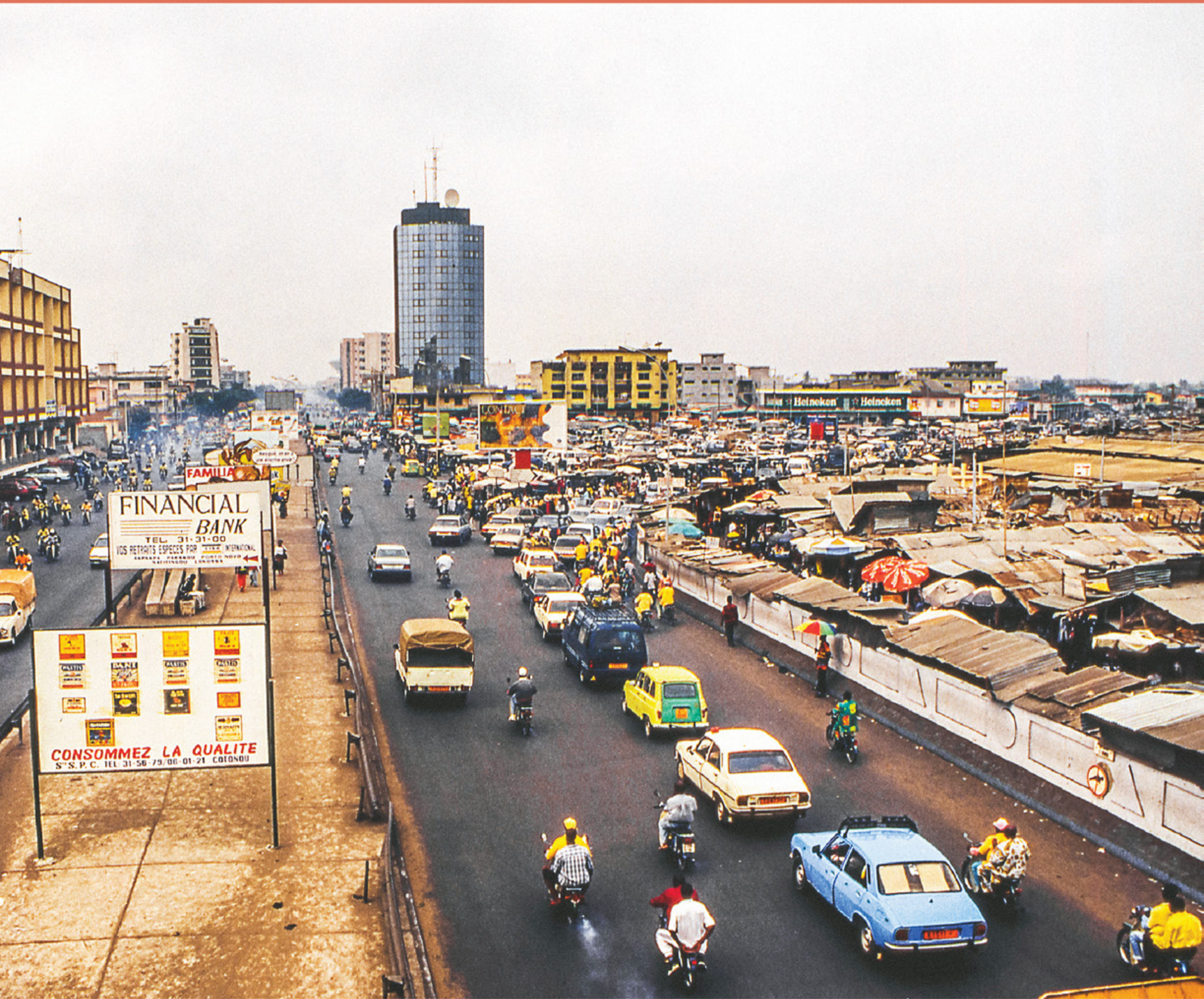
Responsible Finance: The Making of Association-Led Client Grievance Redress Mechanisms

Experiences of AMFIU in Uganda and Consortium Alafia in Benin



Acknowledegments

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About SEEP

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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.

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Benefits of an Effective Grievance Redress Mechanism

- Consumers have greater confidence in financial services when they know that, if anything goes wrong, they will be able to take their dispute to an independent body that will resolve the issue quickly and informally, without the consumer needing a lawyer.

- Financial businesses benefit because consumers are more likely to buy financial products; the cost of resolving disputes with consumers is kept to a minimum; and unscrupulous competitors who act unfairly are held to account.

- The state benefits because redress can be provided at minimum cost; feedback from an ombudman can help improve future regulation; and confident consumers are more likely to play their part in helping to develop a sound financial market.

— David Thomas and Francis Frizon
"Resolving Disputes between Consumers and Financial Businesses"
(World Bank, 2012)


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Acronyms

AMFIU	Association of Microfinance Institutions of Uganda
APSFD	Association Professionnelle des Systèmes Financiers Décentralisés
BCEAO	Banque Centrale des États de l'Afrique de l'Ouest
BoU	Bank of Uganda
CGAP	Consultative Group to Assist the Poor
GRM	Grievance redress mechanism
INFO Network	International Network of Financial Services Ombudsman Schemes
MFA	Microfinance association
MFI	Microfinance institution
MFIN	Microfinance Institutions Network (India)
MFOB	Microfinance Opportunity Bank
NAM	National Authority of Microfinance (Uganda)
OQSF	Observatoire de la Qualité des Services Financiers (Senegal)
RBI	Reserve Bank of India
RFLL	Responsible Finance through Local Leadership program
SACCOs	Savings and credit cooperative societies
SFD	Système Financier Décentralisé
UEMOA	Union Economique et Monétaire Ouest Africaine

Introduction

As part of the Responsible Finance through Local Leadership (RFLL) program, the SEEP Network worked with seven microfinance associations in sub-Saharan Africa to help build their organizational capacity to consistently deliver high-quality, demand-driven services and to promote responsible finance practices in their markets. To this end, the RFLL supported initiatives toward:

- Developing and enforcing microfinance sector codes of conduct;
- Training and assessing MFIs on client protection principles;
- Facilitating the establishment or improvement of credit information sharing systems;
- Undertaking client protection market diagnostics; and
- Promoting client recourse mechanisms.

SEEP's work on consumer protection in this program happened in a general international context of promoting financial inclusion, including a focus on introduction and retention of new clients to ensure that the economic benefits of financial inclusion are achieved and sustained. Consumer protection is an essential element of inclusive financial systems, both to ensure that current users of formal financial services get transparent and fair treatment in the market and to instill confidence regarding financial services providers among potential clients. To this end, several international bodies have issued recommendations and principles on financial consumer protection.[1] In 2011, the G20 developed "High-Level Principles on Financial Consumer Protection." A year later, the World Bank published a more detailed document, "Good Practices for Financial Consumer Protection." The Smart Campaign also launched "Client Protection Principles" in 2009, focusing initially on microfinance.

Grievance Redress Mechanisms

The existence of well-functioning grievance redress mechanisms that are easier, faster, and more affordable than seeking redress through the court system is recognized as a fundamental element of consumer protection and a responsible financial system. Principle 7 of the Smart Campaign states, "Providers will have in place timely and responsive mechanisms for complaints and problem resolution for their clients and will use these mechanisms both to resolve individual problems and to improve their products and services."

What is a GRM?

A grievance redress mechanism (GRM) refers to a system for collecting, resolving, and responding to client questions and complaints, and for using client feedback to improve products and operations. GRMs go by many names, including complaint resolution mechanism, recourse or redress mechanism, and mediation.

[1] CGAP website focus areas, available at https://www.cgap.org/topics/protecting-customers.

As the focus on financial consumer protection has grown, a large number of countries have seen the creation of grievance redress mechanisms. The World Bank's 2014 "Global Survey on Consumer Protection and Financial Literacy"[2] shows that 75 percent of responding countries reported that some sort of GRM was available to financial consumers, either on a broad basis for all retail financial services or for specific categories of financial products or financial services providers. After studying worldwide standards relevant to ombudsman schemes and other GRMs, several international bodies have described good practice and key success factors. These are summarized in the six fundamental principles[3] adopted by the International Network of Financial Services Ombudsman Schemes (the INFO Network) as:

1. **Independence**: To secure impartiality, the GRM should operate without any pressure from the financial sector or from any other stakeholder.

2. **Clarity of scope and powers:** The GRM should clearly define the scope of the mechanism, the case handling process, its power (constraining decisions or not), and which information is kept confidential.

3. **Accessibility:** Clients should not face any substantial barrier in accessing the GRM. Clients should have information about the GRM and know that the process of filing a complaint is easy.

4. **Effectiveness:** The GRM should provide timely resolution of disputes. This is achieved through clear policies and procedures, effective use of software application, and the expertise of decision makers within the GRM.

5. **Fairness:** The GRM process guarantees that the rights and interests of both parties are equally taken into account.

6. **Transparency and accountability:** The GRM should report to its governance structure and make information about its activities publicly available.

Ideally, every microfinance institution (MFI) should have a GRM in place, and at a second level, there should also be an external mechanism able to deal with complaints if the client is not satisfied with the solution proposed by the MFI or if the institution has not addressed the complaint.

This report summarizes the process used, mechanisms set up, and early lessons from RFLL pilot interventions on grievance redress mechanisms (GRMs) with the Association of Microfinance Institutions in Uganda (AMFIU) and Consortium Alafia in Benin to develop and implement a GRM in these two associations. It should contribute to the growing interest in spurring the application of and compliance with the consumer principle related to complaint resolution mechanisms.

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[2] Available at http://responsiblefinance.worldbank.org/~/media/GIAWB/FL/Documents/Publications/Global-Consumer-Protection-and-Financial-Literacy-results-brief.pdf.

[3] The INFO Network, "Effective Approaches to Fundamental Principles Guide," available at http://www.networkfso.org/principles.html.

The Associations Involved in the Case Studies

AMFIU

The Association of Microfinance Institutions of Uganda (AMFIU) is an umbrella body for 95 microfinance institutions and other stakeholders in Uganda committed to promoting professionalism in the sector. AMFIU members come from all the existing segments of the microfinance sector in Uganda, which are Tier 1 for commercial banks, Tier 2 for credit institutions, Tier 3 for microfinance deposit-taking institutions, and Tier 4 for other MFIs and savings and Credit cooperative societies (SACCOs). The Bank of Uganda (BoU) regulates the first three tiers, representing 35 percent of AMFIU's membership, while a bill to regulate the remaining 65 percent (Tier 4 institutions) was approved by the Ugandan Parliament in May 2016. When the Tier 4 bill becomes law, there will be a National Microfinance Authority (NAM), where clients should be able to escalate complaints about Tier 4 institutions. There is also a complaint mechanism established at BoU for regulated institutions.

Consortium Alafia

The Consortium, also called the Association Professionnelle des Systèmes Financiers Décentralisés du Benin (APSFD-Benin), has 44 members. By law,[4] all licensed MFIs are required to belong to the professional association. The law also defines the roles of the APSFD in each country of the UEMOA (Union Economique et Monétaire Ouest Africaine, West African Economic and Monetary Union) region.[5]

All MFIs (called Services Financiers Décentralisés, or SFDs) must be licensed and regulated. The supervision is effected directly by the Central Bank (BCEAO) for the biggest MFIs, while a dedicated department within the Ministry of Finance supervises the smaller institutions.[6]

There is no rule in the existing laws and regulations requiring the establishment of GRMs at the institution level. Similarly, in Benin, there is no recourse mechanism at the government or regulator level. The new regional strategy for financial inclusion recommends creating a national organization to oversee the quality of financial services (Observatoire de la Qualité des Services Financiers) in each country of the UEMOA region, which would include a mediator that could be used by banking or microfinance clients to resolve grievances with financial institutions.

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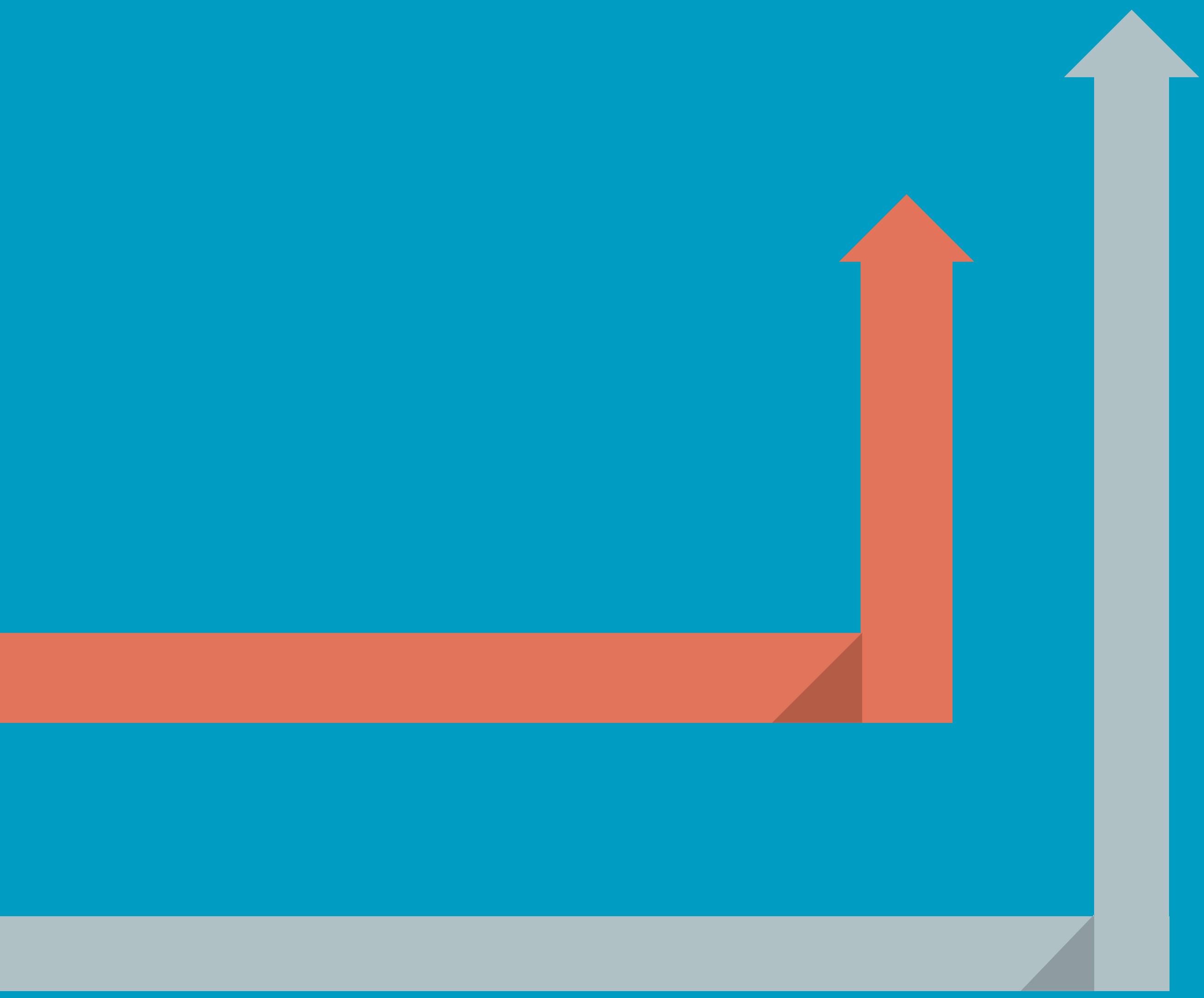
[4] Loi 2008-47 portant réglementation des Systèmes Financiers Décentralisés, article 23.

[5] The UEMOA includes Benin, Burkina Faso, Cote d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, and Togo. These eight countries have a common currency (CFA), a common Central Bank, the BCEAO, and shared laws and regulations that apply to most financial institutions, such as banks and MFIs

[6] The same situation applies in the eight countries of the UEMOA region.

Association Involvement in Grievance Redress



As one of the core principles of client protection, complaint resolution mechanisms are a key leverage point for improving sector-wide practice. When implemented effectively, they can assist institutions in detecting and responding to all other consumer protection–related issues. Association-led support models for complaint resolution provide an opportunity to implement minimum standards of quality across multiple financial service providers. Additionally, they may create opportunities to aggregate information of sector-wide performance that can serve to inform and influence a broad base of stakeholders. Associations can play one or more of the following roles.

1

Associations may work with the government or the regulator to promote utilization of GRMs established by these public entities.

An association promoting a government mediation initiative

In Senegal, the Observatoire de la Qualité des Services Financiers (OQSF) operates as an independent institution and, among other functions, offers mediation services to users of financial services. Participation in OQSF mediation is not compulsory for financial institutions, and therefore, the OQSF relies on the goodwill of financial institutions to collaborate with the mediator. APSFD Senegal, the national association of microfinance institutions, has worked directly with the OQSF to promote external mediation. This is done through road shows in various parts of the country, providing brochures on the OQSF to members and referring to the OQSF MFI clients that contact the APSFD with complaints about their financial services providers.

2

Associations may provide technical support to their members in developing and implementing their own GRM.

MFIN's hybrid mechanism

In India, the Microfinance Institutions Network (MFIN) provides a two-tiered structure of grievance redress for the country's microfinance industry: (1) MFIN supports members in setting up their own GRMs, and (2) MFIN has established direct GRM services to make it possible for clients to report straight to MFIN, bypassing their institution's system and/or escalating an issue to the association level. Both systems are governed by the MFIN Grievance Redressal framework, which has 9 parameters and 22 indicators that reflect good practices within the sector, including RBI (Central Bank) regulations, the industry code of conduct, and the Smart Campaign standards and indicators.

3

In a few cases, such as those of AMFIU and Consortium Alafia described in this document, associations may develop an internal mechanism to serve members and the microfinance sector at large. AMFIU and Consortium Alafia have been working alongside their members to support the development of a responsible financial system, more specifically to implement principles underlying consumer protection in the microfinance sector. In that respect, they have also sought to find solutions for the management of complaints from sector clients. The rest of this document provides information on these solutions and how they were developed.

Description of the Grievance Redress Mechanisms

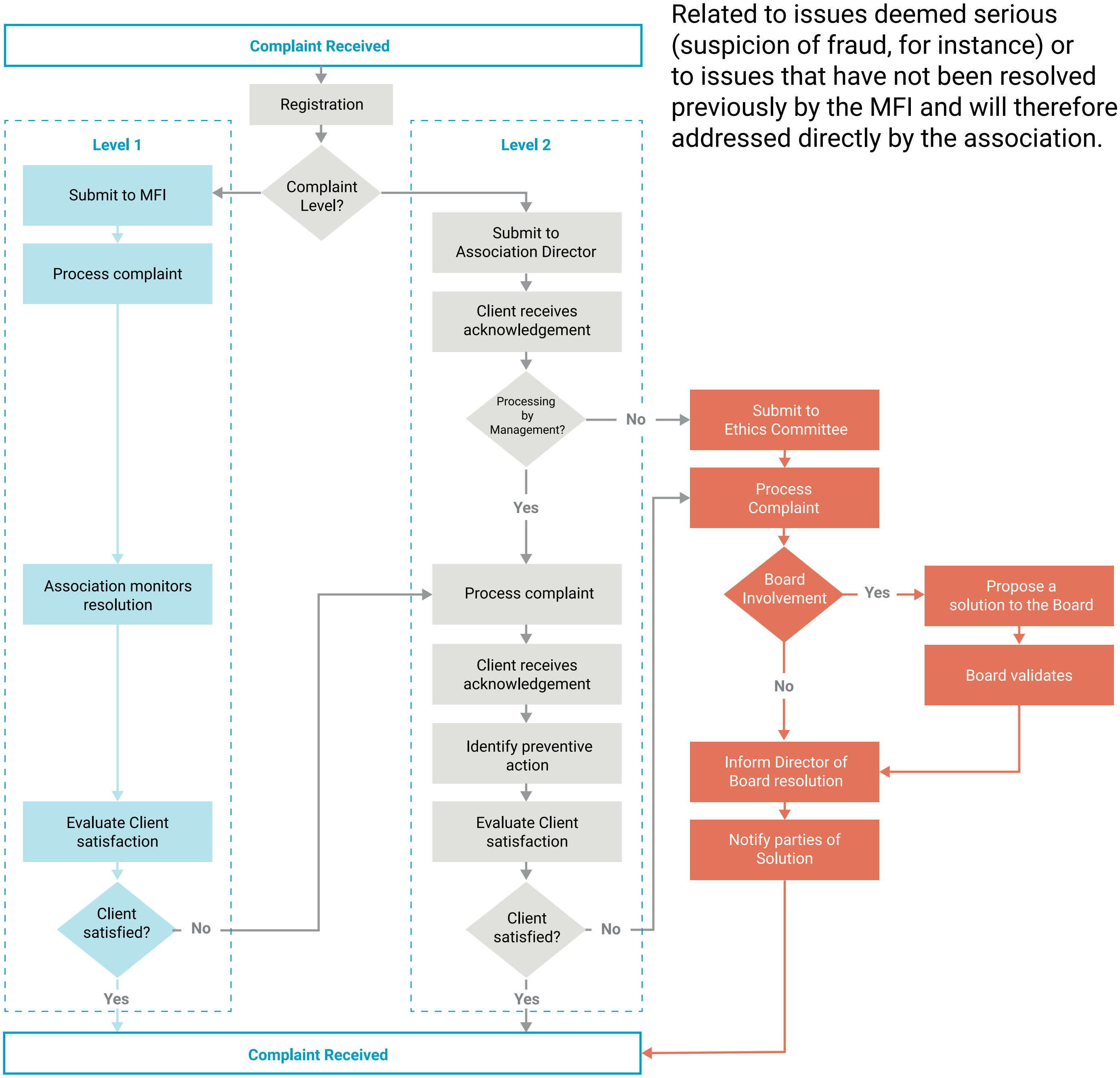
Consortium Alafia GRM

In early 2016, Alafia introduced a country-wide GRM in order to address the lack of options for clients to express their grievances toward their service providers, especially small and medium MFIs. The newly established mechanism receives all complaints from microfinance clients. Below is an illustration of Alafia's system.

These complaints can be at:

Level 1
Related to simple matters that will be redirected to a designated person in the MFI targeted by the complaint, **or**

Level 2
Related to issues deemed serious (suspicion of fraud, for instance) or to issues that have not been resolved previously by the MFI and will therefore be addressed directly by the association.

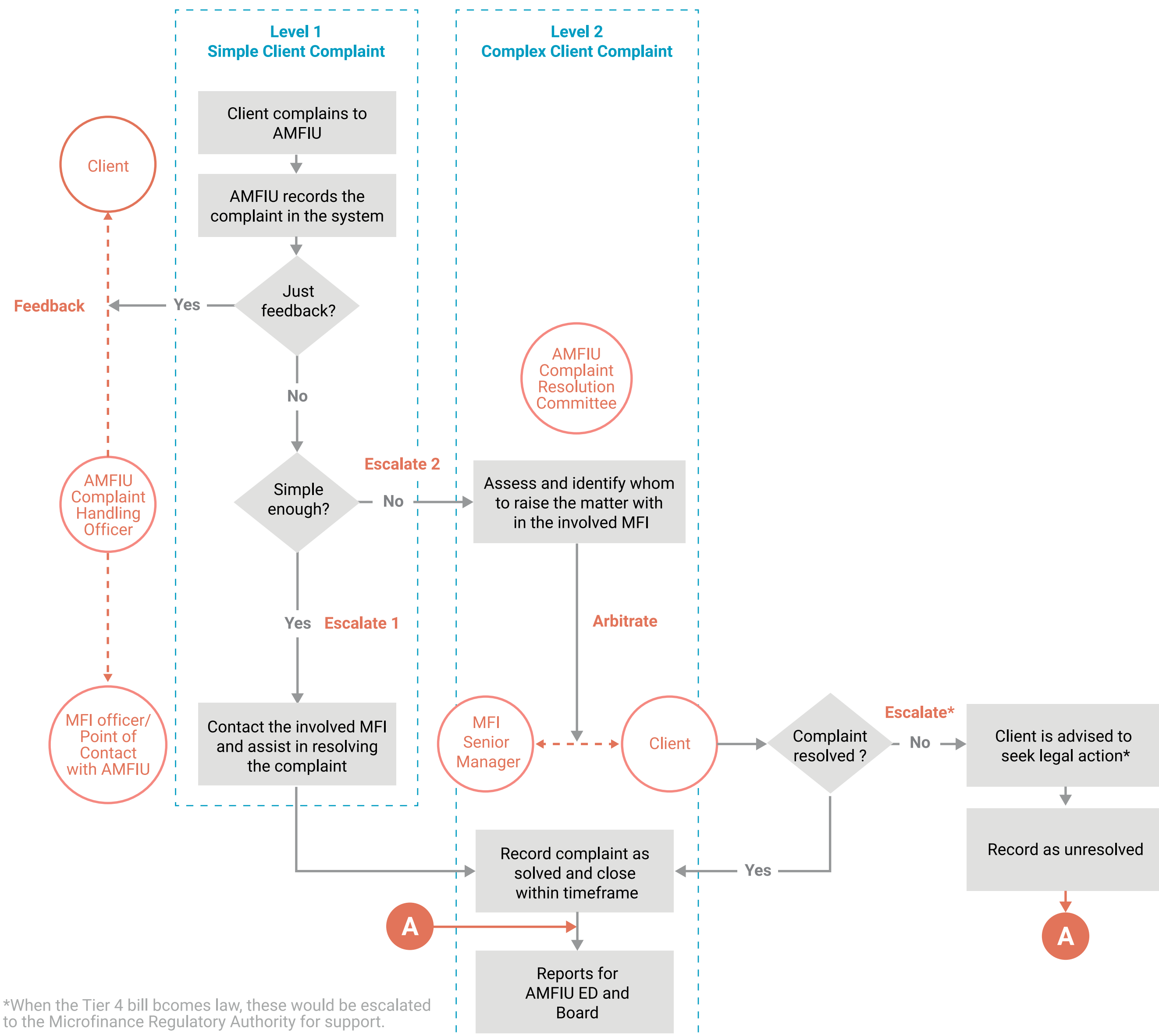


AMFIU GRM

AMFIU has managed a GRM for several years. The association's concern about the GRM's underutilization led to its redesign in late 2015. Using this revamped system, AMFIU receives and resolves complaints from aggrieved MFI clients. In some cases, the client needs simple clarification on a matter, which AMFIU provides. In other cases, the client is seeking resolution, for which AMFIU uses the following process:

- AMFIU registers the case in the system and contacts the MFI;
- The MFI provides feedback to the client on the steps it has taken to resolve the complaint;
- AMFIU follows up with the client to learn whether the client has been helped and is satisfied with the solution; and
- AMFIU archives complaints and resolutions at the end of the process.

The following figure describes AMFIU's grievance redress process.

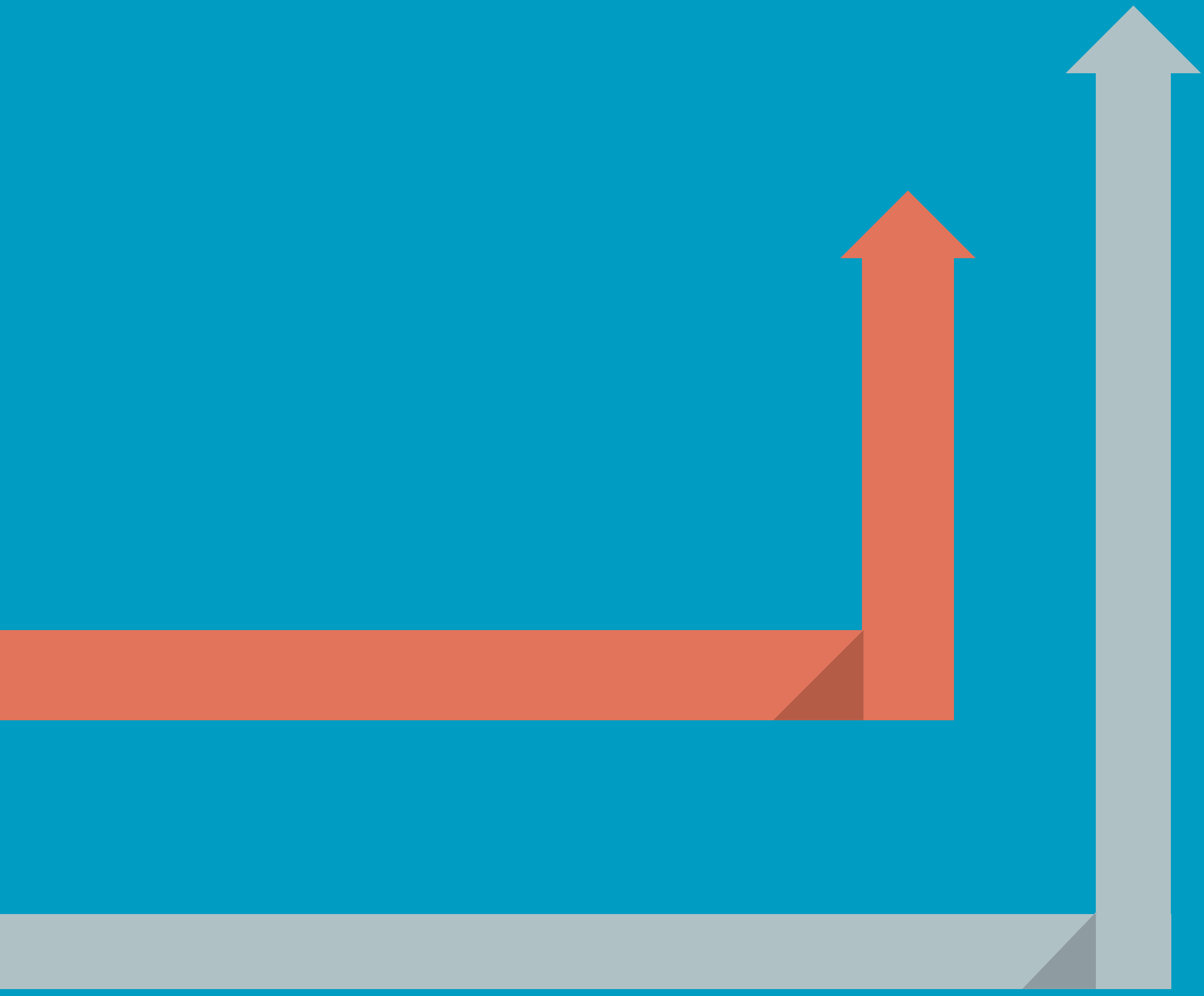


*When the Tier 4 bill bcomes law, these would be escalated to the Microfinance Regulatory Authority for support.

These two association-operated GRMs were tailored to respond to the expectations of the member MFIs and to fit in their particular context. They both went through the same basic development process, as shown below:

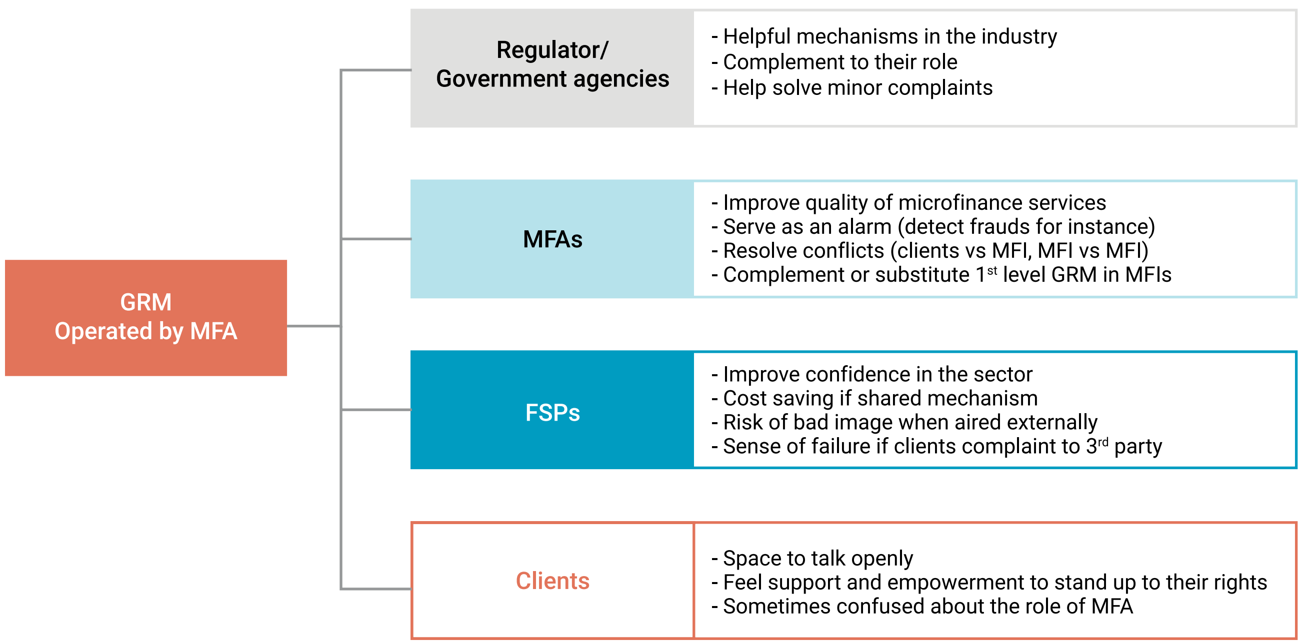
Throughout the development and launch phases, the feedback and perspectives of stakeholders were sought and helped to refine the systems.

Key Stakeholder Perspectives



As the previous sections have shown, a GRM operated by an association is generally conceived as a second-level recourse mechanism as well as an opportunity to strengthen or sometimes supplant first-level mechanisms implemented by MFIs. There are, however, differences of opinion on what the role of the association's GRM should be. The following sections provide various stakeholder views on the GRM systems in Uganda and in Benin, collected during the pre- and post-installation phases of these systems.

Stakeholder Perspectives on GRM operated by Associations



A Perspective of Microfinance Associations

AMFIU and Consortium Alafia share the same core rationale behind the development of a GRM, i.e., to respond to clients' grievances that otherwise would remain unaddressed, thereby improving consumer protection practices. Specific objectives are as follows:

- Encourage good practices of consumer protection, and improve the image of the microfinance sector.
- Serve as a pilot and a learning experience for a future government-funded GRM for the entire microfinance sector.
- Help implement rules related to client protection in the association's Code of Conduct. Offer another level of mediation if the client is not satisfied with the outcome or did not get an answer from the MFI.
- Allow the association and its members to detect and improve issues related to responsible finance and client treatment.

B Perspective of Regulators and Government Agencies

AMFIU and Consortium Alafia operate in fairly different regulatory contexts. In terms of client protection, the Bank of Uganda has been proactive in promoting and regulating consumer protection with regard to regulated institutions. On the other hand, BCEAO, the regulator for Benin and seven other West African countries, has had limited interventions, dealing mostly with transparency and limitation of total credit costs.

The regulatory and government agencies in Uganda and Benin were not officially involved in these pilot GRM initiatives; however, authorities in both countries envision the creation of a GRM under their direct supervision or guidance. Officers shared their view on GRMs operated by the associations in the following table:

AMFIU - Uganda	Consortium ALAFIA - Benin
• Under the upcoming law, the National Authority of Microfinance (NAM) will be created to regulate Tier 4 MFIs, as well as mechanisms to enforce compliance on consumer protection; thus, **roles and responsibilities for AMFIU in this matter will evolve.** • There are three roles that the GRM at AMFIU should fill: ◦ Uncover fraud and bad behaviors in MFIs; ◦ Solve minor complaints; and ◦ Escalate complex complaints to the NAM when in place.	• The BCEAO envisions setting up a conflict resolution system in each of its member countries, possibly based on the mediation process established by the Observatoire de la Qualité des Services Financiers (OQSF) in Senegal. This will take some time, as the BCEAO needs to get a decision from the Council of Ministers of the eight UEMOA countries before going ahead. Unless the BCEAO gets directly involved, it will also have to get every government to agree to set up these mediators. In the meantime, **the BCEAO is not restricting any other resolution mechanism**. • The association-operated GRM will probably **incentivize MFIs to be more proactive** in dealing with client issues and speedily resolving problems.

C Perspective of Microfinance Institutions

MFIs have had different and sometimes conflicting opinions over the association-operated GRM. In general, AMFIU's and Consortium Alafia's members were hopeful that the system would help improve relationships with clients while saving costs. Some MFIs, however, showed skepticism, asserting that they should resolve all the complaints within their own organization, that a client using the GRM at the association level means that the MFI has failed. Others were worried that the association would be encroaching on their business and felt that the GRM at the association level should be **the avenue of last resort after all other resolution efforts at the MFI level have failed.** The following table shows the opinions of association members regarding an association-operated GRM:

Pros	Cons
• **Improved client perception and confidence in the sector** as a result of offering an alternative pathway to resolve complaints • A reliable third-party system that can **detect fraud** in MFIs. • **Cost savings**, as it may help (1) reduce the number of lawsuits against MFIs, and (2) share costs if the association system is used as a first-level GRM. • **Effective substitute for an MFI-operated GRM**, as many MFIs do not have an internal GRM and or the capacity to set up one. • A **place to centralize and aggregate complaints** for analysis at the industry level.	• **Negative exposure** for the institution in case of complaints: "For the MFI, this is worse than being penalized for non-compliance." • Concern with **having a third party manage the client relationship.** • Investing in a GRM at the association level might **divert the focus from establishing robust internal GRMs in MFIs.**

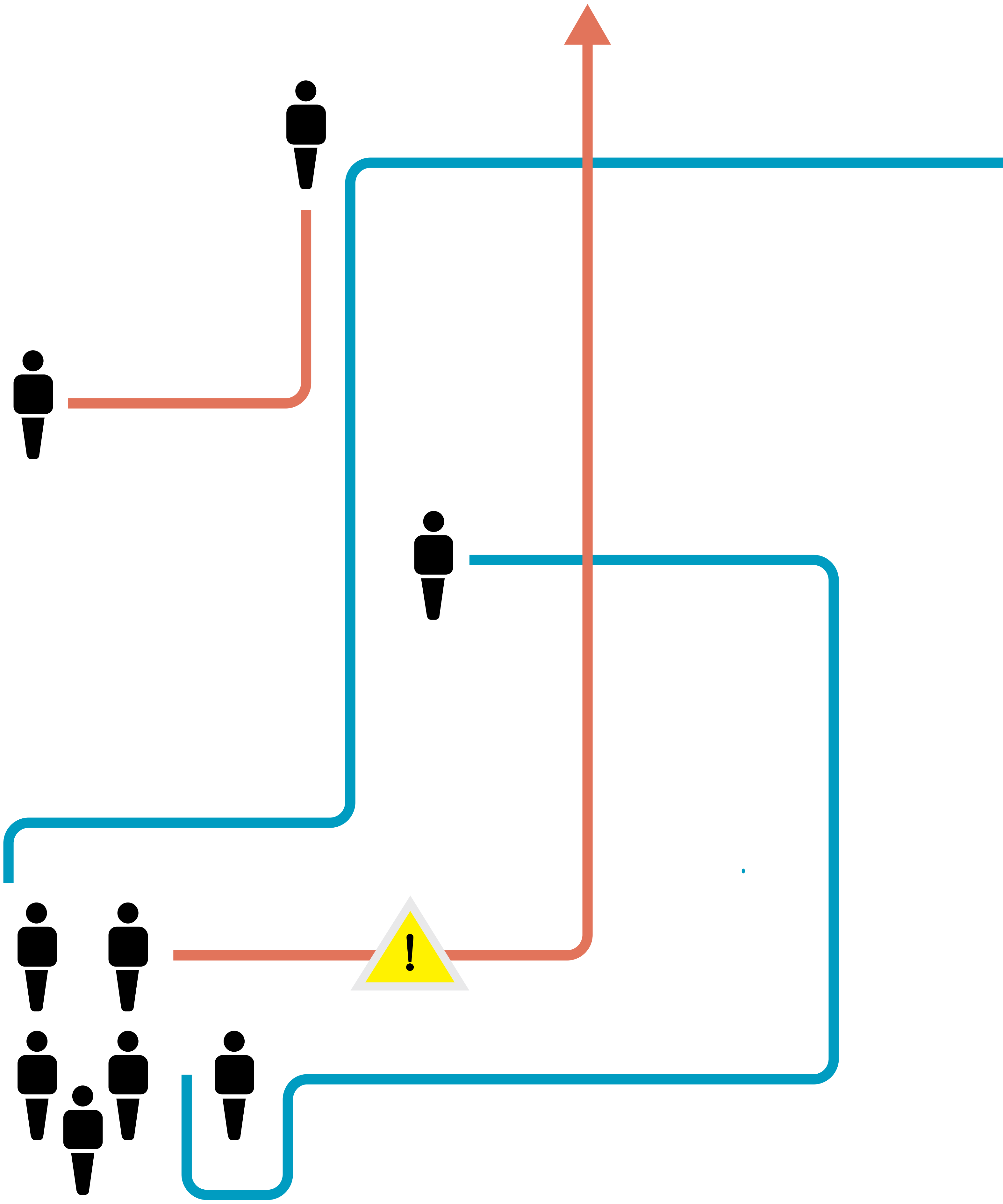
D Perspective of Clients

A GRM operated by an association serves as a platform where clients can talk openly. It can be an alternative for clients not willing to complain to their institution, as they fear that endangering their relationship with the field officer or branch manager could lead to denial of services.

The pilots have shown that a simple telephone call from an association to the institution regarding a client's problem can make a difference. This empowers clients and pushes the institutions toward better service delivery. However, some clients were rather confused about the GRM, and that resulted in fewer complaints than expected. The following table highlights some of the clients' negative reactions after the launch of the GRMs.

AMFIU - Uganda	Consortium ALAFIA - Benin
• **Misconception:** As AMFIU is not well known among clients, some thought that it was an MFI trying to sell loans because the word microcredit appeared in the GRM ads. • **Suspicion:** The lack of understanding of AMFIU and its mandate raised questions among clients as to why the association would be interested in receiving complaints. • **Misunderstanding of AMFIU's ability/capacity to enforce decisions:** Some clients believed that the association holds the same power as the Bank of Uganda. Some also expected that AMFIU would be able to overrule MFIs on certain product-related issues, such as lowering interest rates.	• **Testing the GRM:** Despite a media campaign to promote the GRM, clients have not been lodging formal complaints. Users have called the dedicated phone line but then hung up when the operator answered. When the GRM operator called them back, their explanation for the call was that they were just "testing" the line to check that the system was "for real." • **Fear of consequences:** Alafia proactively collected complaints at the main marketplaces where a high concentration of MFI clients congregate. The GRM collected forty-six complaints; however, clients were reluctant to give further information that would have led to a mediation process, fearing the consequences for themselves and their loan officers.

Both systems are still very new, and the associations are hoping the continuation of their communication campaigns will lead to changes in client perceptions about the GRM.



Key Implementation Aspects

Despite the short run of the systems at the time that this document was written, some essential aspects of the process of setting up an association-operated GRM could be seen. These factors are important for associations to take into account in contemplating the development of such a system. They include cost and sustainability, GRM staffing, categorization of complaints, treatment of non-members, and awareness and communication. Compliance aspects are also critical, but more experience is needed to provide lessons in this area.

A Cost and Sustainability

The two associations found that containing the costs of setting up and operating a GRM is a crucial factor to its long-term success, especially since associations typically have limited resources and many demands from members and other stakeholders.

- *Launching costs:* AMFIU and Consortium Alafia's experiences show up to 12,000 USD in expenses to launch a GRM, which mainly includes software development, training, and advertising. These costs will certainly vary according to the country, the type of software used, and the pricing of media and promotion, among others.

- *Operating costs:* Although many of the operating costs[8] may be sunk costs for the association, the following were the direct and indirect costs that both AMFIU and Consortium Alafia have decided to monitor in order to gauge the financial viability of operating a GRM.

GRM Operating Costs	
Direct Costs	**Indirect Costs**
Software development and maintenance	Percentage of support staff and management time needed
Advertising: Print, radio spots, etc.	Office supplies
Toll-free phone number	Transportation
Percentage of staff time needed to operate the GRM	Accounting and legal
Training of staff	Office rent and utilities

[8] In AMFIU's and Consortium Alafia's pilot experiences, estimates are up to 4,000 USD a year with moderate traffic and up to 7,000 USD a year with heavy traffic.

- *Potential for income generation:* About 86 percent of AMFIU members and 95 percent of Consortium Alafia members do not have software to manage complaints. This presents an opportunity for the associations to sell licenses to members to use their GRM software and, at the same time, to standardize complaints for meaningful statistics at the sector level. AMFIU and Consortium Alafia are both considering this option.

  As far as demand is concerned, MFIs in Uganda said that buying a license from AMFIU for the GRM software could be an option if:

  1. The software is affordable and cost effective;
  2. The cost includes training for the staff—head office/branch;
  3. The system is user-friendly; and
  4. The technological infrastructure needed to operate the system is in place at the MFI, such as an Internet connection, a dedicated PC desktop, and sufficient memory.

B GRM Staffing

AMFIU and Consortium Alafia decided that, initially, they would operate their GRMs with existing staff, especially since the pilot phase might not generate enough calls or visits from clients to employ a full-time staff. It was thought that one person would receive complaints, register them in the system, contact and follow up with MFIs, and, if need be, manage the escalation process within the association, in addition to other responsibilities. At AMFIU, the portion of the GRM operator's time spent in attending to client complaints was up to 30 percent (2.4 hours) per day. More mature systems, such as the GRM set up by MFIN in India, require dedicated staff. Furthermore, the escalation process for complicated or unresolved complaints requires the attention of senior managers as well as, in some cases, the involvement of the Ethics or Code of Conduct Committee.[9]

C Complaint Classification

Standard classification of client complaints allows aggregation of data across the sector, which in turn enables the association to develop meaningful statistics and reports. An association may choose to classify complaints in various ways, depending on its objectives. For example, complaints can be classified by importance; by type with predetermined categories, such as "delay in the renewal of disbursement" or "communications difficulties"; or by institution object of the complaint..

- *AMFIU's Classification System:* In Uganda, regulated MFIs, such as microfinance banks, have to comply with the Central Bank classification system when reporting internal complaints. Other MFIs that have an internal GRM organize their complaints to make them more relevant to the microfinance environment, such as the classification used by Microfinance Opportunity Bank (MFOB) in Uganda. AMFIU drew on the MFOB system to establish its own five-category classification system (see Annex 1 for details on AMFIU's classification system).

Complaint Dimension MFOB

1. Pricing
2. Products
3. Process
4. People
5. Technology

[9] Such a committee exists in most associations to oversee the application of the Code of Conduct. It can make decisions on behalf of the association and its members when a member is not complying with a rule in the Code of Conduct. For more detail on Codes of Conduct, see SEEP Network (2015), Effective Codes of Conduct: A Guide for Microfinance Associations, available at http://www.seepnetwork.org/effective-codes-of-conduct--a-guide-for-microfinance-associations-resources-1554.php.

- *Consortium Alafia's Classification System:* Consortium Alafia has established a classification of complaints at two levels, as agreed upon during a workshop with members. Complaints classified as Level 1 must be initially addressed by the MFI and are therefore transferred to the MFI. If the client is not satisfied with the outcome, Consortium Alafia will mediate between the client and the MFI. Level 2 complaints are handled directly by Consortium Alafia.

Level 1: Issues handled at MFI level	Level 2: Issues Handled at Association Level
– Issues related to customer service, lack of understanding and errors. – Examples include delays in giving feedback on a credit application, miscalculation of interest charged, and excessive penalties. Annex 2 provides more details on Consortium Alafia's classification of complaints.	– Level 1 complaints that have been directed to the MFI but have not been resolved to the client's satisfaction or not addressed by the MFI – Complaints considered serious, such as MFI vs. MFI conflict, fraud, and illegal seizure of collateral

D Treatment of Non-Members

One of the challenges faced by associations that are managing a GRM is how to treat complaints related to financial institutions that are not members, taking into account that:

- The association does not have any official point of contact in the non-member MFIs to help resolve the complaint.
- The association cannot enforce resolutions since these MFIs did not agree to participate in the complaint resolution mechanism nor did they sign the Code of Conduct, which is often the foundation of the GRM.
- Non-members are often small and weak MFIs, or they might belong to another association or regulatory system.
- In some cases, these institutions are fraudulent or illegal outlets.

In Benin, all MFIs have to be licensed and are required by law to be members of Consortium Alafia. In Uganda, however, a large number of MFIs do not belong to AMFIU. AMFIU's way of dealing with complaints received about non-members is to rely on informal contacts within those institutions and a lot of diplomacy. These MFIs sometimes complain about the intrusion of the association into their business, but despite this reluctance, they recognize that the grievance information provided by AMFIU helps them learn how their staff members are treating their clients.

> Clients are often not able to figure out if their MFI is regulated, nor do they know if it is a member of the association. This can create a communication challenge. In Uganda, for example, despite the availability of another complaint mechanism for regulated MFIs, some clients bring their complaints to AMFIU, with which they seem to feel more comfortable, even if their grievance is with a regulated MFI.

E Awareness and Communication

The pilot initiative found that communication is a critical aspect in setting up a GRM. Indeed, a GRM is useless if people are not aware of its existence, do not understand how to use it, or do not actually use it. Communication with MFI staff and other stakeholders is also essential to overcome negative perceptions. Following are some of the strategic communication decisions made and activities performed by both associations in implementing their respective GRMs.

- *AMFIU:* The association had planned to target different actors[10] in the financial sector with the following specific communication objectives:

Target Audience	Communication Objective
MFI Clients	• Awareness of AMFIU's GRM and phone number. • Information on when and how to use the complaint system.
Staff and Management of MFIs	• Awareness of and training for AMFIU's GRM. • Information on when and how to use the complaint system, as well as roles and responsibilities. • Encouraging MFI staff to recommend the GRM services to their clients and peers.
Stakeholders	• Awareness of AMFIU's GRM and expected outcomes. Annex 3 provides an example of indicators that could be included a part of GRM reporting

For the pilot, however, only MFI staff and clients were reached using printed materials and radio. AMFIU broadcasted on three radio stations, in vernacular languages.

- *Consortium Alafia:* The association chose to communicate mostly through radio and pamphlets distributed in the central market of the capital city, where there was a high concentration of MFI clients. A specific message was drafted to inform microfinance clients and the general public about the new GRM. **The overall objective was to increase the level of awareness of microfinance consumers' right to raise an issue with any MFI**. Since Consortium Alafia attends to both Level 1 and Level 2 complaints, the message was general, explaining the option to complain about any issue related to the client's MFI.

  Consortium Alafia broadcasted on four radio stations: the national state-owned radio and three private radio stations with listenership in the capital and main cities, one of which broadcasted in the main market in the capital region.

[10] Targets included microfinance clients, MFI staff and management, the Bank of Uganda, wholesale lenders, the police, the Ministry of Finance (Department of Microfinance), the Ministry of Cooperatives, Uganda Cooperative Savings and Credit Union (UCSCU), and the Uganda Cooperative Alliance (another association).

Important Lessons from Both Associations' Awareness Building and Communication Activities

Communicating with MFIs: Contact with MFIs during the implementation of an association-operated GRM is critical to effective execution.

- Participating MFIs need to understand the added value of a GRM so that they do not feel under criticism or attack.
- MFI staff need to be reassured that their rights will be protected and that the GRM will not be a threat to them if they act properly.
- MFIs should be advised to develop a policy that requires employees to communicate clearly and convincingly the terms regarding the use of the GRM system, through multiple pathways (posters, flyers, mentioning in contracts the possibility of contacting the GRM) and in local languages.
- Since MFIs have their own marketing materials for branches, printed material about the GRM from the association, such as posters, might compete in space and attention with the in-house materials. The association and its members should discuss solutions to avoid this.

Communicating with clients: Developing a good level of awareness of the GRM among microfinance clients poses various challenges.

- The message needs to be crafted carefully to convey a clear idea of the differences between Level 1 and Level 2 complaints and how the association can serve the public in that regard.
- The use of mass media plays an important role in reaching out to clients since they are scattered all over the country, but the cost is relatively high. Associations need to budget adequately for this purpose.
- Talk shows, especially on the radio, provide a chance for clients to react and ask questions, thus reinforcing the message about the GRM.
- Since printed materials include the toll-free number, the objective is that clients keep the flyer or brochure for future reference. However, this is often not the case, unless these materials have practical value, like calendars. AMFIU gave away stickers to ensure the clients will keep the important information with them.
- Perception linked to the word “microfinance” or “microcredit” if clients do not understand what an association or a GRM is. At first, the message tends to be interpreted as “another MFI selling loans.”
- Language use is important and depends on the region where the advertising is broadcasted. In Uganda, for instance, Luganda is the appropriate language for those in the Central Region; others, like those in the Luo community, prefer the advertisement to be in English. In Benin, the radio message was broadcasted in French and in Fon, the main vernacular language.

Conclusion

The implementation of a GRM as a sector-based initiative is fairly new in the microfinance sector. The recent experiences of AMFIU and Consortium Alafia show that an association can develop and manage such a system, and they indicate potential benefits for the association, its members and their clients, and other sector stakeholders.

Benefits of Establishing a GRM in Associations

For the MFIs

The association serves as a way to outsource the function of a Level 1 GRM that would otherwise be managed by each MFI. By using a centralized grievance redress mechanism, institutions that do not have the capacity or resources to implement their own GRM can offer better customer care and solve clients' complaints in an efficient matter.

MFIs benefit from a Level 2 GRM as they are getting candid feedback on issues related to consumer protection and the quality of customer care.

For Clients

An association-operated GRM ensures that even clients of small or weak institutions have an avenue for submission of complaints.

It is a safeguard mechanism against harms, such as corruption or poor client treatment, perpetuated by MFIs or a specific staff member of the institution. Complaining to the association also lessens the risk that the clients would face negative consequences from the MFI staff. Such a system could ultimately help clients gain confidence in their rights and in their use of financial services.

For the Association and the Microfinance Sector

By providing a way for clients to voice their frustration and to resolve problems with MFIs, the GRM improves the image of the sector as being more caring, easy to reach, and willing to improve.

It also makes the association more visible to the public and appreciated by its members for providing a reliable service.

While these systems are still new and definitive lessons cannot yet be drawn from the pilot phases, the combined experiences reveal key issues and parameters that need to be taken into account in order to increase the chances of establishing a successful GRM.

Key Success Factors

- Building a **consensus** across the microfinance sector. MFIs should be convinced that the GRM is a mechanism to help their business and not a burden.
- Developing **policies and procedures** that will be the foundation for developing an efficient GRM, as well as staff training and choosing or developing reliable GRM software. Annex 4 provides AMFIU's and Alafia's software specifications
- Envisioning GRM **sustainability** from the beginning, as much as possible, through cost sharing (e.g., shared staff) and income generation (e.g., licensing the GRM software).
- Reinforcing **awareness** and building **trust** among clients by communicating about the GRM process and the role of the association.
- Providing **prompt feedback** to clients and MFIs at various stages of the complaint resolution process.
- Relying on **enforcement mechanisms**, whether through law and regulations or self-regulation.
- Producing **regular reports** on GRM achievements and challenges.

Annexes

Annex 1
Classification of Complaints — AMFIU, Uganda

Pricing

- Interest Rate
- Fees

Product

- Duration/Term Time
- Loan Size (min/max)
- Principal

Process

- Collateral Liquidation
- Collateral Provision
- Collateral Release
- Contract
- Incorrect Statement
- Loan Re-Collection Methods
- Loan Recovery
- Microfinance Claim Payment
- Processing Time
- Repayment
- Savings Refund

People

- Fraud
- Staff Behavior

Annex 2
Classification of Complaints — Consortium ALAFIA

1 Excessive penalty (for defaulting on a loan)
2 Bad treatment (of client at first point of contact)
3 Incorrect calculation of interest rate
4 Lost document/object (e.g., collateral or collateral titles)
5 Damaged document/object (e.g., collateral or collateral titles)
6 No meeting granted on credit application
7 Loss of time (lengthy waiting period)
8 Incorrect information in passbook
9 Incorrect balance on account
10 Appointment set with SFD representative, but this person does not show up at set time
11 Collection practice
12 APR
13 Use of collateral (e.g., when collateral is sold to pay for a bad loan)
14 Governance
15 Privacy/violation of secrecy
16 Unfair treatment/client abuse

Annex 3
GRM Reporting

A report should be published at least yearly, providing information about:

- the complaints that were handled; and
- the way the complaints were handled.

The report should include details on the numbers and types of complaints that:

- were received;
- were outside the GRM's jurisdiction;
- were withdrawn;
- were resolved by the GRM;
- were resolved in favor of the complainant; and
- were resolved in favor of the financial institution.

The report should also provide useful information GRM operation such as:

- the average time taken to resolve complaints;
- the rate of compliance with outcomes, if known;
- representative case studies;
- any systemic or significant problems identified in the financial system;
- the GRM's governance arrangements;
- how it preserves the independence of its decision makers;
- the GRM's arrangements for quality control; and
- cooperation with other schemes, nationally and internationally.

Annex 4
Specifications of AMFIU and Consortium ALAFIA GRM Software

Option	Operation	Pros	Cons
AMFIU, Uganda: **One software to manage complaints of level 1 and 2**	Runs on the associations' server Web-based system Level 1 is managed independently by each MFI from its office Level 2 is managed by the association Web-based system	Allows the MFIs to manage their own complaints, especially for operational issues Allows the MFIs to solve issues immediately and to empower the GRM representative Allows the MFIs to manage their own reports and make decisions	MFIs might lack dedicated staff to receive the complaints Policy and processes have to be developed by MFIs, and they may not have the capacity to do so Cost of the software license
Consortium Alafia, Benin: **One software with different but interconnected menus depending on the level (1 or 2)**	Level 1 and Level 2 registration of complaints can be managed by the association; Level 1 is also be managed by each MFI, depending on who receives the complaint	Economy of scale: saves costs and time (compared to each MFI having its own system and trying to link their systems to the association's system). Standardization of process and typology (classification of complaints)	The MFIs cannot customize the system (for instance, in terms of classification of issues) Not integrated with MFI management information system. Could cause confusion among MFI staff about independence from the Level 2 complaint mechanism since it is managed by the same entity

Depending on the regional and language contexts, there are now generic GRM software applications, which have been developed independently and are available to be installed and sometimes customized for the MFI's or association's needs.

SEEP
Powering connections