



STATE OF THE PRACTICE

# STATE OF CLIENT PROTECTION IN SENEGAL'S MICROFINANCE SECTOR



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# Client Protection in Senegal's Microfinance Sector

**The SEEP Network**

1611 North Kent Street, Suite 610  
Arlington, VA 22209  
T: 202.534.1400 | F: 703.276.1433  
seepnetwork.org

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## Acronyms and Abbreviations

APR	Annual Percentage Rate
APSFD	Professional Association of Decentralized Financial Systems – Microfinance Association
BCEAO	Central Bank of West African States
CDP	Personal Data Commission
CEMAC	Economic and Monetary Community of Central African States
CFAC	CFA Franc
CGAP	Consultative Group to Assist the Poor
CPP	Client Protection Principle
DGF	Deposit Guarantee Fund
DMF	Directorate of Microfinance
DRS-SFD	Directorate of Regulation and Supervision of MFIs
ESUSFD	Satisfaction Survey of Clients of Decentralized Financial Services
FBS	Frankfurt Business School
FSP	Financial Services Provider
GDP	Gross Development Product
GNI	Gross National Income
IT	Information Technology
KfW	German Development Bank
MFI	Microfinance Institution
MIS	Management Information System
OHADA	Organization for the Harmonization of Business Law in Africa
OQSF	Financial Services Quality Monitoring Unit
PAR	Portfolio at Risk
RFL	Responsible Finance through Local Leadership Program
SA	Public Limited Company
SEEP	Small Enterprise Education and Promotion
SFD	Decentralized Financial System – Microfinance Institution
USD	United States Dollar
WAMU	West African Monetary Union
WAEMU	West African Economic and Monetary Union

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## Summary

This report provides an overview of regulations and practices related to client protection in the microfinance sector in Senegal. It summarizes the findings of evaluations of five microfinance institutions (MFIs, or decentralized financial systems – SFDs) to assess their compliance with the Smart Campaign's client protection standards between 2014 and 2015. It also draws on: (i) a national diagnostic carried out in 2015 by Senegal's Professional Association of Decentralized Financial Systems (APSFD-Senegal) using a tool developed by the SEEP Network for assessing practices at the national level; (ii) a client satisfaction survey conducted by the Financial Services Quality Monitoring Unit (OQSF) in 2011; and (iii) an earlier diagnostic carried out in 2011 by CGAP in collaboration with KfW and APSFD-Senegal. This report draws up key recommendations that are yet to be implemented.

The findings of this report are organized under the seven Client Protection Principles (CPP) promoted by the Smart Campaign.

### Principle 1

#### Appropriate Product Design and Delivery

The range of MFI products is relatively diversified, with group and individual loan products, savings and money transfer services, and in some cases, death and disability insurance linked to loans. Although mobile banking services remain rare, they are expected to grow in the coming years. Meanwhile, the national surveys conducted in 2011 revealed a mismatch between supply and client needs. This reflects the fact that MFIs do not always take into account the feedback and characteristics of their clients in order to improve their products. Although the process of securing collateral is governed by law, this is insufficient to mitigate the risk of it being detrimental to clients. **Generally speaking, there is still room for improvement, and shortcomings in procedures designed to secure collateral present a relative risk for clients.**

### Principle 2

#### Prevention of Over-Indebtedness

Surveys show that cross-indebtedness is a reality in Senegal. For a long time, information sharing in order to ascertain client indebtedness was inexistent. However, a credit bureau has recently been made operational<sup>2</sup> and should make up for this shortcoming, but just to a certain degree as only large MFIs (regulated by Article 44) are required to report to it. Credit risk (portfolio at risk and loan write-offs) is reaching worrying levels nationally and is significantly higher than 10% at some MFIs. **In the absence of a more rigorous prevention mechanism implemented by MFI managers (participation in the credit bureau, building awareness among governance bodies, loan approval criteria based on repayment capabilities, staff training, internal control tools, etc.), there could be a risk of over-indebtedness, in particular in urban and peri-urban areas.**

### Principle 3

#### Transparency

Although it is difficult to generalize due to the wide variety of practices in the sample, no systematically exemplary transparency was observed. Pricing information was incomplete at most institutions despite regulations governing the display and disclosure of the annual percentage rate (APR). Some specific pricing conditions (e.g. concerning supplementary or potential fees) are not always provided or explained to clients. Furthermore, while the institutions assessed inform their clients orally concerning loan terms and conditions prior to disbursement, they do not necessarily provide an amortization table or a copy of the contract prior to signing. This step is essential in order for clients to make an informed borrowing decision. **The level of implementation of this third CPP could be improved significantly.**

### Principle 4

#### Responsible Pricing

The new regulation capping the annual percentage rate (APR) for SFDs at 24% (among the lowest levels in the world) directly weakens the financial health of all institutions. The situation is of particular concern for the sustainability of MFIs in rural areas, which are structurally less profitable than their urban counterparts owing to lower population density, a lack of tangible collateral, and a low level of economic activity. **This interest rate cap gives rise to two potential risks that run counter to the stated priorities for the sector:** (i) microfinance activities risk gravitating back toward urban areas to the detriment of populations living in the most isolated areas; and (ii) MFIs risk suffering from a lack of transparency and, in order to survive, they may increase supplementary fees without including them in the calculation of total loan cost.

<sup>1</sup>The Credit Bureau has been operational in Senegal since the end of October 2015.

## Principle 5

### Fair and Respectful Treatment of Clients

The attention given to fair and respectful treatment of clients in the sector has progressed considerably thanks in particular to the dissemination of the APSFD-Senegal Code of Conduct. However, most of the MFIs assessed are yet to implement it. Even though abusive behavior by staff has been penalized, training remain generally insufficient, and mechanisms to control, impose penalties, or assess ethics criteria are not sufficiently incorporated into MFIs' operating procedures and practices. **There is still some way to go to achieve best practice in most of the MFIs studied, in particular with regard to loan collection, seizure of collateral, and informing clients of their rights.**

## Principle 6

### Privacy of Client Data

Client data protection practices could be improved considerably. While large institutions apply international standards to manage client data confidentiality, the practices of the smaller institutions are less advanced. Clients are not well informed—if at all—about the use of their personal data. The risk of this lack of transparency is that clients may feel betrayed and lose confidence in SFDs. In this respect, **the low level of implementation of this CPP may pose a reputational risk for the sector.**

## Principle 7

### Mechanisms for Complaint Resolution

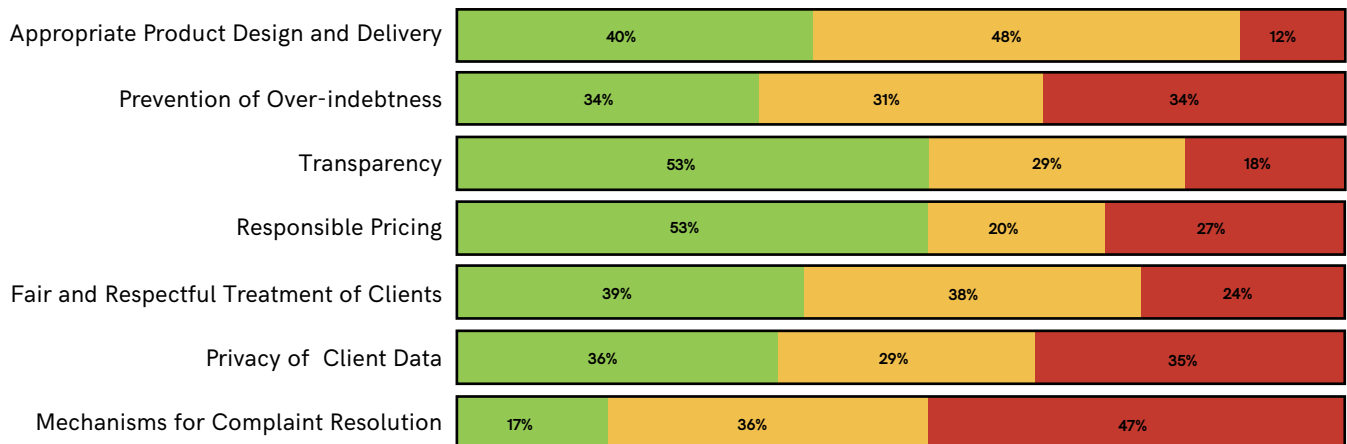
Paradoxically, although the MFIs appear to recognize the usefulness of client feedback and grievances in improving their products and services, for the most part they are poorly equipped to manage these grievances. In most cases, procedures for collecting then resolving grievances are not systematized or integrated into management of activities. Moreover, the mechanisms are inefficient and lack direction. Finally, in none of the MFIs assessed are clients informed at the outset of the possibility of lodging a complaint internally or with the Financial Services Quality Monitoring Unit (OQSF) with a view to potential mediation.

Efforts have been made by OQSF personnel to make recourse mechanisms accessible to clients, including the least educated. However, **these mechanisms remain confined and need to continue to be developed if they are to have a greater impact on the populations of remote areas.**

## Key Findings | Principles in Practice

In the following section of this report, results of client protection Smart assessments are reported for each of the seven principles. Results of these assessments are indicated as follows:

- Percentage (%) of indicators **fully** met by MFIs in sample
- ▲ Percentage (%) of indicators **partially** met by MFIs in sample
- ◆ Percentage (%) of indicators **not** met by MFIs in sample



## Introduction

In any business relationship, client protection consists in balanced relationships between provider and client based on trustworthy information that allows the client to make an informed decision to buy. This is especially important in the microfinance sector, where clients are mostly vulnerable and less educated about financial services. The stakes are considerable insofar as bad practices on the part of financial service providers can have dramatic consequences for their client base, in addition to the reputation of and confidence in the sector.

The three pillars of client protection in the microfinance sector are: (i) a regulatory environment that establishes general rules for providers; (ii) information and financial literacy for clients; and (iii) best practice on the part of the financial service providers.

The Smart Campaign has spearheaded efforts to promote best practice in client protection in the microfinance sector as part of a consensus-based approach involving all major sector stakeholders. The Campaign has outlined minimum standards for client protection comprising seven Principles, in an effort to reorient the practices of financial service providers toward client wellbeing.

The implementation of adequate regulations and a commitment among stakeholders to financial literacy among their clients and to these Client Protection Principles (CPPs) will help improve financial inclusion in a country.

Through its Responsible Finance through Local Leadership (RFL) initiative, in collaboration with the MasterCard Foundation, the SEEP Network assists seven microfinance associations in sub-Saharan Africa (Benin, Burkina Faso, Côte d'Ivoire, Ghana, Uganda, Rwanda, and Senegal) in promoting responsible microfinance. SEEP supports initiatives designed to:

- Develop and enforce microfinance sector codes of conduct;
- Train and assess microfinance institutions (MFIs) on the Client Protection Principles;
- Facilitate the implementation or improvement of credit information sharing systems;
- Identify meso-level interventions designed to promote client protection;
- Undertake client protection diagnostics; and
- Promote client grievance and recourse mechanisms.

This document is part of a series of reports on the state of practice in some of the countries participating in the RFL program. It seeks to underline the strengths and priority areas for improving client protection in each of these countries and to guide stakeholders' technical and advocacy efforts.

## Key Data

### Economic Indicators<sup>3</sup>

Total Population  
**14.7 million** (2014)

GNI Per Capita  
**USD 1,050** (2014)

GDP Growth  
**4.7%** (2014)

Currency  
**USD 1 = CFAF 601.63**  
(as of 01/29/16)

% of population below the national poverty line  
**46.7%** (2010)

### Senegal's Microfinance Sector (as of December 31, 2015)<sup>4</sup>

Number of Licensed SFDs  
**383** across 206 organizations  
(federations, unions, non-affiliated SFDs, SAs, associations)

Number of Clients  
**2.4 million** or a penetration rate in the population of 17.5%

Savings Outstanding  
**CFAF 249.3 billion**

Loans Outstanding  
**CFAF 286.7 billion**

Portfolios at Risk  
**4.6%**

### Indicators of Financial Inclusion (2014)<sup>5</sup>

% of the population (age 15+) with an account at a financial institution  
**15 %**

% of the population (age 15+) with a loan from a financial institution  
**4 %**

% of the population (age 15+) with savings at a financial institution  
**7 %**

<sup>3</sup> Source: World Bank

<sup>4</sup> Source: [http://drs-sfd.gouv.sn/sitedrs/documents/Publications/Situation\\_T4\\_2015.pdf](http://drs-sfd.gouv.sn/sitedrs/documents/Publications/Situation_T4_2015.pdf)

<sup>5</sup> Source: Global Findex 2014 – Senegal



## Overview of Senegal's Microfinance Sector

The microfinance landscape in Senegal contains a wide variety of institutions, including large cooperative networks, public limited companies (SA) supported by international organizations, and independent mutualistic institutions. As of December 31, 2015, the sector counted 205 active SFDs, with 1,168 points of service.<sup>2</sup> It is currently dominated by three large cooperative networks (CMS, PAMECAS, ACEP) and one SA (MICROCRED).

### Gouvernement Strategies and Priorities

The Senegalese government's commitment to formalizing and developing the sector has led to the creation of a Ministry for the Promotion of Microfinance, the key component of which is the **Directorate of Microfinance** (DMF). This body coordinates government policy and oversees the activities of the various stakeholders. The DMF also sets up the government's priority strategies through a **National Microfinance Strategy (Lettre de Politique Sectorielle, or LPS)**, the first version of which was published in 2004. Its objective at the time was to:

*Promote access to viable and sustainable financial services for most poor and low-income households and small-business owners throughout the country by 2015 through viable SFDs that are integrated into the national financial system.*

A new LPS was adopted in December 2015. Its main aims are to increase stability and safety in the sector and to improve the range of products and supply channels, with emphasis on mobile banking services.

In 2011, the **Directorate of Regulation and Supervision of SFDs** (DRS-SFD), established within the Ministry of the Economy and Finance, also launched a action plan designed to consolidate the sector. This resulted in the disappearance of the weakest organizations (notably the Savings and Loans groups) and to mergers among the smaller cooperatives.



<sup>2</sup> Source: [http://drs-sfd.gouv.sn/sitedrs/documents/Publications/Situation\\_T4\\_2015.pdf](http://drs-sfd.gouv.sn/sitedrs/documents/Publications/Situation_T4_2015.pdf)

## Regulations on Client Protection

Several regulations, summarized below, address client protection. Governments are responsible for enacting BCEAO rules and decisions through implementing decrees, with the exception of BCEAO directives, which come into force automatically.

### Regulatory framework for exercising microfinance activity

- Law 2008-47 of September 3, 2008;
- Implementing Decree 2008-1366 of November 28, 2008.

### Appropriate product design and delivery

- BCEAO Decision 088-03-2014 regarding the establishment of a deposit guarantee fund in the WAMU zone;
- The OHADA Laws designed to improve the constitution of collateral and its realization (adopted on December 15, 2010);
- Regulation 15/2002/CM/UEMOA regarding payment systems in WAEMU Member States, in particular Article 131 allows SFDs to promote the use of the same payment methods as banks, notably electronic money;
- Directive 008-05-2015 governing the operations of electronic money issuers.

### Over-indebtedness

- Uniform Law 2014-02 regulating credit bureaus and all directives relating to their operations.

### Transparency

- Article 20 ("Actions for Illiterate Persons") of the new Code of Civil and Commercial Obligations states that an illiterate client must be accompanied by two literate witnesses who may confirm that he or she has been informed orally of the terms and conditions of the contract;
- BCEAO Decision 397/12/2010, which requires SFDs to disclose information relating to pricing and the annual percentage rate (APR).

### Responsible Pricing

- Directive 020-12-2010 establishing a list of financial indicators, including standards of good management, and helping to ensure the sustainability of SFDs;
- Uniform Law regarding the definition and control of usury, with the APR lowered to 24% on January 1, 2014 by order of the Ministry of the Economy and Finance (08.01.2014-00311/MEF/DMC);
- The Decree on the calculation of the APR, specifying the calculation method;
- Directive 004-06-2014, which contains a list of financial services that must be free of charge.

### Client Data Protection

- Law 2008-12 regarding the protection of personal data;
- Directive 002-01-2015 on ways for suppliers of data to credit bureaus in WAMU Member States to obtain client consent.

### Mechanisms for Complaint Resolution

- Decree 2009-95 on the establishment and structure of the Financial Services Quality Monitoring Unit (OQSF Senegal). This agency has set up a mechanism designed to collect and process client grievances and claims.

In addition, the national microfinance association, Professional Association of Decentralized Financial Systems (APSFD), also helps promote CPPs.

The Association drafted a **Code of Conduct** in 2008 (revised on May 18, 2011), one of the objectives of which is to promote MFI ethical practices. The Code applies to all SFDs (Articles 3 and 39) and was disseminated through an education program designed to build awareness throughout the country. Its 48 articles cover all CPPs with the exception of Appropriate Product Design and Delivery.

### Oversight

There is no supervisory body specifically dedicated to client protection. In addition, there is no targeted oversight of implementation of the rules relating to client protection.

General supervision of the sector is carried out by the Directorate of Regulation and Supervision of SFDs (DRS-SFD), the Central Bank of West African States (BCEAO), and the Banking Commission of the West African Monetary Union.

To some extent, APSFD-Senegal also monitors compliance with regulations, including those concerning client protection. In particular, the association monitors the behavior of its members through its Ethics Committee in order to ensure compliance with the Code of Conduct. The committee has the power to impose penalties.

The Financial Services Quality Monitoring Unit (OQSF/Senegal), an advisory institution created by Decree 2009-95 of February 6, 2009, is under the purview of the Ministry of the Economy and Finance. The Unit facilitates relations between consumers and financial institutions through mediation in the event of disputes or misunderstandings. In its mediation role, OQSF has set up a mechanism to collect and process client grievances and claims. It also undertakes regular surveys on consumer satisfaction. However, it is only active in coordination and mediation and has no power to impose penalties.

### State of Client Protection

This report draws its findings from several studies and assessments carried out in Senegal:

- The findings of the external assessments of five SFDs in Senegal, including three major institutions in terms of outreach, carried out by external consultants between 2014 and 2015 according to the Smart Campaign methodology;
- A country client protection diagnostic carried out in June 2015 by APSFD-Senegal using a SEEP Network tool;
- Results of the Survey of Satisfaction of Clients of Decentralized Financial Services (ESUSFD) carried out by OQSF in 2011 in Senegal's 14 regions with a representative sample of nearly 3,600 clients;
- A diagnostic study of microfinance client protection in Senegal carried out in 2011 by CGAP in collaboration with KfW and APSFD.

This report analyzes these various studies in relation to the legal framework and describes the state of client protection in Senegal. Clearly, a sample of five external Smart assessments falls short of being representative. However, it does make it possible to triangulate the findings of other studies with concrete practices and to highlight areas to monitor in terms of relative risk to clients.

The report aims to guide the efforts of the various stakeholders in the Senegalese microfinance sector (APSFD, SFDs, the public authorities, donors, technical and financial partners, etc.) with a view to greater professionalization in the microfinance sector in general and better protection of client interests in particular.

The analysis is organized under the seven CPPs promoted by the Smart Campaign. It recaps the legal framework, with emphasis on the provisions that aim to ensure client protection. The findings of the external MFI assessments are also discussed. The document then details the strengths and weaknesses observed for each CPP as well as lessons learned.





## Principle 1

### Appropriate Product Design and Delivery

The provision of appropriate services that do not harm consumers is a key component of client protection. For microfinance institutions, it means having products and distribution channels tailored to the clients they serve, which requires in-depth analysis of clients' characteristics when products are designed. It also means having collateral policies that do not risk making clients even more vulnerable. Proactively seeking client feedback is a key factor in meeting this CPP, as is understanding reasons for client drop-out.

#### Applicable Regulations

There are no regulations governing the appropriate nature of products and services. In terms of protection for savers, the new Law (Article 69) lays down an obligation for FSPs to participate a Deposit Guarantee Fund, ratified by Decision 088-03-2014 regarding the establishment of the Deposit Guarantee Fund in the WAEMU zone (DGF-WAEMU).

The OHADA Uniform Act adopted in Lomé, Togo on December 15, 2010 includes a large number of provisions legislating the securing of collateral and its realization. With regard to this first CPP, Articles 4, 12, 50, and 190 of this Act specify the collateral that can be provided to guarantee that the creditor will be paid in the event of default. Other provisions concern more particularly the registration and valuation of collateral (Articles 18, 50, 192, 195), including the obligation to register transactions with the Trade and Personal Property Credit Register, failing which the transaction is nullified.

"Unless otherwise provided, a surety bond intended to secure a recognizance may be extended beyond the principal and within the limit of the maximum amount guaranteed to cover debt accessories and debt collection costs, including costs incurred after notification is made to the guarantor." (**Article 18**)

"Unless otherwise provided, transferable securities subject to notification must be registered with the Trade and Personal Property Credit Register." (**Article 50**)

"Unless otherwise provided, only existing and registered property may be mortgaged." (**Article 192**)

"Any contractual or legal document designed to mortgage property shall be registered in accordance with the rules relating to the notification of landed property transactions in the Member State." (**Article 195**)

This law applies to all financial institutions. However, the target clientele of the vast majority of SFDs makes it difficult to apply all the OHADA provisions on collateral realization and recovery. The realization of collateral is costly and not realistic for many SFDs. In addition, this Uniform Act does not cover the type of collateral that may (or may not) be secured or the methods used to value it.

#### APSF Code of Conduct

Article 14 of the APSFD **Code of Conduct** states that:

*Where necessary, SFDs undertake to give priority to savings for resource mobilization. SFDs shall implement an internal control system to protect savings from losses due to error, fraud, misappropriation, or theft. They shall ensure that savings are always available to depositors.*

#### Client Surveys

The OQSF, whose mission among others is to **"promote the quality of financial services,"** conducts regular consumer satisfaction surveys, which may provide suggestions for the benefit of those MFIs that lack the means to conduct these surveys themselves.

The ESUSFD-2011 survey carried out with nearly 3,600 people suggests that a non-negligible share of consumers (27.7%) considers the product range of SFDs not particularly suitable to their needs. Among clients who changed financial service provider, 56% considered that SFDs were indifferent to the reasons for their drop-out. It also emerged that 40.5% of respondents deemed the collateral upon which loan approval was contingent to be burdensome.

Another survey by the Frankfurt Business School (FBS) carried out in 2011 with 5,000 consumers showed that 93% of clients with more than one loan had taken them out with more than one institution. This suggests a likely mismatch between amounts and needs.

## Practice

A thorough assessment of the practices of the five MFIs assessed according to the Smart Campaign principles reveals compliant practices on the whole, with potential improvements in the areas of collecting client feedback and processes used to secure collateral.

### Appropriate Product Design and Delivery



+ Product ranges are often tailored to a standard target client of the MFI; some small institutions offer a single loan product and both savings and fixed deposits. Others have a more segmented target market and offer a range of products with different features;

+ The flagship insurance product is death and disability insurance. When it is offered, it is mandatory, tied to the loan, and managed by partner insurance companies. Premiums are affordable and in line with the market (0.5% to 1% of the loan amount). One of the institutions assessed gives clients the choice to buy insurance with another company.

○ Only one MFI in the sample has a department dedicated to product development;

○ In most cases, securing collateral remains quite informal and is often done as a deterrent and almost never realized, and MFIs have no process through which to register or value tangible collateral;

○ Client surveys remain quite rare. No MFI has any systematic process for gathering client feedback.

## Lessons Learned

The range of MFI products is relatively diversified, with group and individual loan products, savings and money transfer services, and in some cases, death and disability insurance linked to loans. Mobile banking services are still very rare but are expected to grow in the coming years. However, the national surveys conducted in 2011 revealed a mismatch between supply and client needs. This reflects the fact that MFIs do not always take on board the feedback and characteristics of their clients in order to improve their products. Although the process of securing collateral is governed by law, this is insufficient to mitigate the risk of it being detrimental to clients. Generally speaking, **there is still room for improvement, and shortcomings in procedures used to secure collateral present a relative risk for clients.**

### Priorities for the Sector

- Assist MFIs in designing **procedures for collecting, analyzing, and using client feedback**. This support may take the form of designing a tool to survey reasons for client drop-out, adding questions about customer satisfaction to the internal auditing questionnaire, and developing satisfaction survey forms;
- Assist MFIs in developing more formal procedures for **securing collateral** that go beyond the legal framework, notably with regard to valuation methods and the principle of not seizing a client's basic necessities;
- Conduct some **advocacy** in favor of reform of the regulatory provisions organizing the formalization of collateral for SFDs in the WAEMU zone (exceptional procedure for SFDs under the OHADA Uniform Act);
- In light of the findings of the various sector surveys, launch a discussion on **the adequacy of loan amounts** relative to needs to mitigate the risk of clients taking on multiple loans;
- Launch the **Deposit Guarantee Fund**, whose statutes have been defined but whose membership and coverage terms remain to be finalized.

## Principle 2

### Prevention of Over-Indebtedness

Over-indebtedness is probably the area most likely to cause significant harm to individual clients and financial service providers alike. Financial institutions have a duty to ensure that clients are able to repay without becoming over-indebted. Sound analysis of repayment capacity is crucial, as are internal control mechanisms designed to ensure that this analysis is performed appropriately. In very competitive or high-growth markets, in particular in urban areas, it is also vital for institutions to have accurate real-time information on clients' credit histories in order to prevent over-indebtedness.

#### Applicable Regulations

- The BCEAO developed a regulatory framework for the creation and implementation of credit bureaus in the Member States of the West African Monetary Union (WAMU), which should help reduce the risk of client over-indebtedness. In particular, through its directive **005-05-2015**, BCEAO specifies the obligation to transmit monthly credit information electronically;
- Following a call for tenders, in early 2015, BCEAO selected CréditInfo Volo for implementing credit bureaus in all WAMU Member States. The credit bureau was launched in 2015. It will combine all data on the loan and payment histories of clients of financial organizations (banks and SFDs)<sup>6</sup> as well as those of water, electricity, and telephone companies.

#### APSPD Code of Conduct

The **Code of Conduct** also addresses this risk indirectly in its Article 15, stating that

*SFDs are required to rigorously examine all credit applications to identify all risks related to these applications, in particular the risk of default. Each SFD undertakes to make available to all other SFDs any information that may improve risk assessment.*

#### Client Surveys

The study carried out by FBS in 2011 indicates no major over-indebtedness problem among the 4% of clients with multiple loans. Nevertheless, as underlined by the 2011 diagnostic study, a more targeted study would be extremely helpful in identifying better the extent of indebtedness among the population in general and among the different categories of SFD clients in particular.

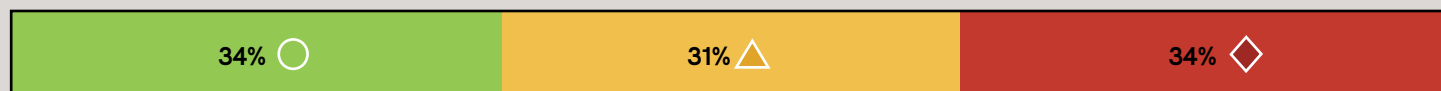
#### Practice

The external assessments on client protection indicate that one-third of indicators of this CPP are not met at all and that another third are only partially met. It is therefore an area that requires real focus given the stakes for the sector and for clients. It is important to note that there is considerable disparity in the practices of MFIs covered by the external assessments.

<sup>6</sup> Only large SFDs (regulated by Article 44) are subject to the credit bureau at present



## Prevention of Over-indebtedness



- + None of the MFIs assessed seems to engage in commercially dangerous practices;
- + Most MFIs assessed use a Portfolio at Risk (PAR) metric to monitor portfolio quality. However, because the BCEAO standard is PAR90, some do not monitor PAR30;
- + One institution stands out for its good practices in the prevention of over-indebtedness. It has thorough procedures in place for analyzing borrower repayment capacity, field staff that are competent, attentive, and inclined toward portfolio quality, and adequate control mechanisms.
- The risk of over-indebtedness is insufficiently managed in most of the MFIs assessed. MFIs still largely tend to rely on clients' collateral (tangible, third-party guarantee, or prior savings) when making credit decisions;
- Some MFIs do not even visit their clients in their workplace or home;
- Only a few MFIs take portfolio quality into account in the remuneration of loan agents; in the case of small cooperative institutions, loan agents do not have performance targets. As a result, portfolio quality does not affect their remuneration;
- As yet, no information is exchanged on clients' credit history between the various sector players despite the mention of this possibility in the Code of Conduct;
- Boards—especially those of cooperative organizations—still lack awareness of the risk of over-indebtedness;
- In general, auditing and internal control functions are not put in place systematically, and where they do exist, they are not geared toward issues of client over-indebtedness.

## Lessons Learned

Surveys show that cross-indebtedness is a reality in Senegal. Sharing information in order to ascertain client indebtedness was non-existent for a long time. A credit bureau has been set up and should make up for this shortcoming, but only to a degree as only large MFIs (regulated by Article 44) are covered by it. In addition, credit risk is reaching worrying levels nationally and is significantly higher than 10% at some MFIs. This represents a non-negligible risk for both clients and the sector. **In the absence of a more rigorous prevention mechanism implemented by MFI managers (participation in the credit bureau, building awareness among governance bodies, loan approval criteria based on repayment capacity, staff training, internal control instruments, etc.), there could be a risk of over-indebtedness, especially in urban and peri-urban areas.**

## Priorities for the Sector

- Help MFIs develop policies to manage better the risk of over-indebtedness, with emphasis on the following points:
  - Phase out the practice of requiring **prior savings** in order for a loan application to be made as this does not demonstrate a client's ability to repay, makes the loan decision no easier, and needlessly increases the cost of the loan to the client;
  - Include a **concrete metric** of client indebtedness and capacity to repay in the loan approval decision;
  - Strengthen the **capacities of loan agents** to piece together borrowers' cash flow;
  - Make **pre-loan visits** systematic;
  - Improve **analysis** tools of loan agents ;
  - Develop **incentive-based systems** for loan agents that take into account portfolio quality at least as much as volume;
  - Put in place an effective **internal control** system with appropriate management tools;
- With the credit bureau established, **help the SFDs and the credit bureau ensure that the system is efficient and information is shared regularly:**
  - Ensure that the operator of the credit bureau has the means to strengthen the capacities of users with tools, educational manuals, and training;
  - Ensure that the cost of accessing the credit bureau and the cost of the gateway software for data export are not prohibitive for SFDs;
  - Inform SFDs of the fields that must be completed in their Management Information Systems (MIS) so that the whole report can be exported;
  - Encourage SFDs to use the credit bureau in order to ensure high-quality data;
- Consider creating an **analysis unit** or an over-indebtedness prevention unit tasked with preventing systemic crises in the sector and better guiding lawmakers. This unit could monitor the evolution of a number of ratios (portfolio at risk, credit write-offs, etc.) and key macroeconomic and financial sector indicators (credit volume, credit type, etc.) supplemented by occasional and better targeted studies of household debt and over-indebtedness among the country's population.

## Principle 3

### Transparency

Providing transparent information about products and prices helps clients make informed decisions. The clients of MFIs often have a low level of education or literacy and may be unfamiliar with formal financial products. It therefore falls to the providers of financial services to communicate with clients in a language that is easy for them to understand. The principle of transparency requires information about products and prices to be clear, accurate, and complete. This should allow the client to compare a loan offer with competing offers in due time prior to signing up to any commitment. This CPP is also a precondition to responsible pricing (CPP 4).

#### Applicable Regulations

- Articles 31 to 34 of **BCEAO Decision 397/12/2010** lay down the rules for transparent pricing to be followed by all financial operators in WAMU, including SFDs;
- In particular, **Article 31** specifies that borrowing and lending conditions must be visibly displayed at the institution's premises;
- **Article 33** also requires the borrower to be notified of the APR;
- The obligation to calculate and display the APR is provided by **Decree 95-1004 of November 7, 1995**.<sup>7</sup> BCEAO has also made available to SFDs a template designed for calculating the APR (**Methodological Document DSF-001/2015**);
- The rules that apply to loan products also apply to savings. Agents must explain remuneration, fees, and other conditions for savings products to their clients;
- BCEAO requires pricing information to be also communicated to it when the volume of activity (outstanding deposits or loans) exceeds CFAF 2 billion (≈ USD 3.3 million).

It should be noted that nothing in the law stipulates how communication with the client should take place, notably on the use of local languages, simple contracts, or the amount of time clients should be given to consider an offer.

#### APSPD Code of Conduct

The Code of Conduct addresses transparency in Article 29:

*SFDs and their staff undertake to give in a truthful and transparent manner any information requested by their members or clients pertaining to the features of products and services offered.*

#### Client Surveys

The 2011 FBS survey showed that with regard to credit, while 55.9% of respondents did not know the interest rate, 93.8% were not surprised about the amount they had to repay. In terms of savings, 68% did not know the interest rate on their deposits. In fact, most clients were not even aware of the existence of regulations in the matter.

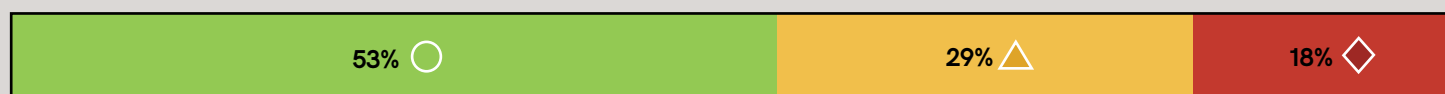
The ESUSFD-2011 survey showed broad satisfaction among beneficiaries (85.2%) with regard to the transparency of information provided on the terms of their loan contract. Another question revealed however that the primary causes of disputes with SFDs were undue debits and missing information (72.2% of causes of dispute declared by private individuals). According to that survey, 84.9% of respondents never received account statements, and 87.3% of those who received statements had to request them.

#### Practice

The findings of the external assessments were relatively encouraging with regard to the level of transparency, with 50% of indicators met and 29% of indicators partially met.

<sup>7</sup>It should be noted that Article 7 of the Decree adopted by BCEAO regarding the calculation of the APR does not include mandatory savings in the calculation when a loan is conditional upon the accumulation of prior savings, contrary to the calculation method used by Microfinance Transparency.

## Transparency



- + One of the five institutions stood out for its transparency by meeting the comprehensive requirements for disclosing price and non-price information to clients, in a suitable language both orally and in writing, with simplified pricing and a satisfactory ability to update the position of clients' accounts;
- + Overall, pricing mechanisms enable clients to adequately understand total loan costs;
- + Clients generally receive accurate and up-to-date information about their accounts, most often through a savings or loan book;
- + Contracts are generally written in a simple manner and their terms and conditions are communicated orally in the local language.
- Clients do not systematically receive copies of the documents signed with the institution;
- Systematic calculation of the APR is not yet a reality among MFIs. Most of the institutions simply calculate average APRs;
- Sometimes, the APR is not even stipulated in the loan contract, resulting in the client being unaware of it and being unable to compare loan offers between different institutions;
- Prices are not always displayed at the branch or on the MFI's website. In fact, MFIs are often unaware that displaying the costs and conditions of savings and deposit products is a legal requirement;
- Some related or potential fees are not explained to clients before contracts are signed, such as those related to the deposit guarantee, early repayment, late payment penalties, or the limited number of withdrawals permitted from voluntary savings;
- Most institutions do not give clients the time to examine and fully understand the terms and conditions they are signing up to;
- Although (as noted above) contracts are generally written in a simple manner and their terms and conditions are communicated orally in the local language, illiterate clients remain dependent on the information given to them by loan agents. This information is often incomplete or of varying quality because loan agents are overworked, information is missing, or communication supports are inadequate.

## Lessons Learned

Generalization is made difficult by the wide variety of practices in the sample. However, no systematically exemplary transparency was observed. Pricing information was incomplete at most institutions despite regulations on the display and disclosure of the APR. Some specific pricing conditions (related or potential fees) are not always provided or explained to clients. Furthermore, while the institutions assessed inform their clients about loan terms and conditions orally prior to disbursement, they do not necessarily provide an amortization table or a copy of the contract prior to signing. This step is essential in order for clients to make an informed loan decision. **The level of implementation of this third CPP could be improved significantly.**

### Priorities for the Sector

- Develop a **standard format** for displaying pricing information;
- Offer clients the option of choosing and comparing loan offers freely and at any time:
  - Offer free access to the **DRS-SFD APR simulator**<sup>8</sup> so that anyone who wishes to check the institution's calculation can do so transparently;
  - Set up a tool for comparing SFDs, such as the QQSF's comparison tool for bank transactions;
- Ensure that the supervisory authority verifies compliance with **legal requirements** to display and publish applicable pricing;
- Offer SFDs a **model loan contract** containing all loan terms and conditions;
- Require SFDs to systematically provide **copies of loan contracts** and amortization tables to clients and guarantors, where applicable.

<sup>8</sup> Available at : <http://drs-sfd.gouv.sn/espacepro/?q=node/88>



## Principle 4

### Responsible Pricing

The Smart Campaign defines responsible pricing as total loan costs that are reasonable for clients while allowing institutions to be sustainably profitable. Pricing should also stem from procedures that define how interest rates are set and what criteria to take into account. Pricing is said to be responsible when the total amount of interest and related fees on a loan are in line with those practiced in the national market and do not reflect either serious management problems or inefficiencies at the MFI passed on in higher prices or excessive profits. Providers should also strive to provide positive returns (i.e., higher than inflation) on their clients' deposits.

#### Applicable Regulations

- A **BCEAO Decree** specifies the components of the calculation of the annual percentage rate (Article 3);
- The **Uniform Law** regarding the definition and control of usury provides for penalties in the event that the interest rate is exceeded. This rate is determined by the WAEMU Council of Ministers. It was reduced from 27% to 24% on January 1, 2014 following BCEAO **Opinion 003-08-2013** on credit institutions and decentralized financial systems regarding the interest rate in WAMU Member States;
- Obligation to provide free access to certain banking services (**BCEAO Directive 004-06-2014**);
- Obligation to comply with terms and conditions regarding the remuneration of savings products (**Decision CM UMOA/016/09/2014**).

#### APSPD Code of Conduct

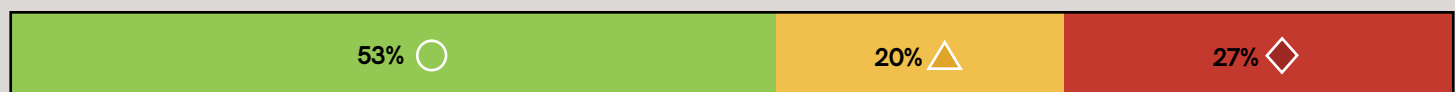
Article 16 of the APSPD **Code of Conduct** stipulates that:

*All SFDs have the duty to ensure the viability and sustainability of their operations. To this end, the interest rates an SFD sets for its clients should cover all operating and financial costs resulting from the exercise of its microfinance operations within the limits authorized by the specific regulations.*

#### Practice

The external assessments showed that more than 50% of indicators were met, 20% were partially met, and 27% were not met at all.

#### Responsible Pricing



- + All MFIs assessed complied with the interest rate ceiling;
- + The institutions assessed do not impose excessive fees, although significant fees for early repayment were observed.

- Despite insufficient hindsight to be able to measure its impact over time, the new regulatory requirement (24% APR) appears to pose a profitability problem for the institutions, as reflected by a deterioration in their financial ratios. MFIs in rural areas operating with a more demanding cost structure are even more exposed to this deterioration.

#### Lessons Learned

The new regulation capping the annual percentage rate (APR) for SFDs at 24% (among the lowest levels in the world) directly weakens the financial health of all institutions. The situation is of particular concern for the sustainability of MFIs in rural areas, which are structurally less profitable than their urban counterparts owing to lower population density, a lack of tangible collateral, and a low level of economic activity. **This interest rate cap gives rise to two potential risks that run counter to the stated priorities for the sector:** (i) microfinance activities risk gravitating back toward urban areas to the detriment of populations living in the most isolated areas; and (ii) MFIs risk suffering from a lack of transparency and, in order to survive, they may increase supplementary fees without including them in the calculation of total loan cost.

#### Priorities for the Sector

- Reinitiate debate on the suitability and implications of the **interest rate cap** and possible solutions to ensure both the financial inclusion of populations in remote areas and transparency with regard to consumers. The authorities could draw inspiration from the experiences of other countries (CEMAC, Morocco, Tunisia, Peru, etc.).

## Principle 5

### Fair and Respectful Treatment of Clients

As MFIs essentially target a low-income and vulnerable segment of the population with little or no experience of the formal financial sector, the balance of power is inherently tilted in favor of the institution. Fair and respectful treatment of clients can materialize through a code of conduct, a non-discrimination policy, and internal control processes that aim to detect acts of corruption and aggressive or abusive treatment of clients by staff or institutions' loan agents, especially during credit approval and collection procedures. Non-discrimination includes prohibiting all discrimination based on gender, ethnic affiliation, age, religion, etc. It also means informing clients of their rights in the matter.

#### Applicable Regulations

- **BCEAO Directive 017-12-2010** on internal control includes the obligation for SFDs to adopt a code of conduct that addresses relationships with clients;
- **OHADA Uniform Act** adopted in Lomé on December 15, 2010 organizing securities from their constitution to their realization.

#### APSPD Code of Conduct

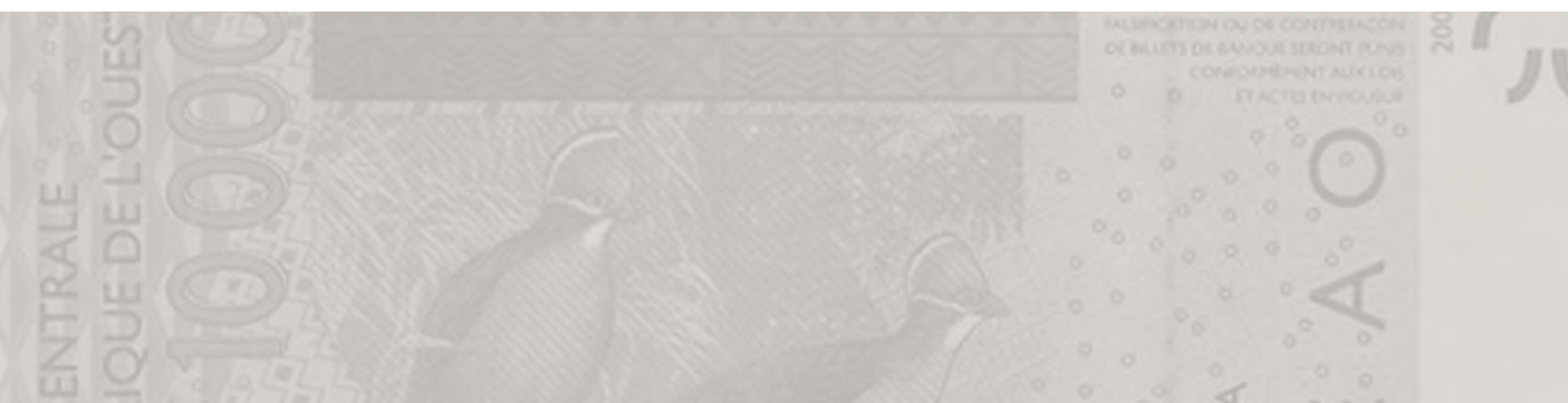
- APSFD has made fair treatment a priority for the sector through its **Code of Conduct**, which applies to all SFDs. The association is responsible for enforcing the rules contained in the Code of Conduct. It also has the option of proposing and imposing penalties in the event of breaches of the Code;
- The Code of Conduct stipulates that: *SFDs shall ensure that their managers and staff adopt a respectful and courteous attitude toward any person in a relation with the institution, prohibit all forms of harassment and discrimination, comply with the duty of non-disclosure, confidentiality, and discretion with regard to client operations, and commit to providing a quality service that meets the needs of members and clients (Article 22);*
  - Ethical quality is required for managers and employees of SFDs (Articles 9 and 21);
  - All forms of harassment or discrimination are prohibited (Article 22);
  - Leaders appointed to elected, administrative, or honorary roles must not use this position to steer opportunities exclusively toward their institutions (Article 27);
  - The principles of fairness and non-discrimination and the prohibition of corruption, abuse of trust, physical and moral pressure, and violent or harmful recovery methods apply (Articles 31, 32, and 33).

Moreover, according to the diagnostic carried out by APSFD in 2015:

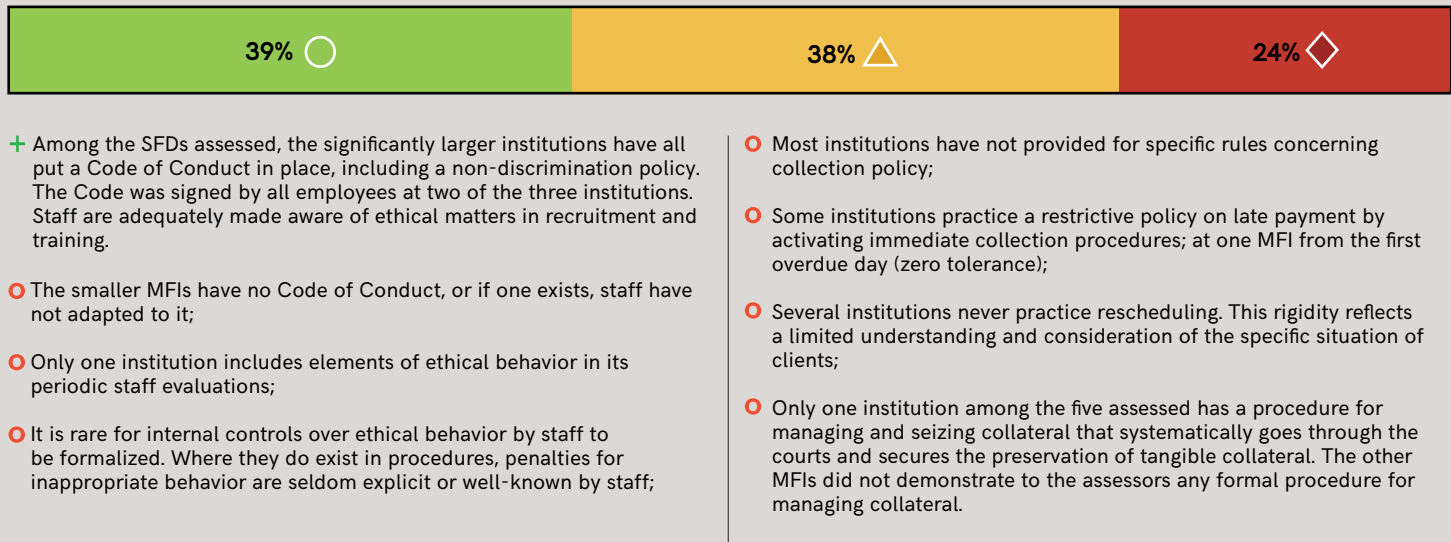
- Most SFDs seem to treat clients fairly, although there were isolated cases of verbal or psychological violence in collection, and of corruption and favoritism. Clients consider the welcome and service they receive from agents to be satisfactory on the whole;
- Only a small number of SFDs specify clear rules on prohibited forms of behavior by their employees. For example, 90% of employees interviewed by APSFD in 2015 were unaware of the existence of a Code of Conduct in their institution;
- Only a few clients are aware of the rules in terms of fair treatment and non-discrimination. Over 90% of clients interviewed were not informed of the existence of these rules or of their right to file a grievance.

#### Practice

The external assessments showed that 39% of indicators were met, 38% were partially met, and 24% were not met.



## Fair and Respectful Treatment of Clients

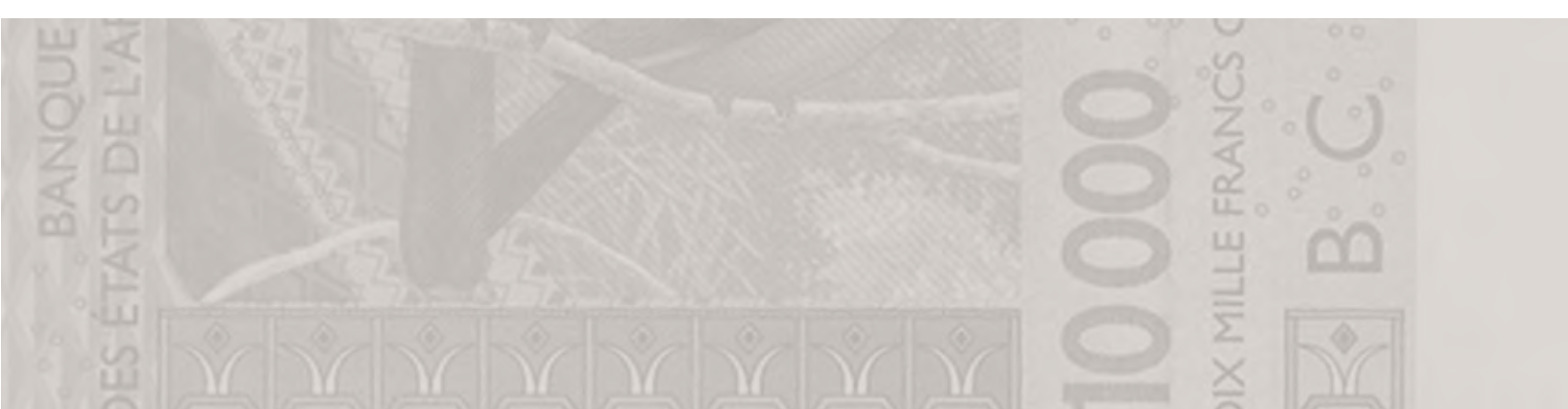


## Lessons Learned

Fair and respectful treatment of clients in the sector has received some attention thanks in particular to the dissemination of APSFD's Code of Conduct. However, most of the MFIs assessed have yet to implement it. Even though abusive behavior has been penalized, staff remain insufficiently trained on the whole, and mechanisms designed to control, penalize, or assess ethical behavior are not sufficiently incorporated into MFIs' operating procedures and practices. **There is still some way to go to achieve best practice in most of the MFIs studied, in particular with regard to collection, seizure of collateral, and informing clients of their rights.**

### Priorities for the Sector

- Develop awareness raising tools and training modules with simulation exercises involving ethical dilemmas in order to make the **ethical rules** more concrete for governance bodies and SFD managers and employees;
- Incorporate into credit approval procedures the obligation to systematically inform clients of **collection processes** and what will happen to them if they default;
- Initiate debate among sector stakeholders on what may or may not constitute **acceptable collection methods** and harmonize these practices and inform the general public of them.





## Principle 6

### Privacy of Client Data

The confidentiality of clients' personal information is a right that protects privacy and individual liberties. This principle of confidentiality of the information gathered by SFDs on clients, their family, finances, or business is intended to limit the risk of information leaks related to fraud, theft, or misappropriation, through the implementation of a rigorous protection mechanism. It also falls upon clients to keep their financial information (for example their repayment schedule) in a safe place and to correct their personal data on record, where applicable. In order to meet this principle, the confidentiality of clients' private data must be respected in accordance with the laws and regulations in force concerning the collection, processing, use, storage, and distribution of information related to clients. The use of these data is limited to the sole remit defined at the time it is gathered, except in the event of explicit consent from the client in accordance with the law.

#### APSF Code of Conduct

**Article 22 of the APSFD Code of Conduct** stipulates that managers and staff must commit to observing "a duty of non-disclosure, confidentiality, and discretion with regard to client operations," and **Article 26** requires them to "rigorously respect professional secrecy with regard to information brought to their knowledge in the exercise of their functions."

According to APSFD, the poor practice of displaying pictures of bad payers in branches has ended for good, following its prohibition in the new Code of Conduct.

#### Applicable Regulations

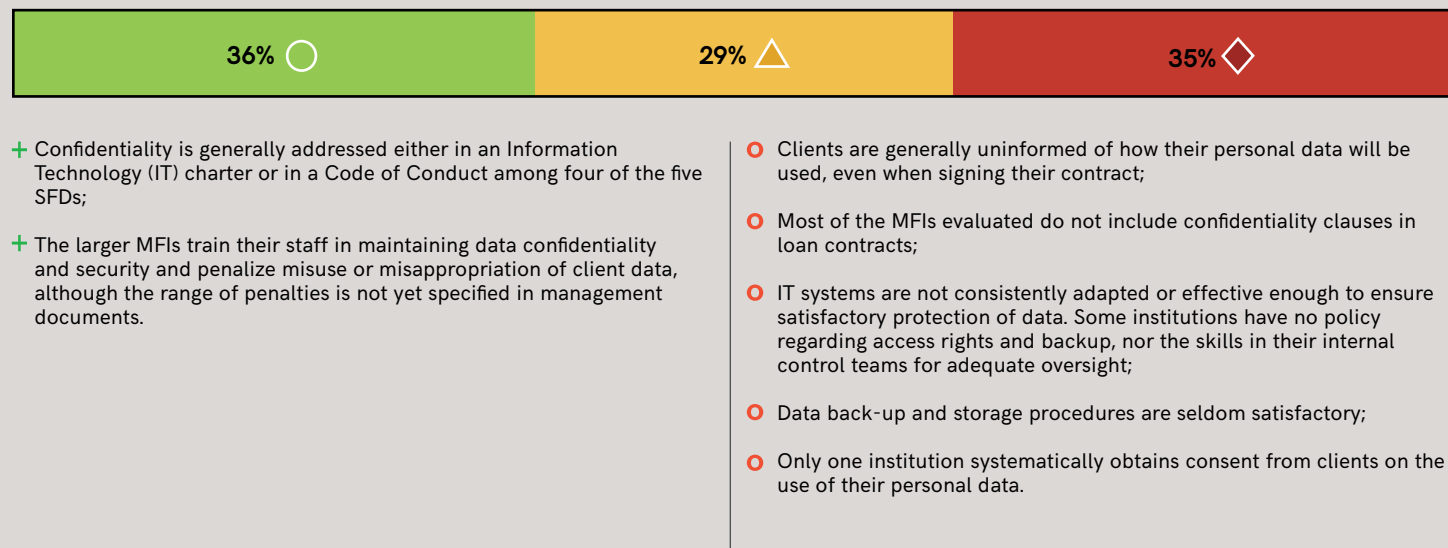
- **Article 28 § 2 of Law 2008-47** requires SFDs to uphold professional secrecy as follows: "Persons taking part in the governance, control, management, or operations of decentralized financial systems are bound to professional secrecy subject to the provisions of Articles 37, 43, 44 and 58 of this Law";
- The regulations on storing and processing clients' information are reinforced by **Law 2008-12 and Decree 2009-392 of April 30, 1992** on the protection of personal data, which establish conventional standards based on European norms;
- The Personal Data Commission (CDP), a state agency established by **Law 2008-12** of January 25, 2008 pursues three main missions:
  - Oversight and awareness-raising through consultation and proposals;
  - Case investigation (preliminary formalities for processing personal data and claims, informing the prosecutor in case of infringements);
  - Control and publicizing of penalties.
- **Law 2008-11** on cyber criminality introduces new offenses in the Criminal Code related to the development of information and communication technologies. In particular, breaches of computer data and personal rights with regard to personal data are now listed as infringements in conventional criminal law.

#### Practice

The findings of the external assessments showed mixed compliance with this CPP among the MFIs assessed, with 36% showing full compliance, 29% partial compliance, and 35% non-compliance.



## Privacy of Client Data



## Lessons Learned

Client data protection practices could be improved considerably. While large institutions apply international standards in managing client data confidentiality, the practices of the smaller institutions are less advanced. Clients are not well informed—if at all—of the use of their personal data. The risk of this lack of transparency is that clients may feel betrayed and lose confidence in SFDs. **This low level of implementation of this CPP may pose a reputational risk for the sector.**

### Priorities for the Sector

- Organize a **campaign to raise awareness** among SFDs on the issue of data protection, emphasizing risks for clients, best practices in the sector, and basic elements clients should be notified of both orally and in contracts;
- Take advantage of the launch of the credit bureau to emphasize the importance of **better informing clients** about their rights in terms of confidentiality, in particular their right to agree (or not) to some uses of their personal information.



## Principle 7

### Mechanisms for Complaint Resolution

An effective complaint resolution mechanism is fundamental to consumer protection. Clients have the right to voice their grievances or claims and to find solutions through comprehensible tools made available to them, including an internal recourse and mediation mechanism within the institution and a non-judicial external recourse mechanism in the event mediation fails. Compliance with this CPP requires that clients be aware of their rights to file a grievance or claim and that the MFIs have policies and procedures set up to guide and manage the resolution of these grievances, including ensuring that these mechanisms are effective.

#### Applicable Regulations

There are no regulations laying down the obligation to offer recourse mechanisms to consumers. Moreover, SFDs have no obligation to report cases of internal recourse to any external party.

##### APSPD Code of Conduct

Article 34 of the APSFD-Senegal **Code of Conduct** stipulates that:

SFDs shall ensure that a formal and transparent mechanism for managing claims and requests is in place. They commit to responding to the complaints and requests of their members or clients in a timely manner.

OQSF-Senegal offers an external recourse mechanism to consumers of financial services. The Unit monitors the quality of financial services provided to consumers, records clients' grievances and claims, and performs a mediation role between clients and SFDs with a view to arriving at mutually agreeable solutions. However, there is no legal or regulatory framework for this mechanism.

Clients are not fully aware that the OQSF offers a mediation service, which remains confined to anecdotal volumes even though it is experiencing strong growth, with the number of requests for OQSF mediation involving SFDs increasing from 13 in 2013 to 168 in 2014. It is noteworthy that proposals for amicable settlement were accepted or executed in over 96% of cases, with the process taking an average of 35 days. Disputes involving payment incidents and barriers to debt consolidation account for most cases.

#### Practice

The overall results show that this CPP is one of the least effectively implemented among the MFIs assessed, with compliance of only 17%. MFIs therefore still have huge scope for improvement in this area.

#### Mechanisms for Complaint Resolution



+ On the whole, SFDs appear to be receptive to feedback from clients on how they could improve their practices and products and penalize or dismiss employees for inappropriate practices.

- Most SFDs show shortcomings in formalizing and standardizing procedures for managing grievances;
- Only one MFI specifically trains its employees to manage grievances, while the others have not incorporated a section on grievance management into their training programs;
- Throughout the sample of MFIs observed, clients are insufficiently informed about the existence of recourse and claim procedures.



## Lessons Learned

Paradoxically, although the MFIs appear to recognize the usefulness of client feedback and complaints for improving their products and services, for the most part, they are poorly equipped to manage these grievances. In most cases, procedures used to gather and then resolve grievances are not systemized or integrated into the periodic management of activities. The mechanisms are inefficient and lack direction. Moreover, in none of the MFIs assessed were clients informed at the outset of the possibility of lodging a recourse internally or with the OQSF with a view to potential mediation.

Efforts have been made by OQSF staff to make recourse mechanisms accessible to clients, including the least educated. **However, these mechanisms remain confined and need to be developed further if they are to have a greater impact on the populations of remote areas.**

### Priorities for the Sector

- Increase the population's awareness of **OQSF's actions** designed to improve an understanding of its mechanisms and mediation services, which have proved effective. In particular, OQSF's national communication campaign, which included regional roadshows with information sessions accessible to illiterate persons proved a most effective initiative;
- Consider **mobile or internet platforms and solutions** (such as toll-free numbers) to help disseminate this education effort throughout the country;
- As a first step for institutions that wish to start up a system, systematically provide clients the **contact details** of a person working for the institution other than the loan agent, who is at their service and who may be able to help them where necessary.
- Support SFDs in their effort to implement **internal complaint resolution mechanisms**, with templates and tools designed to control the quality of the mechanism integrated into internal control processes (measuring the rate of complaint resolution, response times, etc.).





## Summary of Sector Priorities

As this analysis indicates, shortcomings remain in the implementation of the CPPs. With the necessary time, effort, and resources, it will be possible to institute change within the sector, even if not all these areas can be addressed simultaneously. Fortunately, the shortcomings observed do not all pose the same risks for consumers. We therefore recommend drawing up priorities. The various stakeholders (financial institutions, APSFD, supervisory authorities, technical and financial partners, etc.) should begin addressing the problems most likely to substantially harm clients and institutions. The table below summarizes all the priority areas recommended for Senegal's microfinance sector. Each CPP is assigned a high, medium, or low risk level.

	Risk for Clients	APSFD with support from technical and financial partners
Appropriate Product Design and Delivery	HIGH	<ul style="list-style-type: none"> <li>Assist MFIs in developing more formal procedures for securing collateral that go beyond the legal framework, notably with regard to valuation methods and the principle of not seizing a client's basic necessities;</li> <li>Launch the Deposit Guarantee Fund, the statutes of which have been defined but whose membership and coverage terms remain to be finalized.</li> </ul>
Prevention of Over-indebtedness	HIGH	<ul style="list-style-type: none"> <li>Assist MFIs in developing policies designed to manage the risk of over-indebtedness;</li> <li>Assist MFIs and the credit bureau in ensuring that the system is efficient and information is relayed regularly, by proposing affordable pricing (of credit reports and the extraction software), that educational user supports are widely disseminated, and that the fields that must be completed in the MIS of SFDs to enable users to make full use of the reports are clearly communicated.</li> </ul>
Transparency	HIGH	<ul style="list-style-type: none"> <li>Develop a template for displaying pricing information;</li> <li>Ensure that the supervisory authority verifies compliance with legal requirements to display and publish applicable pricing;</li> <li>Require SFDs to systematically send a copy of loan contracts and the amortization table to clients and (where applicable) guarantors.</li> </ul>
Responsible Pricing	HIGH	<ul style="list-style-type: none"> <li>Reinitiate the debate on the suitability and implications of the interest rate cap and possible solutions to ensure both the financial inclusion of populations in remote areas and transparency with regard to consumers. In this respect, the authorities could draw inspiration from the experiences of other countries (CEMAC, Morocco, Tunisia, Peru, etc.).</li> </ul>
Fair and Respectful Treatment of Clients	HIGH	<ul style="list-style-type: none"> <li>Develop awareness-raising tools and training modules with simulation exercises involving ethical dilemmas in order to make the ethical rules more concrete for governance bodies and the managers and employees of SFDs.</li> </ul>
Privacy of Client Data	HIGH	<ul style="list-style-type: none"> <li>Organize a campaign designed to raise awareness among SFDs on the issue of data protection, emphasizing risks to clients, best practices in the sector, and basic elements clients should be notified of both orally and in contracts;</li> <li>Take advantage of the launch of the credit bureau to emphasize the importance of better informing clients about their rights in terms of confidentiality, in particular their right to agree (or not) to some uses of their personal information.</li> </ul>
Appropriate Product Design and Delivery	MEDIUM	<ul style="list-style-type: none"> <li>In light of the findings of the various sector surveys, launch a discussion on the adequacy of loan amounts relative to needs in order to mitigate the risk of clients taking on multiple loans;</li> <li>Conduct some advocacy for reform of the regulatory provisions organizing the formalization of collateral for SFDs in the WAEMU zone (exceptional procedure for SFDs under the OHADA Uniform Act).</li> </ul>
Prevention of Over-indebtedness	MEDIUM	<ul style="list-style-type: none"> <li>Consider creating an analysis unit or an over-indebtedness prevention agency tasked with preventing any systemic crisis in the sector and better guiding lawmakers. This agency could monitor the evolution of a number of ratios (portfolio at risk, credit write-offs, etc.) and key macroeconomic and financial sector indicators (credit volume, credit type, etc.) supplemented by occasional and better targeted studies of household debt and over-indebtedness among the Senegalese population.</li> </ul>
Transparency	MEDIUM	<ul style="list-style-type: none"> <li>Offer free access to the DRS-SFD APR simulator so that anyone who wishes to check their FSP's calculations can do so transparently;</li> <li>Offer SFDs a model loan contract containing all loan terms and conditions.</li> </ul>
Fair and Respectful Treatment of Clients	MEDIUM	<ul style="list-style-type: none"> <li>Incorporate into credit approval procedures the obligation to systematically inform clients of collection processes and what will happen to them if they default;</li> <li>Initiate a debate among sector players on what may or may not constitute acceptable collection methods, harmonize these practices, and inform the general public of them.</li> </ul>
Mechanism for Complaint Resolution	MEDIUM	<ul style="list-style-type: none"> <li>As a first step for institutions that wish to start a system, systematically send clients the contact details of a employee of the institution, other than the loan agent, who is at their service and who may be able to help them where necessary;</li> <li>Support SFDs in their efforts to implement internal mechanisms to manage complaints, with templates and tools designed to control the quality of the provisions integrated into internal control mechanisms (measuring the rate of complaint resolution, response times, etc.).</li> </ul>
Appropriate Product Design and Delivery	LOW	<ul style="list-style-type: none"> <li>Assist MFIs in designing procedures for collecting, analyzing, and using client feedback. This support may take the form of tools for surveying reasons for client drop-out, adding questions about customer satisfaction to the internal auditing questionnaire, and generating satisfaction survey forms.</li> </ul>
Transparency	LOW	<ul style="list-style-type: none"> <li>Set up a comparison tool for SFDs along the lines of QQSF's comparison tool used for bank transactions so that consumers may choose and compare loan offers freely and at any time.</li> </ul>
Mechanism for Complaint Resolution	LOW	<ul style="list-style-type: none"> <li>Increase the population's awareness of QQSF's actions in order to improve their understanding of its mechanisms and mediation services, which have proved effective;</li> <li>Consider mobile or internet platforms and solutions (such as a toll-free number) to help disseminate this education effort throughout the country.</li> </ul>

## Conclusion

Regulations in the WAEMU zone are progressing in the direction of greater client protection, notably with the introduction of a guarantee fund for depositors, the creation of a credit bureau, and the establishment of the OQSF in Senegal. Transparency in pricing and pricing itself are the areas where regulations are the most complete. With regard to transparent pricing, attention should be given to the interest rate cap, which is at an unsustainable level for some SFDs. The Smart Campaign offers model legislation specifically addressing client protection,<sup>9</sup> which the authorities could build on.

The microfinance sector in Senegal is home to a large variety of institutions. Although our analysis suffers from an insufficient sample to enable it to draw broad conclusions on MFI practices in the country, we note that support is needed to formalize policies to improve the prevention of over-indebtedness, collection methods, protection of client data, and consideration and management of client grievances.

The foundations for greater client protection have been laid with limited but adequate regulation as well as a general Code of Conduct for the sector. The task will now be to coordinate the efforts of the authorities, the APSFD, and the technical and financial partners with a view to improve the sector's ability to meet international standards for client protection.

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<sup>9</sup> Client Protection Principles: Model Law and Commentary for Financial Consumer Protection, Microfinance CEO Working Group, April 2015. Available at: <http://smartcampaign.org/tools-a-resources/1049-model-law>

## About SEEP



SEEP is a global learning network. We support 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 life.

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 worlds' poor.

SEEP members are active in more than 170 countries worldwide. They work together and with other stakeholders to mobilize knowledge and foster innovation, creating opportunities for meaningful collaboration and, above all, for scaling impact.

## About RFL



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 exists an opportunity to foster greater consumer protection and transparency within the industry. SEEP is implementing the Responsible Finance through Local Leadership Program (RFL), 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.





