ranging from large banks to small NGOs, including many of the world's leading microfinance institutions, as well as some of the largest and smallest microfinance funds.

Responsible Finance Initiatives: MicroRate's vision is to promote the flow of funds from capital markets to

microfinance by increasing transparency and growth in the global microfinance community. As part of its vision of helping to increase overall transparency in the microfinance sector, MicroRate offers a variety of services designed to help facilitate the flow of funding into the microfinance sector. MicroRate has conducted over 600 microfinance institution ratings and provides robust microfinance institution ratings and evaluations, highlighting key strengths and risks and providing meaningful benchmarks. MicroRate offers performance ratings, social ratings, credit ratings, and institutional evaluations. MicroRate's annual Rating Report Package saves investors time and money by providing relevant information and high-quality performance and social rating reports as they are published. MicroRate is the leader in the analysis of microfinance investment funds or MIVs. In addition to other services for microfinance investment funds, MicroRate also performs customized due diligence evaluations on microfinance institutions that are in a current or potential crisis situation.

More information: <http://www.microrate.com/products-services>

THE RATING INITIATIVE

Country: Luxembourg
Type of Organization: Rating agency

Introduction: The Rating Initiative was launched by Appui au Développement Autonome (ADA) in collaboration with the Government of Luxembourg, the Microfinance Initiative Liechtenstein, the Swiss Development Cooperation, Oxfam Novib, the Oesterreichische Entwicklungsbank (OeEB), ICCO, the Principality of Monaco, and Blue Orchard. The Rating Initiative collaborates with ResponsAbility, the African Microfinance Transparency Forum (AMT) and the Social Performance Task Force in all aspects related to ratings, including a specific emphasis on social ratings.

Responsible Finance Initiatives: The Rating Agency offers different types of ratings for microfinance institutions, including financial ratings, social ratings and combined financial and social ratings. Drawing on current understanding of social performance, social performance management and social responsibility, the social rating evaluates practices, measures a set of indicators, and scores them against benchmark levels, best practices, or internationally accepted standards. The social rating

includes elements of auditing in that it assesses the quality and credibility of social accounts, and it identifies areas for improvement and capacity building. Social investors, donors and microfinance institutions find the social rating useful as an assessment, decision-making and capacity development tool.

More information: <http://www.ratinginitiative.org/index.php?id=35>

Microfinance Institution Affiliate Networks

FOUNDATION FOR INTERNATIONAL COMMUNITY ASSISTANCE (FINCA) INTERNATIONAL

Country: Global, headquarters in Washington D.C.

Type of organization: Private, microfinance institution

Introduction: FINCA International is a global microfinance organization with wholly-owned subsidiaries on four continents that specialize in financial services. FINCA builds sustainable programs that achieve the highest standards of financial performance, retaining focus on serving the poorest of the working poor. FINCA strives to be a “banker with a soul,” aiming to create the best of both worlds: sustainable and financially sound programs.

Responsible Finance Initiatives: Responsible Practices by Financial providers, Financial Capability

FINCA offers clients access to a broad range of financial services—including credit, savings, insurance, and money transfers—that enable them to finance income-producing activities, improve their living standards, build assets, and create a financial safety net to protect them in the event of external shocks.

Customer research: FINCA has actively conducted rigorous customer research throughout its network to better understand who its clients are and what effect microfinance is having in their lives. Its goals are to ensure that its programs serve FINCA’s defined target client base (the lowest-income entrepreneurs), assess whether its products and services are meeting the needs of its clients, and to

make changes when needed. More information: http://www.finca.org/site/c.6fIGIXMFJnJ0H/b.6660523/k.A0C1/Keeping_Clients_First_in_Microfinance.htm

Standards: FINCA has long been a leader in the microfinance industry in setting standards for the protection of microfinance clients. FINCA and other leading microfinance institutions worldwide recently drafted and endorsed a statement in support of the Smart Microfinance Campaign, a core set of client- protection principles to help microfinance institutions practice good ethics and smart business. More information: http://www.finca.org/site/c.6fIGIXMFJnJ0H/b.6660523/k.A0C1/Keeping_Clients_First_in_Microfinance.htm

Client training: Before making loans or providing other financial services to clients, FINCA conducts a training process during which clients learn about credit and cash flow management, how to retain a portion of their profits for savings, and determine whether they have the capacity to expand their businesses. This type of training is important for our clients as well as for our long term success. More information: http://www.finca.org/site/c.6fIGIXMFJnJ0H/b.6660523/k.A0C1/Keeping_Clients_First_in_Microfinance.htm

MEDA

Country: Canada, headquartered in Waterloo, Ontario, with projects worldwide
Organization Type: NGO

Clients: MEDA focuses on those who lie on the periphery of the world’s financial system, targeting entrepreneurs who are economically active in developing countries. MEDA focuses on both urban and rural poverty, especially farmers and agriculture suppliers and distributors.

Introduction: MEDA aims to create business solutions to poverty by designing and implementing innovative and effective market-driven economic development programs that improve the livelihoods of millions of people living in poverty around the world. MEDA is a recognized leader in establishing best practices in financial services, investment fund development, and market development, and for solving poverty by responding to each population’s unique needs.



Responsible Finance Initiatives: MEDA focuses on inclusive rural finance and aims at expanding financial services to rural populations through innovation and support to a range of partners, enhancing their capacity to offer services, increasing economic activity, and decreasing poverty in rural areas. MEDA helps financial institutions respond to the unique needs of rural populations by expanding outreach and product diversity in rural areas, by improving efficiency and quality of services, and by facilitating linkages with the formal financial sector.

More information: <http://www.meda.org/>

OPPORTUNITY INTERNATIONAL

Country: United States, with international clients
Type of organization: International NGO Network

Introduction: Opportunity International is a Christian Microfinance NGO that provides financial products and strategies to over 2.5 million people working their way out of poverty in the developing world. Clients in more than 20 countries can use these services to expand a business, provide for their families, create jobs for their neighbors, and build a safety net for the future.

More information: <http://www.opportunity.org/>

Financial Services Providers

MCC MIKROFIN

Country: Bosnia and Herzegovina
Type of organization: MCC

MCC MIKROFIN's business strategy comprises responsible lending practices, disclosure of the true costs of lending, such as effective interest rates and responsible collection practices. These practices are regulated by the law on microcredit organizations. Responsible finance is not a project in MIKROFIN but a permanent activity.

MICRO CREDIT FOUNDATION: EKI

Country: Bosnia and Herzegovina
Type of organization: MCF

The policy of client protection has been adopted at the board level and is widely implemented throughout the organization. In addition, EKI follows the law in this respect. Regarding transparent information, different types of information are provided to the clients through brochures and more detailed materials. EKI is a member of the national microfinance network that promotes best standards for the sector.

MICRO CREDIT FOUNDATION: LIDER

Country: Bosnia and Herzegovina
Type of organization: MCF

LIDER has clear and conservative credit policies and procedures, uses client selection criteria, monitors the level of client debt to prevent overindebtedness, and is preparing to fully comply with the law on financial consumer protection. LIDER also offers free educational services to clients and is preparing to implement a joint strategy with other institutions in creating educational programs for clients. LIDER also uses the services of U-Plusu for debt mediation services and actively supports personal financial management services for clients.



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