2015

Effective Codes of Conduct

A Guide for Microfinance Associations

The MasterCard Foundation

SEEP
Powering connections

This publication was produced in partnership with The MasterCard Foundation. Views and opinions expressed here do not necessarily represent the official viewpoint of the Foundation.

1611 N. Kent Street, Suite 610 Arlington, VA 22209
(Tel.): 1 202-534-1400 (Fax): 1 703-276-1433
(Email): seep@seepnetwork.org (Web): www.seepnetwork.org

Printed in the United States of America.
To access this publication online, visit **www.seepnetwork.org**

Effective Codes of Conduct

A Guide for Microfinance Associations

The SEEP Network

Contributing Author: Dominique Brouwers

Powering connections

The MasterCard Foundation

The SEEP Network
1611 N. Kent Street, Suite 610 Arlington, VA 22209
(Tel.): 1 202-534-1400 (Fax): 1 703-276-1433

Contents

List of Figures	ii
List of Tables	ii
List of Resources Available in Online Library	ii
Acknowledgements	iii
About This Guide	iv
Acronyms	iv
Background: Codes of Conduct and Self-Regulation	1
Keys to Effective Self-Regulation	2
Seven Steps to an Effective Code of Conduct	3
Step 1: Development of a Code of Conduct	4
Step 2: Adoption of a Code of Conduct	5
Step 3: Implementation of a Code of Conduct	7
Step 4: Baseline Assessment of CoC Implementation	10
Step 5: Strengthening Compliance with a CoC	11
Step 6: Compliance Monitoring	13
Step 7: Compliance Reinforcement	17
Results of Effective Implementation	19
Bibliography	20
About SEEP	20
About RFLL	20

List of Figures

Figure 1: Seven steps to an effective Code of Conduct 3

Figure 2: Code of Conduct development process 6

Figure 3: Integrating CoC-related tasks into an association's organizational structure 8

Figure 4: The CoC implementation phase 12

Figure 5: Association activities to reinforce CoC compliance 18

List of Tables

Table 1: Code of Conduct awareness-raising campaign by stakeholder type 9

Table 2: Example of deficiencies and corrective interventions in CoC implementation 11

Table 3: Use of complaints mechanisms in compliance monitoring 15

Table 4: Pros and cons of CoC compliance monitoring methods 16

List of Resources Available in Online Library

Exhibit 1: Examples of COCs from Ghamfin (Ghana) and MFIN (India) 4

Exhibit 2: Examples of communications materials used by MFIN (India) 9

Exhibit 3: Examples of baseline assessment instruments used by AMFIU (Uganda) 10

Exhibit 4: Example of an executive summary from a baseline assessment at AMIR (Rwanda) 10

Exhibit 5: Examples of self-assessment tools used by LAO MFA (Laos) and SA-DHAN (India) 13

Exhibit 6: Example of a score card of compliance from Prodesarrollo (Mexico) 17

Exhibit 7: Example of a certificate of compliance from Prodesarrollo (Mexico) 17

To view and download a poster-sized infographic illustrating the seven steps to an effective Code of Conduct presented in this guide, please visit:

http://www.seepnetwork.org/CoCposter

Acknowledgements

This guide was produced by Dominique Brouwers for the SEEP Network under the Responsible Finance through Local Leadership (RFLL) program, in partnership with the MasterCard Foundation.

Special appreciation is owed to Bintou Ka-Niang, Jacqueline Urquizo, Diana Dezso, and Sharon D'Onofrio at SEEP for their guidance and technical review of this document, to Kevin Cooper and Sarah Gagnon for assisting with the interviews of microfinance associations, and to Molly Tolzmann for production support.

Many thanks are extended to the eight African microfinance associations involved in the RFLL program– Consortium Alafia (Benin), Association Professionelle des Systèmes Financiers Décentralisés (APSFD) Burkina Faso, APSFD Cote d'Ivoire, APSFD Senegal, Association of Microfinance Institutions in Uganda (AMFIU, Uganda), Ghana Microfinance Institutions Network (GHAMFIN, Ghana), Association of Microfinance Institutions in Rwanda (AMIR, Rwanda) and Réseau des Institutions de Microfinance (RIM, Burundi) – and to the participants in the "Effective Implementation of an Association's Code of Conduct" workshop held in Dakar in July, 2015. This workshop served as the testing ground for this practical guide, as has the RFLL program more broadly.

Finally, the author gratefully acknowledges the crucial contributions of other microfinance associations during the preparation of this document. Sa-Dhan (India), Microfinance Institutions Network (MFIN, India), Pakistan Microfinance network (PMN, Pakistan), Azerbaijan Microfinance Association (AMFA, Azerbaijan), Fundación Paraguaya (Paraguay), Lao Microfinance Association (MFA, Laos), ProDesarrollo (Mexico) and Red Financiera Rural (RFR, Ecuador) agreed to be interviewed and to share their knowledge and experiences related to Codes of Conduct.

seep
Powering connections

About This Guide

The objectives of this guide are to assist microfinance associations in the development and implementation of effective Codes of Conduct (CoCs) and to support monitoring of their members' compliance with the CoC. This guide outlines a practical and cost-effective seven-step process that an association can follow to put in place and maintain an effective CoC. Real examples of tools used by associations in different parts of the world are linked and available for reference in an online resource library at **www.seepnetwork.org/CoClibrary**.

This guide is not intended to serve as a universal recipe, as associations will differ in terms of their human and financial resources, type and number of members, and political and regulatory environments. Each association will need to adapt the guidelines detailed here to fit its unique circumstances.

This guide is the continuation of work begun by The SEEP Network (SEEP) in 2001 to promote client protection through microfinance associations. In 2012, SEEP published "Codes of Conduct and the Role of Microfinance Associations in Client Protection."[1] This publication drew upon three case studies in an exploration of why and how associations choose to adopt and promote self-regulation through a CoC.

Acronyms

AMFA	Azerbaijan Microfinance Association
AMFIU	Association of Microfinance Institutions in Uganda
AMIR	Association of Microfinance Institutions in Rwanda
APSFD	Association Professionelle des Systèmes Financiers Décentralisés (Associations in Burkina Faso, Sénégal and Cote d'Ivoire)
BoG	Bank of Ghana
CGAP	Consultative Group to Assist the Poor
CoC	Code of Conduct
CRB	Credit Reference Bureau
GHAMFIN	Ghana Microfinance Institutions Network
MFA	Microfinance Association
MFI	Microfinance Institution
MFIN	Microfinance Institutions Network, India
PMN	Pakistan Microfinance network
RBI	Reserve Bank of India
RFLL	Responsible Finance through Local Leadership
RFR	Red Financiera Rural, Ecuador
RIM	Réseau des Institutions de Microfinance au Burundi
SRO	Self-Regulating Organization

Visit the online resource library for real examples of tools used by associations around the world.

http://www.seepnetwork.org/CoClibrary

[1] http://www.seepnetwork.org/codes-of-conduct-and-the-role-of-microfinance-associations-in-client-protection-resources-345.php

Background: Codes of Conduct and Self-Regulation

While regulation is broadly defined as the imposition of rules by a governing body, to be backed and enforced through the use of penalties, **self-regulation** refers to "a situation in which an industry, profession, etc. checks that its members act according to particular rules, rather than having this done by another organization."[2] Rules of self-regulation are often compiled in the form of Codes of Conduct, which may also be known as Codes of Ethics, Codes of Honor, or Codes of Practice. Codes of Conduct (CoCs) were first adopted by the military in the 1950s. They soon expanded into other professional sectors like journalism and medicine where important ethical issues were in play. In the 1970s, corporate entities started adopting CoCs in response to mounting pressure on practices seen as unfair or unethical, preferring self-regulation to the alternative of added legal constraints. In the financial sector, CoCs have been adopted in many parts of the world, initially in response to fraud issues, and then to address standards of customer service.

"Codes of Conduct offer an invaluable opportunity for responsible organizations to create a positive public identity for themselves."[3]

Within the financial sector and the microfinance sector in particular, self-regulation has often been perceived as a challenge. As stated in the CGAP guidelines on microfinance regulation, "true self-regulation and self-supervision are almost always a gamble against very long odds."[4] Nevertheless, the same CGAP document distinguishes between different types of regulation, suggesting that "responsible finance, consumer protection and other areas such as members' governance and relationships between members can be effectively self-regulated through the association, provided that members agree on giving the association effective power to supervise the compliance with the CoC."[5]

Microfinance associations are sector-representative, member-based organizations of financial service providers serving low-income populations. Their membership may include a variety of institutional types such as commercial banks, cooperatives, and specialized microfinance institutions (MFIs) subject to distinct forms of supervision and regulation. Their membership may also include organizations that are not formally regulated. Some associations operate in markets where regulation of financial services providers is weak or inconsistent across all institutional types. In some instances, even where there exists a robust regulatory framework, enforcement by authorities may be weak, as their primary focus is typically on prudential regulations.

As key actors within the microfinance sector, associations have an important role to play in developing and implementing systems of self-regulation and in working with regulators to encourage the issuance of formal regulations that enhance the overall environment for financial inclusion, including the promotion of consumer protection practices.

The first CoCs adopted by industry associations appeared in the mid-2000s, with Red Financiera Rural (RFR) in Ecuador in 2006, and the Pakistan Microfinance Network (PMN) and Sa-Dhan in India in 2007. Motivations for adopting a CoC have varied. Some associations were responding to serious emergencies, like the Andra Pradesh crisis in India, whereas in Ecuador, RFR developed its Code of Conduct out of an advocacy process with the government concerning the capping of interest rates.

In some cases, the self-regulation mechanism in microfinance has been granted official recognition by government authorities in the form of delegated supervision. This model was adopted in India, where two microfinance associations (Sa-Dhan and MFIN) were granted the status of **SRO** (Self-Regulating Organization) by the Reserve Bank of India (RBI). RBI "encourages" members of associations to comply with the industry Code of Conduct, which essentially means that they must report to their association on compliance and accept any on-site monitoring visits. RBI and the CoC require that MFIs report to one or more of the four Credit Information Bureaus that exist in India. RBI communicates and meets with the SROs on a regular basis to discuss the results of CoC implementation, along with trends in the microfinance market and any emergent issues.

[2] Self-regulation as defined by the *Cambridge Business English Dictionary,* 2011.
[3] The Clarkson Centre for Business Ethics. *Principles of Stakeholder Management.* 1999, p. 12.
[4] CGAP. *A Guide to Regulation and Supervision of Microfinance Consensus Guidelines,* 2012.
[5] Ibid. 4.

Keys to Effective Self-Regulation

Self-regulation can be a challenge, even when confined to non-prudential areas. In the financial sector, self-regulation has sometimes been promoted and encouraged initially, only to be contested later by outside parties who view it as ineffective, and possibly even as a means to evade stricter regulation. In analyses of the experiences of microfinance associations and other SROs in the financial sector,[6] the following factors have been identified as key to effective self-regulation:

Authority and Accountability

All association members should be aware and in agreement that the CoC is used as an instrument of self-regulation. The authority of the association to pursue specific actions related to the CoC should be clearly defined in the Code itself, especially with regards to compliance and sanctions.

Typically the association is accountable both to its Board and its members; ideally, association management should report on activities related to the CoC at each Board meeting and General Assembly.

Government Support and Recognition

Recognition and support from policy and regulatory authorities bolster the association's credibility and provide incentives for microfinance providers to engage in self-regulation. In some markets, this takes the form of formally delegated supervision from authorities to the association (SRO status). In these cases, the government or designated regulator's oversight is part of the self-regulation process. Associations recognized as SROs, such as Sa-Dhan and MFIN in India, report on compliance to the Reserve Bank of India on a regular basis and follow up with the regulator on action items. This type of interaction with the authorities can also be beneficial for associations that are not designated SROs.

Sufficient Funding

Association membership dues often comprise a major source of funding for CoC implementation. In some instances, associations have increased membership fees to cover the cost of CoC-related activities, as in the case of Mexican industry association ProDesarrollo. Associations may also be able to source funds from international partners, particularly those focused on creating a conducive environment for financial inclusion. Another source of potential funding is the government or regulator, especially when delegated supervision (SRO status) is in place. For example, The Bank of Ghana (BoG, Central Bank) provides some limited funding to microfinance associations to support certain self-regulation-related activities, including preparation of members for licensing by BoG, direct monitoring and supervision of members (in the case of a specific association), and collection and aggregation of member data for reporting to BoG.

Consistency

Effective self-regulation requires that the CoC is implemented by the association's entire membership. Monitoring of compliance should be conducted regularly, according to clearly defined processes. When violations occur, members should be treated equally irrespective of size or type of institution.

Avoiding Conflicts of Interest

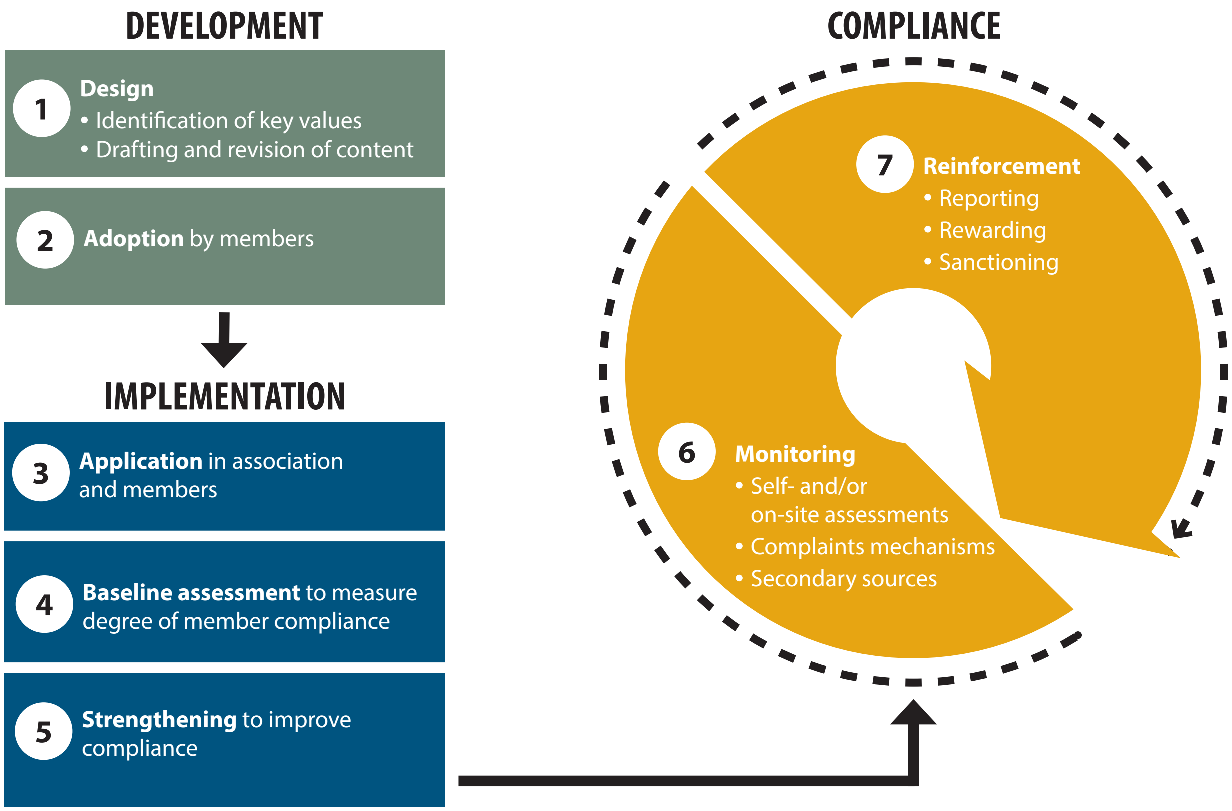
When industry associations engage in self-regulation, conflicts of interest can occur, given that the members being regulated are often the very same who fund and provide other key resources to the operation of the association. For example, when an SRO considers sanctioning a large member or investigating a member whose representatives sit on the governing board of the SRO, the organization's enforcement approach may—consciously or unconsciously—be affected.[7] Similar conflicts could arise if, for example, a complaint against a member is heard by a committee on which a representative of a direct competitor sits. It is therefore important to build mitigation mechanisms into CoC-related activities. These could include disclosure of any conflicts of interest, recusal of persons who have conflicting interests, temporary removal of the same persons, and third-party intervention where needed (e.g. hiring of outside experts to conduct any potentially contentious compliance assessments).

[6] See, for example, http://blogs.cfainstitute.org/marketintegrity/2014/06/24/self-regulation-in-the-financial-markets/
[7] CFA Institute. *Self-Regulation in the Securities Market, Transitions and New Possibilities,* 2013.

Seven Steps to an Effective Code of Conduct

This guide presents a practical, seven-step process by which an effective CoC can be realized, rooted in the experiences of microfinance associations around the world. The first two phases of activities, **development** and **implementation** of a CoC, are linear and will likely occur only once unless the CoC is revised. The third phase, **compliance,** is ongoing and should be repeated on a regular schedule (e.g. yearly).

Figure 1:
Seven steps to an effective Code of Conduct



Step 1: Designing a Code of Conduct

It is essential to clearly define the values and core themes that will structure a CoC. This gives the CoC a logical organizational framing and will ensure that the document is oriented around the priorities of the microfinance sector. Key topics addressed in a CoC often include:

- Core values (e.g. integrity, ethical behavior, financial inclusion, fight against poverty)
- Client protection practices
- Governance
- Relationships between members / competition
- Staff/human resources
- Other topics (e.g. client education, data sharing, etc.)
- Resolution of conflicts and other issues, and description of sanctions

The CoC development process should be consultative, incorporating the perspectives of association members and key stakeholders such as the regulator, policymakers, technical and financial partners, apex institutions,[8] sector funders, and other industry associations. Because of its consultative nature, the CoC development process can become lengthy, especially if all members are involved at each step. However, if members feel they have not been properly consulted, they might not approve the CoC at the end of the development phase. To avoid delays while maintaining the consultative character of the CoC, mapping of the development process and time planning are essential. As outlined in **Figure 2,** the entire membership of the association could be involved in defining the core values around which the CoC will be organized. Thereafter, a smaller group could work to draft the document and review the first draft. The smaller group could be restricted to the association's management and Board. Alternatively, if members desire a more inclusive development process, they may select representatives for a CoC Development Committee to draft and/or review early versions of the CoC. Several iterations might be required to arrive at a well-structured document with unambiguous rules and clear standards that members can realistically meet.

A previous SEEP Network publication, "Codes of Conduct and the Role of Microfinance Associations in Client Protection" (2012), provides examples of CoC structures.[9]

Key Points

- The content of the CoC should be organized around clearly defined themes.
- Development of a CoC is a consultative process and should actively include association members and other key sector stakeholders.
- The association should map out the CoC development process and forecast the amount of time each step will take.

Exhibit 1:

Examples of COCs from Ghamfin (Ghana) and MFIN (India) are available in the online library, along with other resources.

http://goo.gl/op3uaL

---

[8] An apex institution is a second-tier or wholesale organization that channels funding (in the form of grants, loans, or guarantees) to multiple microfinance institutions in a single country or region. (Apex Institutions on Microfinance, CGAP Donor Brief 5, 2002.)

[9] http://www.seepnetwork.org/codes-of-conduct-and-the-role-of-microfinance-associations-in-client-protection-resources-345.php

Key Points

- A CoC must be formally approved. Usually this is by the General Assembly, or sometimes by the association's Board.
- In some cases, the association's CoC will need to be formally adopted by each individual member or incorporated into members' own CoCs.
- At the time of CoC adoption, the association needs to present a basic plan for its implementation to members.

Step 2: Adoption of a Code of Conduct

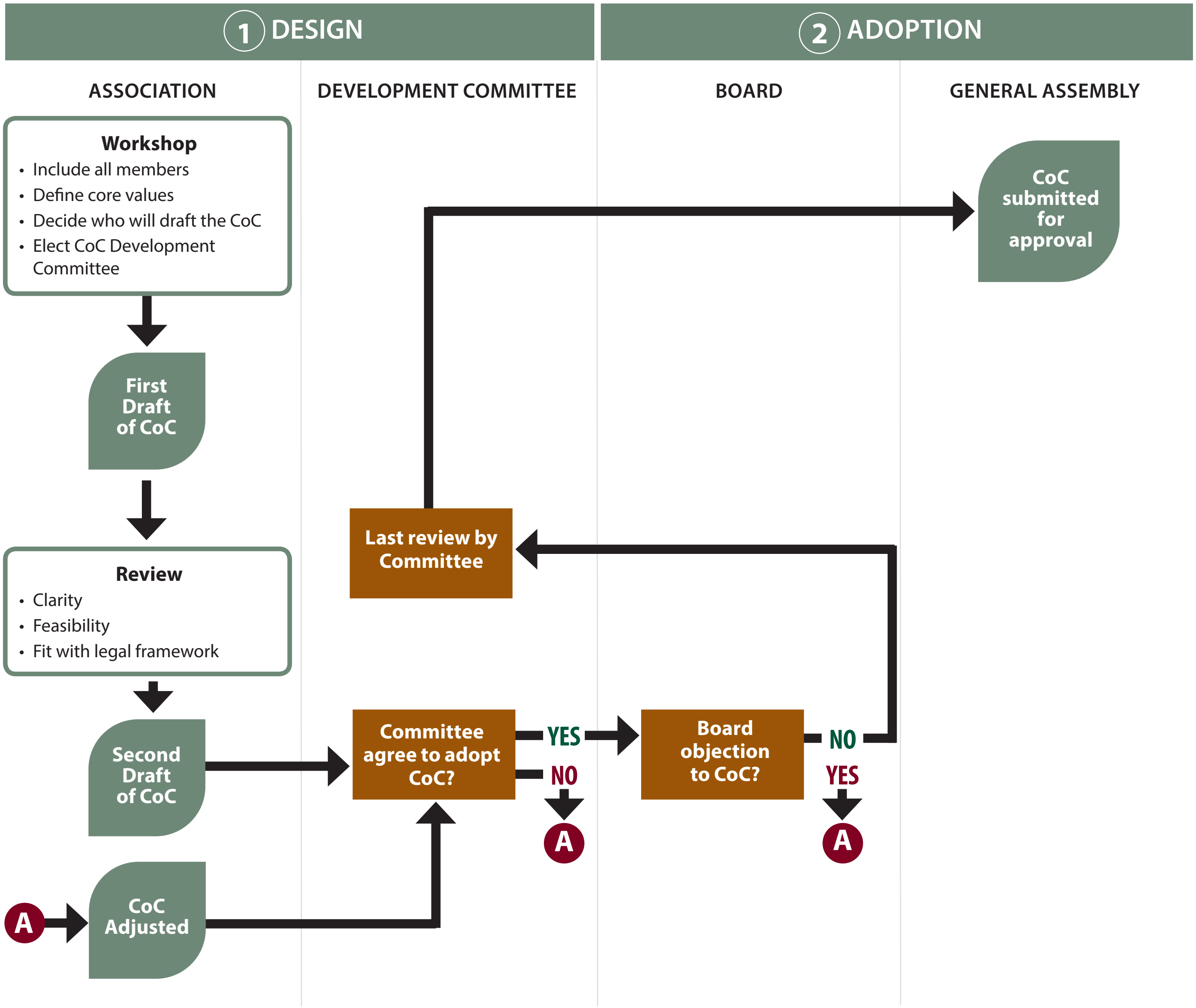
A CoC will generally be approved by the Board of the association before being formally adopted by the General Assembly. The General Assembly is comprised of all members and is typically the highest authority in an association. Since adoption of a CoC would entail a significant change to association bylaws, involvement of the General Assembly is required. In rare cases, it might be possible for the Board to formally adopt the CoC without going through the General Assembly, as was the experience of PMN in Pakistan. An advantage of this course of action is a faster adoption timeline as the Board meets more frequently than the General Assembly, but the CoC might then be subject to some degree of formal adoption by each member. In Pakistan, PMN members signed a Letter of Agreement stating that each member would abide by both the letter and the spirit of the Code.

To date, a few CoCs adopted by associations have stipulated that each member needs to develop its own code. However, this might not be necessary in all cases, provided that the CoC is comprehensive, clearly written, and can be easily understood by junior staff and clients.

The CoC development phase, consisting of development and adoption steps, is summarized in **Figure 2.**

seep
Powering connections

Figure 2:
Code of Conduct development process



Key Points

- Within the association, all actors should devote attention to the application of the CoC.
- Employing association staff dedicated solely to CoC application might sound ideal but is not a requirement; most implementation tasks can be integrated into the work plans of existing staff.
- Stakeholder awareness is crucial for successful implementation of a CoC.
- Members will need to review their processes and procedures to ensure they are in line with the CoC.

Step 3: Application of a Code of Conduct

Once the CoC has been adopted, application begins for the association and its members. At the association level, key tasks concern awareness and capacity building to enable all members to comply with CoC rules. At the member level, key tasks include taking stock of operations and modifying any non-compliant processes or policies.

Implementation within the Association

Roles and Responsibilities

Successful application of the CoC within the association requires attention at multiple levels:

- The **Board** will oversee all CoC activities, either directly or through an Ethics Committee. The Board or Committee will probably also play a role in conflict resolution, which can either be restricted (e.g. an appeal or conflict between members) or extended over more mundane conflicts (e.g. client complaints).

- If an **Ethics Committee**[10] is established, it is important to be realistic about the role of this Board Committee. In some instances, associations have required the Ethics Committee to deal with any issue related to the CoC. Ethics Committee members are often too busy or ill-equipped to do this. Association management and staff need to be responsible for the most time-consuming application tasks, while the Ethics Committee deals with more strategic goals such as discussing the results of compliance monitoring, approving follow-up activities, deciding on sanctions, and arbitrating major complaints of non-compliance. Non-Board members could join the Ethics Committee to reinforce its capacity. These delegates could include senior staff from partner organizations, independent lawyers, credible members of the civil society, or officials from Government entities.

  In India, the association MFIN established an Enforcement Committee, which plays a key role in dispute resolution between MFIN members concerning regulatory violations and the industry Code. To ensure its independence, the majority of MFIN's committee is comprised of external representatives. It meets once every quarter.

- In some associations, **external stakeholders** have also been involved. In Rwanda, AMIR has installed a stakeholders' implementation committee composed of representatives from regulatory and policy authorities, along with some technical partners. The role of this committee is to discuss, support, and in some cases fund activities to promote better implementation of the CoC.

- Association **management** should define yearly action plans related to CoC application and compliance monitoring and integrate these plans into the association's strategic and business planning cycle. Special attention should be devoted to necessary funding and staff resources, as well as expected results.

Some associations have staff specifically dedicated to the application of the CoC; for example, MFIN in India has four staff members focusing on self-regulation. However, this staffing structure is not feasible for most associations. The most common solution is to integrate CoC-centered activities into existing positions. **Figure 3** illustrates how CoC-related tasks can be added to existing job descriptions in a pragmatic way that capitalizes on staff members' areas of expertise.

[10] This committee may have other names: e.g. Enforcement committee, CoC Committee, Honor Committee, etc.

Awareness Campaigns

The association is responsible for properly educating members and stakeholders on the content and application of the Code of Conduct. This can be accomplished via awareness campaigns targeting the following groups:

- **Association members:** Make sure that all levels of management and staff at member institutions know the content of the CoC and have access to the document. It might be unrealistic for the association itself to directly target all staff of all its members, but the association can encourage its members to take on the responsibility of spreading awareness among their staff. For example, the association could recommend that the CoC be among the documents that new staff receive during orientation and training.

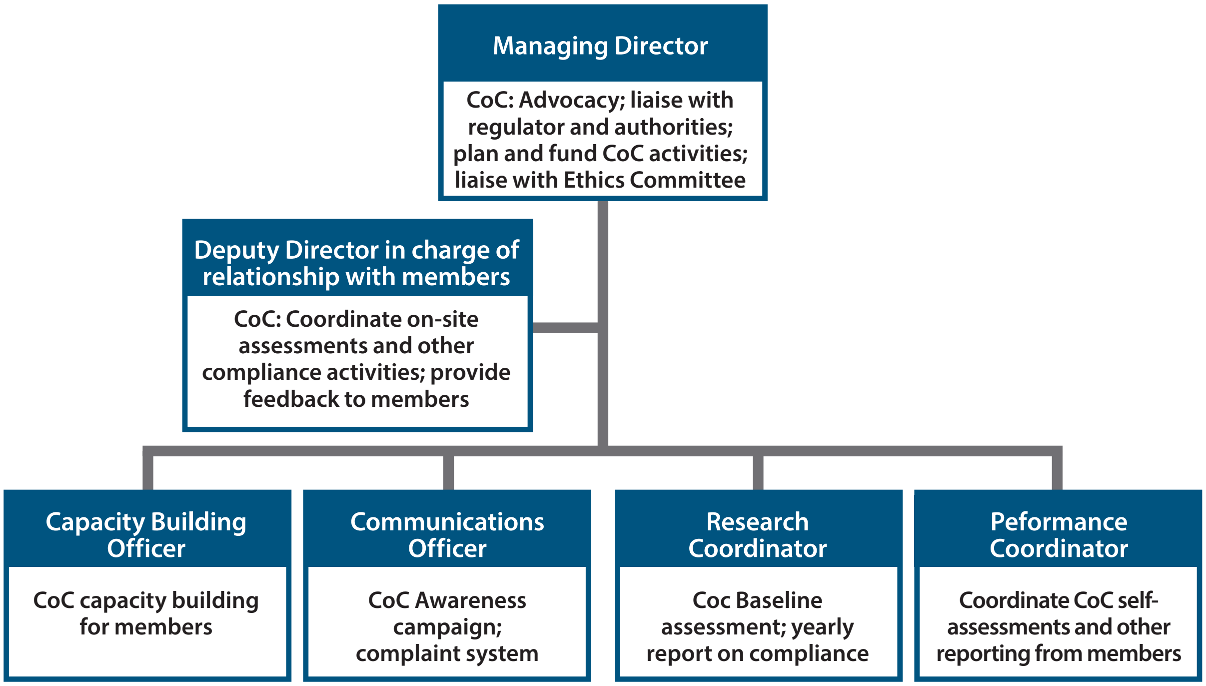
- **Other microfinance providers:** It is beneficial for non-members to know the standards in their industry, and the association should work to make its CoC a recognized standard of quality. Some non-members might even seek to join the association once aware of its reputation for quality resulting from the CoC.

- **Clients and targeted populations:** Clients might not need to know all of the rules of the CoC (like those linked to governance, for instance), but they should be aware of those that offer them basic rights and protection against abusive practices.

- **Regulators and other authorities:** Ideally, these stakeholders should have been involved in the CoC development process. If they were not, or if only a few people within these entities were involved, the association should make sure that every person dealing with MFIs is aware and in support of the CoC.

- **Local or international partners, apex institutions, and investors:** Most partners and investors are keenly aware of the potential impact of effective industry self-regulation and the implementation of a strong CoC. These groups should be informed of the existence and content of the CoC.

Figure 3:
Integrating CoC-related tasks into an association's organizational structure



This is a diverse range of stakeholders, and the association's CoC communications strategy needs to be developed accordingly, with careful consideration of the best channels to reach each type of actor. **Table 1** presents a CoC awareness-raising campaign targeting each category of stakeholders.

Application in Member Institutions

CoC rules and guidelines often have implications for how association members do business. Members have the responsibility to review their operations and make any necessary changes to be in compliance with the CoC. Changes may be required with respect to policies and procedures, internal controls, HR policies, and/or governance practices.

At the member level, possible CoC application challenges could include:

- Some members might not believe that the association will be actively monitoring compliance of the CoC.
- Some members might want to wait for other members to begin changing their policies and practices before doing so themselves.
- Weaker members might be devoting all of their human and financial resources to survival and therefore might see the CoC as a low priority.
- Members with a dominant position might believe that they are too big to be held accountable to the association.

Table 1:
Code of Conduct awareness-raising campaign by stakeholder type

Stakeholder Type	Communication Channels
Senior management and Board of member institutions	• Copies of the CoC • Workshops on rules and implementation
Junior management and staff of member institutions	• Copies of the CoC • Mass e-mails • Internal workshops organized by each member • Association's website
Other MFIs (non-members)	• E-mail communications • Copies of the CoC • Association's website • Any industry event
Clients	• Simple booklets in local languages or illustrations • Posters in branches • Mention of the CoC on member documents and contracts • Simplified version of the CoC on the association's website clearly accessible to clients
General population	• Press release • Talk shows • Association's website
Regulator and authorities	• Workshop • Detailed presentation
Partners and investors	• E-mail communications • Workshop • Detailed presentation

Exhibit 2:

Examples of communications materials used by MFIN (India) are available in the online library, along with other resources.

http://goo.gl/3YVWPG

Step 4: Baseline Assessment of CoC Implementation

Baseline assessment affords a non-threatening way to survey the extent of member compliance with the CoC. Once members have had some time to implement the CoC rules, a baseline assessment will enable the association to measure the degree of implementation and to determine appropriate strengthening activities, along with the need for support to members and possible changes in processes to improve implementation and compliance. Ideally, a baseline assessment would be conducted approximately one year after adoption of the CoC. However, this timeline can be flexible to account for specific circumstances in different contexts.

Baseline assessments offer a variety of benefits to associations, including:

- Enabling the association to assess the degree of CoC awareness at all levels among its membership, and thereby revealing the effectiveness of awareness activities
- Presenting detailed insight into members' understanding of various rules in the CoC
- Informing the association of any changes implemented by members, as well as any difficulties encountered in their application of specific rules
- Providing a clear barometer of the extent of member compliance

Most associations will be familiar with elements of the assessment process and methodology, as they are common to other research projects. The baseline assessment can be broken into the following phases:

1. Preparation: The assessment needs to be well-planned. It could be limited to select parts of the CoC (client protection, for example) or cover the CoC in its entirety. All members should be aware that an assessment will be conducted and consent to the research work. To facilitate the collection of information pertaining to CoC implementation, the association should select a sample that will be representative of its membership, to include their clients, board members, managers, and staff. The sample will depend in part upon the number of members in the association. If there is a small number of members, it may be feasible to survey all of them. If there are many members and it is not feasible to include all of them, the sample should be selected to be representative of the entire membership.

2. Research Design: A list of research questions should be prepared in line with the objectives of the assessment and any initial hypotheses related to potential problem areas in the CoC implementation. Once the research questions have been determined, appropriate research methods can be selected. These can be qualitative (e.g. semi-structured interviews, focus group discussions), quantitative (e.g. survey questionnaires) and behavioral (e.g. mystery shopping).

3. Presentation of Results: Findings should be presented to members and to other interested parties such as the regulator, technical partners, and government authorities. From these findings, the association and its members should agree on strengthening activities that will improve the level of CoC implementation.

Key Points

- A baseline assessment allows an association to measure the degree of implementation of the CoC and determine appropriate strengthening activities.
- The baseline assessment follows a research process, with a range of quantitative and qualitative methodologies suitable to the research objective.
- The ideal timing for a baseline assessment is usually one year after the CoC has been adopted.

Exhibit 3:

Examples of baseline assessment instruments used by AMFIU (Uganda) are available in the online library, along with other resources.

http://goo.gl/O7KwhR

Exhibit 4:

An example of an executive summary from a baseline assessment at AMIR (Rwanda) is available in the online library, along with other resources.

http://goo.gl/nNvEQg

Key Points

- Compliance can be improved by prioritizing common deficiencies and by supporting members who have demonstrated commitment to improving their policies and practices.
- Compliance may be hindered by systemic deficiencies that require sector-wide interventions, including policy and regulatory reforms.

Step 5: Strengthening Implementation of a CoC

The baseline assessment would have identified areas of non-compliance with of the CoC. This provides an opportunity for the association to analyze trends across its membership and prioritize those areas most in need of support, as well as to improve awareness of common challenges faced by members.

In some cases, common deficiencies across the membership are likely to be indicative of weaknesses in the policy or regulatory environment. One such example is the lack of credit bureau participation. While an association's CoC may mandate credit information sharing, if members are unable to access existing credit bureaus, the association may need to prioritize

Table 2: Example of deficiencies and corrective interventions in CoC implementation

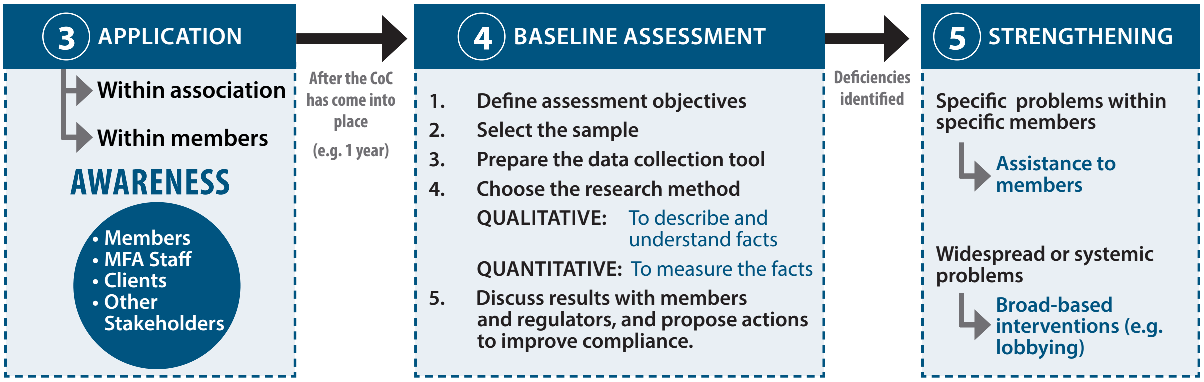
Weaknesses identified in baseline assessment	Potential action areas for the association
Clients borrowing from multiple institutions	• Lobby the regulator to open the existing Credit Reference Bureau (CRB) to association members. • Encourage use of the CRB by all members. • Assist members to improve their technical capacities to be able to use and share data with the CRB. • Promote financial education and support members in its delivery to improve client understanding of over-indebtedness and the importance of credit histories.
Complaint resolution mechanisms are not in place or are not effective for most members	• Support members to put in place a complaint resolution mechanism that will ensure timely delivery of response to clients. • Set up a toll-free number at the association that will redirect complaints to members. • Liaise with the national Ombudsman so that clients can redirect their complaints if they are not satisfied with the outcome from their institution. • Print posters for members to display in public areas to explain to clients their right to access grievance mechanisms.
Lack of pricing transparency	• Design a standard loan product form for all members to use to inform clients about loan pricing. • Test the form with clients to ensure it is easily understandable. • Lobby the regulator to make the form compulsory for all providers in the sector.

dialogue with policymakers and advocate for any needed reforms, utilizing information obtained from the baseline assessment of members.

One of the areas in which members are most likely to require support is in client protection. Associations could advise their members to employ various tools and resources from the Smart Campaign. Although some of a CoC's rules on client protection might differ from the Smart Campaign's seven core client protection principles,[11] in most cases, they will overlap to a large extent.

Table 2 presents examples of potential weaknesses in CoC implementation, along with suggested association-led interventions that could improve implementation in these areas.

Figure 4:
The CoC implementation phase



[11] For a detailed description of the Smart Campaign's client protection principles, see http://www.smartcampaign.org/about/smart-microfinance-and-the-client-protection-principles

Key Points

- Finding a sustainable and pragmatic way to monitor compliance on a regular basis is a challenge associations face.
- Compliance may be measured by various methods, such as self-assessments, on-site assessments, use of complaint mechanisms, and secondary sources of information.

Step 6: Compliance Monitoring

Steps 6 and 7 comprise the third and final phase of CoC realization: compliance. While the development and implementation phases are linear and unlikely to be repeated, the compliance phase should be an ongoing, recurrent cycle of monitoring and reinforcement.

After completion of the implementation phase (application, baseline assessment, and strengthening activities), most members should have received enough feedback and support to enable their compliance with the CoC. The association needs to establish a cycle of compliance monitoring that will review whether CoC rules are being applied by members. This cycle will also include reporting on the degree of compliance and deciding on actions to improve compliance. A yearlong cycle is standard, but this cycle could be shorter or longer depending on an association's specific circumstances.

Establishing a compliance monitoring methodology

A challenge for any association is to find a sustainable way to monitor compliance over a number of years, given the human and financial constraints associations often face. Of the various compliance monitoring methods described below, associations can choose one or a combination to meet their specific needs.

1. Member self-assessments

Member self-assessments afford a means to monitor compliance without consuming too many association resources. This method consists of two parts:

Development of a user-friendly tool that members use to report on their implementation of the CoC

The self-assessment tool can be modeled on the baseline assessment questionnaire, or it can be simpler. The association might want to limit the focus of the self-assessment to a select number of the most important aspects of the Code. Ideally, the tool should provide some automated results or scoring. MFIN's self-assessment tool, "Responsible Business Index" (RBIndex), enables institutions in India to assess their performance on industry standards, with specific reference to elements of its CoC. The RBIndex is a biannual exercise. This tool aids MFIs in gap analysis, benchmarking, and in tracking their progress in implementation of the CoC.

Establishment of mechanisms to validate self-assessments

In self-assessment exercises, it is tempting to provide an overly-positive view of one's performance. One potential means of avoiding such biases is to combine the self-assessment with on-site visits or other types of verification, such as complaint mechanisms and secondary data as described below. In this way, members know that their responses to the self-assessment can be verified at any time.

Exhibit 5:

Examples of self-assessment tools used by LAO MFA (Laos) and Sa-Dhan (India) are available in the online library, along with other resources.

http://goo.gl/gUi5jo

2. On-site assessments

If the association decides to conduct on-site assessments, the first step is to choose which members should be assessed. This selection may be made on the basis of issues reported in self-assessments or other channels, such as complaints from clients or from other members, or concerns of the regulator. For on-site assessments, associations might rely on their own employees or external support (e.g. consultants or staff from a local rating agency or audit firm). On-site assessments might be costly in terms of travel and human resources; therefore, funding is an important consideration when determining how many assessments should be undertaken.

On-site assessments are similar to what a regulator would do in on-site examinations. The CGAP *Technical Guide for Bank Supervisors*[12] provides a detailed description of this type of examination as related to consumer protection. The most important parts of this type of assessment include:

- **A meeting at the association member's head office with the Board and senior management**
- **Branch visits**
- **Interaction with clients or mystery shopping**
- **Interviews with loan officers and other staff**
- **Reviewing policies and procedures documents**
- **Reviewing a sample of loan files**

The Smart Campaign Evaluation methodology and tools[13] could also be useful in assessing compliance with client protection-related rules of the CoC, as long as these rules are similar to the seven principles of the Smart Campaign.

On-site assessments should be based on the same tool used for any member self-assessments. This allows for verification of the self-assessment results and also enables comparison or consolidation with other members' results.

[12] Dias, Denise. *Implementing Consumer Protection in Emerging Markets and Developing Economies: A Technical Guide for Bank Supervisors.* CGAP, 2013.
[13] http://smartcampaign.org/tools-a-resources/948-a-guide-to-client-protection-assessments

3. Complaint mechanisms

Associations can use complaint or grievance mechanisms as a secondary source of information on CoC-related issues. Complaints can be initiated by and targeted at different stakeholders: e.g. a member on another member, staff on their member employer, or clients on a member. As described in **Table 3**, different types of complaints require different responses in terms of where the recourse mechanism resides, channels of communication with the complainant, and how the association will be able to use the information generated by these mechanisms to monitor CoC compliance.

Table 3:
Use of complaints mechanisms in compliance monitoring

Types of complaints	Recourse mechanism	Communication with complainant	Compliance monitoring
MFI vs. another MFI (e.g. unfair competition, unethical practice, etc.)	Association: Board or Ethics/CoC Committee	• Formal letter • Formal hearing	These complaints could trigger on-site assessment or more specific investigation into the alleged non-compliance.
Staff vs. member MFI (e.g. human resources policies and practices)	Association: Ethics/CoC Committee or senior management	• In writing or through phone line • Web-based complaint mechanism	If the issue is serious, it could trigger on-site assessment or more specific investigation into the alleged non-compliance. If complaints from MFI employees are frequent, associations should keep statistics on the types of issues of most frequent concern.
Clients vs. member (e.g. client protection)	Internal grievance system Association as a first level or second level grievance system	• Dedicated phone line • In person • Web-based complaint (if realistically accessible to clients)	Collect and consolidate statistics from members' own grievance systems or from the association system on: • Types of complaints • Speed of resolution • Outcome • Number of complaints per member (noting that more complaints can sometimes be a result of clients' improved awareness of the mechanism rather than the member having more issues than other institutions)

4. Other reporting and secondary sources of information

Associations can think creatively about other sources of information they can leverage to obtain a broad view of CoC compliance. Depending on the regulatory framework and support structures in their specific contexts, associations might be able to assess compliance on specific rules or complement the results of member self-assessments with any the following sources of information:

- **Financial reports or audited financial statements**
- **Reports to the regulator**
- **Smart Campaign assessments**
- **Social performance reports**
- **Information from credit reference bureaus**
- **Information from rating agencies, investors, and technical or financial partners**
- **Reporting on internal complaints, as discussed above**

Table 4 summarizes the key pros and cons of each of the above-mentioned compliance monitoring methods.

Table 4:
Pros and cons of various CoC compliance monitoring methods

Compliance Monitoring Method	PROS	CONS
Self-assessments	• Low cost • Provides a view of compliance across all members	• Members might not be objective when reporting their level of compliance
On-site assessments	• More objective than self-assessment • May provide a view on compliance from different perspectives (e.g. clients, staff, etc.)	• Expensive and may consume a lot of human resources • Often limited to a small sample of members
Complaint mechanisms	• Focus is on the most problematic issues • May provide a view of compliance from different perspectives (e.g. clients, staff, members)	• Resource-intensive • Can give a false impression of who are the least compliant members if mechanisms are less accessible within some member institutions
Other reporting and secondary sources of information	• Low cost • Readily available	• Not always available for all members • In most cases, will only focus on a limited number of rules • Might be outdated in some instances

Key Points

- Upon the conclusion of each cycle of compliance monitoring, the association needs to give feedback to each member.
- Producing a general report and/or statistics on compliance can be very useful for members, board members, and external stakeholders.
- It is important to highlight and reward good compliance.
- A range of measures can be applied to deal with non-compliance.

Step 7: Compliance Reinforcement

As shown in **Figure 5,** for each cycle of compliance monitoring, the association will need to plan activities linked to 1) reporting on findings, 2) promoting high standards of compliance by rewarding compliant members, and 3) following up on non-compliance with possible support to weak institutions and, in some cases, sanctions or lobbying for policy and regulatory changes.

Reporting on Compliance

At the conclusion of each cycle of compliance monitoring, the association needs to give feedback to each member. This could be a simple letter acknowledging receipt of the self-assessment or detailed information on findings if an on-site assessment or other analysis has been conducted. Peer comparisons and benchmarking are also useful so that each member can compare its performance to its peers along at least a few significant indicators. For example, the average time required to resolve a client's complaint for the overall membership could be noted alongside an individual member's score for comparison.

Producing a general report and/or statistics on compliance can be useful for members, board members and external stakeholders. This allows members to measure themselves against peers and for Board members to gain a comprehensive view of achievements and weaknesses within the membership. Compliance reporting can also significantly improve transparency and confidence in the microfinance industry at large, by providing information to investors, technical partners, policy authorities, and to the regulator.

Rewarding good performers

Since compliance with the CoC is often not legally binding, it is important to highlight and reward good compliance as an incentive for compliance. Several associations have adopted strategies to promote the association members that comply with the rules of the CoC. Associations should also lobby investors and other technical and financial partners to include CoC compliance in their due diligence when considering support to a member institution.

In Mexico, the association ProDesarrollo certifies institutions for high compliance with its CoC. Those members that are 100% compliant with the code are recognized as "distinguished," which strengthens their qualifications whenever they apply for funding, especially funds from apex institutions. Additionally, the association's compliance report includes something similar to a "member of the month" section that features members who are highly compliant. This is a badge of honor and members want to be featured in this section.

Dealing with non-compliance

One of the challenges faced by an association in the process of realizing an effective CoC is how to deal with non-compliant members. In some cases, association membership is mandated by law, while in others, membership is purely voluntary. In the latter instance, application of sanctions could simply result in the non-compliant member leaving the association by choice, without suffering further consequences. This could also trigger an exodus of other members who, fearing similar poor marks on their own non-compliance, would choose to leave and avoid potential sanctions. Compulsory membership can make sanctions easier to apply. However, some associations have been hesitant to apply sanctions. Severe sanctions such as expulsion could mean that the MFI is no longer operating legally and would be forced to close down, with severe consequences for MFI clients. Fortunately, a large range of measures can be applied to deal with non-compliance, including:

Exhibit 6:

An example of a score card of compliance from Prodesarrollo (Mexico) is available in the online library, along with other resources.

http://goo.gl/k9OkNo

Exhibit 7:

An example of a certificate of compliance from Prodesarrollo (Mexico) is available in the online library, along with other resources.

http://goo.gl/W686pG

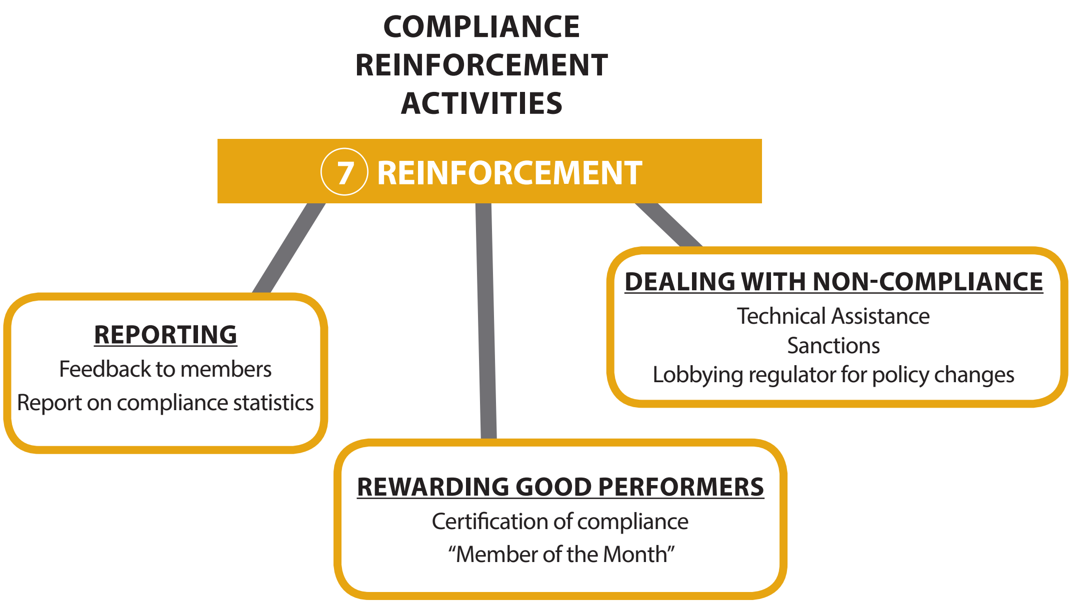
1. Improvement plans and technical assistance: Each member should be bound to answer to any feedback given on compliance. Those with a non-compliance issue should provide an improvement plan to the association, explaining the measures that will be taken and a timeframe for improvement. In limited cases, the association might be able to provide some technical assistance. If support was already provided in the past, the association might consider outsourcing intensive services to experts that would charge the member a fee for their services.

2. Public exposure: If the association publishes any report on compliance or provides information to investors and other partners, the consequences of unflattering comparison to other members could provide a strong incentive to improve compliance.

3. Sanctions: Sanctions are rarely used by associations. However, it is worth mentioning that whenever they are considered, sanctions need to be determined through a formal process. Usually the governing body in charge of sanctions is the Ethics Committee or the Board. Sanctions may include suspension or cancellation of membership, monetary compensation to the victim, or, in cases where laws and regulations were violated, referring a non-compliant member to the court system or the regulator.

4. Liaising with the regulator and lobbying for policy changes: Sometimes weak compliance indicates a larger systemic issue than a few members being unwilling or unable to comply. For instance, if members resist complying with rules on pricing transparency due to concerns that it may provide their competitors an unfair advantage, the best course of action may be for the association to advocate for formal regulatory reforms that would mandate changes for the entire sector.

Figure 5:
Association activities to reinforce CoC compliance



Results of Effective Implementation

Associations that have worked to effectively implement their CoCs have seen tangible results in various issue areas, most noticeably with regards to client protection. Initially, achievements might be very general, such as increased awareness of acceptable practices amongst members. Later outcomes will be more specific and concrete, like sharing data through a credit bureau or putting in place a complaints resolution system. All told, it is clear that microfinance associations, their members, and clients are beginning to realize the benefits of diligent attention to CoC development, implementation, and compliance.

"One of the major consequences and achievements of the CoC is that there is now an awareness of what are unacceptable practices, especially regarding aggressive lending. Many organizations that are not in compliance are beginning to ask for help (training, workshops, etc.) rather than just ignoring the problems."

–AMFA (Azerbaijan)

"The CoC has achieved its goal because it provides a broad framework that the members of RFR wanted to see, and this has brought along the commitment that RFR wanted. The Code has also served as a reference for the institutions to work on their own internal CoC, adapting it to their needs. Finally, it paved the way to implement complementary processes such as Social Performance Management and the implementation of tools to measure the performance of institutions in various areas. Because of this, RFR has implemented: SPI4, PPI, Smart Campaign, Impact Assessment Truelift, gathering social information, and participated in MIX with social information."

–RFR (Ecuador)

"A major impact of the CoC is that MFIs are required to provide credit information on all clients to the credit agencies so as to prevent multiple lending. This way, a MFI has access to all of the credit history of a client to ensure that they do not have multiple outstanding loans with other MFIs."

–Sa-Dhan (India)

"CoCs have created expectations and raised awareness of best practices among clients. The most innovative client complaint mechanism is a toll-free number being developed by Sa-Dhan and MFIN in India."

–MFIN (India)

Bibliography

Denise Dias. 2013. "Implementing Consumer Protection in Emerging Markets and Developing Economies, A Technical Guide for Bank Supervisors". CGAP.

Cara S. Forster. 2012. "Codes of Conduct and the Role of Microfinance Associations in Client Protection". SEEP Network.

——. 2012. "A Guide to Regulation and Supervision of Microfinance Consensus Guidelines". CGAP.

——. 2013. "Self-Regulation in the Securities Market, Transitions and New Possibilities". CFA Institute. 2013.

About SEEP

SEEP is a global learning network. We explore strategies that create new and better opportunities for vulnerable populations, especially women and the rural poor, to participate in markets and improve the quality of their lives.

Founded in 1985, SEEP was a pioneer in the microcredit movement and helped build the foundation of the financial inclusion efforts of today. In the last three decades our members have continued to serve as a testing ground for innovative strategies that promote inclusion, develop competitive markets, and enhance the livelihood potential of the world's poor.

SEEP members work together and with other stakeholders to mobilize knowledge and foster innovation, creating opportunities for meaningful collaboration and, above all, for scaling impact.

About RFLL

Microfinance associations play a key role in supporting the sustainable growth of the microfinance industry. The SEEP Network serves these associations by connecting them to a global learning community and by promoting capacity building efforts.

As microfinance scales and commercializes in Africa, there is a need to foster greater consumer protection and transparency within the industry. SEEP is implementing the Responsible Finance through Local Leadership Program (RFLL), a four-year partnership with The MasterCard Foundation to improve management capacity of microfinance associations, advance financial transparency, and promote consumer protection. The knowledge and experience that results from this program will be shared with other associations to scale and sustain industry growth across Sub-Saharan Africa and beyond.

seep

Powering connections