

The SEEP NETWORK

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Consumer Protection Principles in Practice: A Framework for Developing and Implementing a Pro-Client Approach to Microfinance

Introduction

Abstract

In 2004, SEEP members adopted the pro-Client Principles, recognizing that a proactive approach to consumer protection will encourage MFIs to improve their practices before donors and regulators force their standards on this still evolving industry. This Progress Note presents the accumulated experiences of SEEP members over the past two years as they implement their own pro-client policies and codes. A short description of recent events where MFIs were negatively affected by allegations of consumer abuse illustrates the importance of developing consumer protection policies for the entire industry. It is intended to be used as a framework for developing and implementing pro-client principles by MFIs, associations and networks.

A Publication of

The Consumer
Protection Working
Group

The SEEP Network brings together more than 65 international non-governmental organizations supporting micro- and small businesses and microfinance institutions around the world. In response to its mission to increase program impact, foster continuing innovation, and inform the policy arena, the SEEP Network has taken a lead role in advancing pro-client policies for its member organizations.

Microenterprise development organizations have adopted a business model to accomplish their dual mission to promote microenterprise and reduce poverty. Both objectives are met when services enable clients to improve their lives. In some cases, however, the rigorous pursuit of successful service provision can overshadow the central position of the client to the larger development objective. In order to distinguish themselves from unscrupulous lenders, principled microenterprise development organizations must vigorously defend the rights of individual clients.

SEEP has raised the awareness of pro-client issues across its broad and varied membership, recognizing that a proactive approach will allow members to address issues before donors and regulators force their standards on the industry. The adoption of pro-client principles in October 2004 helps members stay focused on their respective missions and promotes quality services in the face of increasing competition. Furthermore, adoption of these principles helps provide standards on which clients can rely, improve the effectiveness of the work of SEEP and its partners, and ultimately benefit clients. This note presents a framework for developing and implementing pro-client principles, building on the experiences of SEEP members over the past two years. A short description of recent events where microfinance institutions (MFIs) were negatively affected by allegations of consumer abuse illustrates the importance of developing consumer protection policies for the entire industry.

Background

In October 2001, a group of practitioners met at SEEP to discuss incidents in Bolivia and South Africa where unscrupulous lenders, some operating under specific microfinance regulations, had tarnished the reputations of consumer-friendly microfinance institutions. This small group attracted other practitioners, who were aware of the potential for consumer abuse and wanted to prevent a heavy-handed government reaction. Eventually this led to the formation of the SEEP Consumer Protection Working Group (CPWG). The goal of the group is to increase the transparency of MFI policies regarding consumer protection. The working group's first Technical Note, *Trust through Transparency: Applicability of Consumer Protection Self-Regulation to Microfinance*, was published in March 2003, along with a template code of practice for consumer protection

Box 1: Organizations in the Consumer Protection Working Group

ACCION International
ACDI/VOCA
CARE
Catholic Relief Services
Concern Worldwide
FINCA
Freedom from Hunger
Ford Foundation
FUNDAP
The MicroFinance Network
The Microfinance Information eXchange (MIX)
Opportunity International
ProMujer
Women's World Banking
World Education
World Relief

Box 2: History of SEEP Work on Consumer Protection

- 2001: Consumer Protection Task Force created
- 2002: Task force becomes the Consumer Protection Working Group (CPWG) and produces consumer protection template
- 2003: Publication of *Trust through Transparency*. Members task CPWG to develop a proactive stance for consumer orientation and protection
- 2004: SEEP Client Principles developed by CPWG with input from SEEP membership
- 2005: SEEP membership endorses and adopts Client Principles
- 2006: Publication of *Progress Note, Consumer Protection Principles in Practice: A Framework for Developing and Implementing a Pro-Client Approach to Microfinance*
Virtual conference on advancing application of pro-client principles in Microfinance.

and an accompanying discussion guide. These materials provide the background of consumer rights issues from consumer, government, and business perspectives, offering insight into how microfinance can improve its consumer protection stance. The working group presented its work at a variety of meetings and conferences and provided training sessions on developing ethical statements or codes of conduct. In 2005, the CPWG assisted SEEP in developing and adopting the *Client Principles* for the entire network, as well as in identifying appropriate, transparent network reporting mechanisms. Since then, the group has helped SEEP members develop and adopt ethical, consumer-oriented policies through lateral learning, including publishing this Progress Note and hosting a virtual conference on "Advancing Client Protection in Microfinance."

Constructing a Consumer Protection Statement/Pledge

A number of SEEP members have taken the initiative to advance consumer protection. Network organizations and local associations have each approached consumer protection in different ways, all with the goal of incorporating it into the way they do business. Based on experiences of several SEEP members, the process of implementing a consumer protection statement or pledge can be divided into four phases:¹ commitment, development, approval, and implementation.

During the *commitment phase*, a consumer protection champion—whether appointed by the top leadership of the organization

¹ Although the example given here is for a statement or pledge, the phases would be the same for development of a policy or other high level document.

Box 3: SEEP Client Principles

Members of the SEEP Network believe that clients of micro and small enterprise services have the right to ethical, dignified, transparent, and equitable services. By adopting these principles, members agree to develop and implement an operational ethical statement or code of practice to ensure that they:

- Apply these principles in their own organizations
- Promote the widespread application of these principles among member implementing institutions
- Raise awareness about the importance of pro-client principles where SEEP members work around the world

The six principles are:

- 1. Quality of service.** We agree that every client should have access to respectful, fair, convenient, flexible, and timely services. Clients should have an opportunity for communicating their feedback on service quality and there should be mechanisms for responding to customers' input.
- 2. Dignified treatment.** We agree that clients should be treated in a fair, disciplined, and respectful manner. We are committed to promoting policies and practices that affirm the dignity of clients and are respectful of cultural and gender differences.
- 3. Truthful and transparent information.** We agree that clients deserve complete, accurate, and understandable information regarding the terms of the services, so that all clients can make informed decisions.
- 4. Appropriate pricing.** We agree that service providers should offer services efficiently and that these efficiencies should be translated to the benefit of consumers in terms of a balance between fair prices, reasonable returns, and greater outreach.
- 5. Protection from unethical and illegal practices.** We agree that clients should not be subject to illegal, unethical, discriminatory, or deceptive services (such as overly aggressive marketing tactics, abusive debt collection practices, or other behavior that harms clients).
- 6. Privacy of client information.** We agree that service providers should protect the personal information of their clients and should take steps to not disclose information without client knowledge and consent.

or self-selected with the support of someone in leadership—gathers information on the attitudes of staff and partners to consumer protection. The champion explores any history, practices, or policies related to consumer protection in the organization and network. This information is then shared within the organization to build the case for a more substantial commit-

ment to consumer protection. Who should make this commitment depends on the institution. In some cases, it is the management; in others, the commitment must be secured more broadly from the staff or partners. This phase could take several months, depending on how

much information is gathered and how much resistance, if any, must be overcome to secure commitment from the key stakeholders.

Once there is sufficient commitment from the appropriate stakeholders within the organization, the *development phase* begins. During this phase, the champion works with others within the organization to develop a written commitment to consumer protection. Depending on the type of organization, this written commitment can be a consumer protection statement, pledge, or code.² In this phase, it is important to understand the key consumer protection issues within the partner organizations of an international network or within the country of a national network. The champion and stakeholders identify the key areas of consumer protection to be addressed by their organization. They then develop detailed statements about each of these areas, describing the rights of consumers or standards of how consumers will be treated. Drafts of the document should then be circulated for feedback from other stakeholders, particularly those partners who work most closely with consumers and eventually will need to translate the policy into practice. Ideally, feedback should be sought through interactive dialogue or in person, and through other media, to ensure that stakeholders understand what is being expressed and can agree on the content as well as the language. This phase could take six months or more, depending on how much time is devoted to the wording of a state-

² The three most common types of code are codes of ethics, conduct, and practice. See *Trust through Transparency* for a fuller discussion of codes.

ment or pledge, and how much consultation is sought to ensure broad input into the draft.

The third phase of introducing formal consumer protection is the **approval phase**. This phase varies greatly from organization to organization, depending on their decision-making processes. Usually, the champion takes the vetted draft of the document to management for review and further revision. To be effective and have a real impact on the work of the organization, it is important that the statement or pledge be approved at the highest level, whether by the board or by senior management. This approval should be communicated clearly throughout the organization or network, so that everyone understands its importance and that it has the endorsement of the senior decision makers in the organization. This phase can take a month or substantially longer, depending on the size of the organization, the number of people who must review and sign off on it before final approval, and the frequency of meetings at which such matters can be reviewed and decided.

The final phase is the **implementation phase**. This phase is critical to ensure that the statement, pledge, or code developed is translated into actual practices resulting in better services, treatment, and opportunities for recourse in cases of unethical treatment. At the network organization level, implementation may involve simply communicating the statement or pledge to all members. Organizations that offer services directly to clients should use statements or pledges to guide development of a code of conduct

or practice which becomes part of their standard operating practices. Network organizations can assist their partners in developing such a code and a corresponding plan to revise policies and operations to reflect the new practices. Examples of some areas which require attention in putting a code into practice include:

- revision of human resources policies and practices (staff recruitment, orientation, training, supervision, incentives);
- marketing (disclosure of consumer protection statement or code to consumers and the general public, promotional materials);
- operations (consumer feedback, complaint mechanisms); and
- monitoring (mechanisms to ensure compliance).

This phase of the process can take longer since it involves organizational changes, especially if it is carried out with multiple partner organizations. The network should consider developing an overall guide for partner organizations, technical assistance, support for the process, and a means for partners to share experiences and lessons learned with each other.

There is relatively little experience to date in the implementation phase. In the coming year, the Consumer Protection Working Group plans to look at the experiences of SEEP members and their partners and share them more broadly to assist others in effectively and efficiently implementing consumer protection within their organizations.

Diverse Approaches to Consumer Protection

Each SEEP member that engages in consumer protection brings a unique perspective and culture to the task. Below are some examples of how different SEEP members have approached consumer protection.

ACCION International

In 2004, ACCION International worked with the chief executive officers and general managers of microfinance institutions in the ACCION Network to develop the *Pro-Consumer Pledge*. The *Pledge* concisely sets out the principles of pro-consumer microfinance. At the 2004 annual meeting of the ACCION Network, 20 institutions signed the *Pro-Consumer Pledge* as their commitment to pro-consumer policies and practices. The institutions agreed to apply these principles within their own organizations, to promote widespread application of these principles among microfinance institutions in their countries, to engage with regulatory authorities in their countries as needed to promote effective yet non-burdensome policies or rules, and to raise awareness in the global microfinance industry about the importance of pro-consumer principles. Many ACCION Network members have incorporated consumer protection principles into their operations through various initiatives, as outlined in *Bringing Pro-Consumer Ideals to the Client: A Consumer Protection Guide for Financial Institutions Serving the Poor* by Patricia Lee Devaney.

ACDI/VOCA

Over a two-year period, ACDI/VOCA considered what would be the best approach to incorporating consumer protection into the organization's activities. A major challenge was determining how to make the principles meaningful and workable for its affiliates, given their autonomy. Ultimately, the technical services division of ACDI/VOCA worked with Frontiers (an affiliate of ACDI/VOCA) to develop a pledge, which was agreed upon and approved by its board of directors in 2005. In March 2006, ACDI/VOCA management adopted a consumer protection pledge for financial services institutions at the headquarters level. The pledge expresses ACDI/VOCA's commitment to basic principles—quality and demand-driven services, dignified treatment, truthful and transparent information, fair pricing, protection from unethical practices, and client privacy—and provides recommendations for how partner financial institutions can adopt and operationalize their own pro-client policies.

AMFIU

The Association of Microfinance Institutions in Uganda (AMFIU) represents microfinance providers in Uganda that range from regulated institutions to cooperatives and NGOs. They group 107 organizations including 79 ordinary members (financial institutions) and 28 associate members (including NGOs, foundations and related businesses). Ordinary members serve a total of approximately 916,000 savers and 365,000 borrowers. In 2004, AMFIU implemented its *Consumer Code of Practice* to which members had to adhere in order to belong to the association. This code mainly focused on adherence to best practices in

microfinance and ethical behavior in general. AMFIU worked for almost a year with its members and the Consumer Protection Working Group from the SEEP Network to develop and propagate a new code with a broader perspective that specifically addressed transparency and pro-client behaviors. This new *Code of Practice* was introduced in 2005.

CARE

CARE is in the process of developing a customer protection code of conduct. The code aims at protecting CARE's clients and ensuring that they receive high quality services from CARE and its partners. CARE began working on the code in February 2006 and has reviewed it with staff in various parts of the organization. The latest version of the code incorporates feedback from more than 50 staff members and partner MFIs from 26 country offices. The code has been submitted for approval to the CARE core management team and the executive team. The approved code will then be circulated to all CARE country and regional offices. CARE plans to select a few countries to pilot the application of the code of conduct for a year, and then further recommendations and guidance will be made for the larger organization. CARE will also collaborate with other peer organization in the sector to develop and implement training modules on the rights and responsibilities of microfinance customers. Its village savings and loans scheme will be the first place for the implementation of those modules.

Freedom from Hunger

In 2003, Freedom from Hunger (FFH) developed its *Statement on the*

Ethical Treatment of Clients in consultation with key stakeholders. FFH was motivated to work on client protection because of the central position of the client in the organization's work, the opportunity to provide partners with a marketing edge, and potential to demonstrate to regulators that partners are serious about fair treatment. FFH secured board approval for its *Statement* in June 2004. There was support for this initiative across the organization, including senior leadership, technical staff, and key partners, who were all involved in the process. FFH has started to translate the *Statement* into action by holding sessions at conferences with multiple partners to discuss approaches to client protection, adding a statement about client protection to revised loan contract documentation, and incorporating client protection into the social performance management systems promoted with its partners.

MicroFinance Network (MFN)

The MicroFinance Network (MFN), an association of 37 leading microfinance institutions from 32 countries around the world, serves close to 10 million borrowers and over 33 million savers. Although not a member of SEEP, MFN has participated in the Consumer Protection Working Group as a 'friend of SEEP'. In collaboration with ACCION International and with the support of the SEEP Consumer Protection Working Group, the MicroFinance Network developed a set of principles for pro-consumer microfinance, resulting in the *Pro-Consumer Pledge*, which was adopted by MFN members in October 2004. In response to the members' desire to maintain focus on clients, the pledge defines

principles to ensure that financial services benefit customers while also ensuring that the legitimate needs of microfinance institutions are met, in order that microfinance institutions can continue providing services over time. As leading organizations in their individual countries, MFN members also wanted the pledge to address the competitive disadvantage that could occur if less scrupulous providers deviated from the pledge standards, particularly if clients are not able to distinguish those providers that adhere to the pledge from those that do not. Because of this concern, the pledge suggests that collective action—either by the industry or regulatory authorities—may be necessary to enforce wide application of pro-client principles.

Operationalizing Consumer Protection

A key challenge for SEEP members is working with microfinance institutions to translate a consumer protection statement into action. Freedom from Hunger has incorporated a consumer protection statement into its procedures by including the “Institutional Commitment to Clients” in the loan contract (see box 4). ACCION International and the MicroFinance Network have published a report outlining the experiences of their network members in incorporating consumer protection principles into their operations (see box 5). Some of the examples from this report³ illustrate how MFIs protect their clients while improving their service:

Mibanco (Peru) has an internal marketing person—the quality and

client services manager—and a supporting quality committee that provide a platform for customer service and consumer protection initiatives. The quality and client services manager position is guided by the institutional “Code of Conduct and Ethics.”

BRI (Bank Rakyat Indonesia) conducts internal training with staff on how to handle customer complaints in order to maintain quality service. A centralized call center in the head office handles calls from customers of all 300

branches. The call center number is widely distributed, placed on ATM screens, BRI’s website, informational materials, and customer passbooks.

Apoyo Integral (El Salvador), **BancoSol** (Bolivia), **BRI** (Indonesia), **Compartamos** (Mexico), **Constanta** (Georgia), **Cooperativa Emprender** (Colombia), **FAMA** (Nicaragua), **FINAMERICA** (Colombia), **Mibanco** (Peru), and **Prizma** (Bosnia & Herzegovina) have written codes, value statements, and/or procedures detailing the

Box 4: Freedom from Hunger’s Template for Partner Loan Contracts: Institutional Commitment to Clients

_____ commits to the following:
(Name of Institution)

- Treating each client with dignity and respect
- Providing complete and accurate information to clients about the terms and conditions of all products and services, including fees and interest rates for these services
- Explaining all rights and responsibilities orally in the local language as well as in writing
- Providing a response to all loan applications within _____ working days
- Providing an explanation of negative decisions taken with regard to loan applications
- Providing learning sessions on a regular basis during meetings
- Attending all credit association meetings as agreed in organizational policy and procedures
- Not disclosing private information about clients without the consent of the client*

* Freedom from Hunger, “Ethical Statement—Institutional Commitment to Clients,” policy adopted 2004 and included in loan documents (Davis, CA: FFH, 2005), <http://www.ffhtechnical.org>

³ Patricia Lee Devaney, *Bringing Pro-Consumer Ideas to the Client* (Washington, DC: ACCION and MicroFinance Network, 2006). The examples in the “Operationalizing Consumer Protection” section are directly taken from this report.

Box 5: ACCION International and the MicroFinance Network recently published *Bringing Pro-Consumer Ideals to the Client: A Consumer Protection Guide for Financial Institutions Serving the Poor*, by Patricia Lee Devaney. This monograph is drawn from the experience of several ACCION Network and MicroFinance Network members and guides institutions through the process of incorporating consumer protection principles into their organizational philosophies and operations. The first stage of this initiative was to develop and adopt the *Pro-Consumer Pledge* in 2004 among network members. The pledge defines principles to equip microfinance customers with rights—and knowledge of these rights—while minimizing the operating costs so that MFIs can remain sustainable in the long-term. This report outlines tangible ways in which MFIs are currently integrating the ideals of the Pro-Consumer Pledge into their operations. The full document is available at www.accion.org/pubs/.

expected behavior of staff. The most effective of these documents outline both the general philosophies of the institutions and the very specific rules of what constitutes appropriate interactions between staff and clients. For example, Cooperativa Emprender's "Code of Ethics" includes information on spending limits when staff members travel and how to host a client at the branch office (being friendly, offering a candy, etc.). Mibanco's "Code of Conduct and Ethics" outlines appropriate interactions that staff is allowed with clients and suppliers. For example, employees are prohibited from accepting gifts from clients or suppliers in excess of \$100.

Apoyo Integral, BancoSol, BRI, and PRODEM FFP (Bolivia) present their interest rates on posters or displays as annual percentage rates (APR) on the walls of all branches. At BancoSol, effective interest rates are included in their welcome packet. BRI also includes interest rate information in brochures and on their loan application forms. Because there is an interest rate cap in Colombia, **Cooperativa Emprender** (Co-

lombia) charges additional fees for their services. To explain these fees and the interest rates, they provide clients with a summary sheet detailing the aggregate cost and disaggregated payments.

Prizma (Bosnia & Herzegovina) is working with other MFIs to create their own consumer protection standards to protect consumers throughout Bosnia & Herzegovina and create a level playing field among MFIs, so that institutions do not lose customers simply because they present their interest rates clearly.

The internal auditing departments of **Constanta** (Georgia) and **FAMA** (Nicaragua) informally survey delinquent clients to ensure that they are being treated fairly by MFI staff.

BancoSol includes a summary of client privacy rights in the welcome packet that clients are given when signing a loan contract. In addition to including privacy issues in their new employee training program, **Compartamos** sends a formal letter to new staff explaining privacy rules.

Weathering a Crisis

The importance of a pro-active approach to consumer protection became evident in the experiences of MFIs in Andhra Pradesh, India. A similar case in Bolivia in the 1990s showed that if even a small number of clients perceive they are being unfairly treated, the repercussions can reach far beyond the MFI in question.

Background

The state of Andhra Pradesh is a large and important player in the extension of financial services to the poor in India, where there are two main models of microfinance: one government supported and one private sector initiative. In the government model, support for self-help groups (SHGs) helps stimulate demand for micro-loans. The Andhra Pradesh government forms and trains SHGs, which are then eligible for low-cost loans from commercial banks. Indian banks are required to lend to SHGs at a rate fixed by the Central Bank. In the private sector model, MFIs offer loans to the public with less restrictive terms, but at higher rates. The two models sometimes overlap; the large number of SHGs, and their experience with borrowing, provide good clients for the MFIs. Many attract SHG members by offering larger loans with faster turn-around than SHGs.

The Crisis

In March 2006, the Krishna district administration in Andhra Pradesh shut down the MFIs, including 54 branches of two large MFIs, Share and Spandana. The district administration said this action was precipitated by com-

plaints of usurious interest rates and forced recovery practices. It appears that a lack of transparency about the overall cost of borrowing, specifically additional fees and charges, was one of the main sources of the complaints. Forced recovery practices included seizing title deeds, bundling loan collection with savings and insurance, and using abusive language when collecting. Some Andhra Pradesh officials charged that MFIs were poaching clients from SHGs, leading to repayment problems between SHGs and banks. It is unclear where the alleged complaints originated, but the press quickly took notice. Articles critical of MFIs appeared, including reports alleging that 10 borrowers committed suicide when they could not repay their loans. The Andhra Pradesh administration quickly responded to the charges and led an effort to stop the unethical practices. Some officials even suggested that MFI customers should not repay their loans.

The MFIs were taken by surprise. Although a microfinance association, Sa-Dhan, exists in Andhra Pradesh, and the affected MFIs are members, Sa-Dhan does not have authority to advocate on behalf of its members and has not been recognized as representative of the industry by the government.

The MFI Response

After the branches were closed, Sa-Dhan hosted a meeting to discuss a response. Five activities were subsequently discussed:

1. Establishing dialogue with authorities
2. Adopting the MFI *Code of Conduct*

3. Improving media relations
4. Adopting a bank code of conduct
5. Auditing SHGs and MFIs

Actions have been taken on the first four points, with some promising results:

- The branches have been reopened, although operations are mostly limited to collection of outstanding loans.
- The MFIs have adopted the *Code of Conduct*. However, the pressure from the crisis has forced MFIs to limit the interest rate they are able to charge to a maximum of 24 percent. (Previous estimates calculated the effective interest rates at 28–31 percent.) Some MFIs have even been pressured to reduce the interest rate to 20 percent.
- The media has begun to take a more balanced view in its reporting on MFIs, with some articles highlighting the benefits of microfinance and illuminating the conflict of interest with district officials.

However, there are still districts in Andhra Pradesh where branches are not making loans, where loan collections are difficult, where MFIs will be unwilling to open in the future due to the crisis, and where customers will not have an alternative to the government-sponsored SHG program. Commercial banks that had been interested in microfinance are now wary.

Lessons Learned

Given the rapid expansion of the MFI sector in Andhra Pradesh, the

interest rate differential between SHGs and MFIs, and the government investment in SHGs, it could be argued that MFIs should have been better prepared to respond to these allegations. Friction with the government had been brewing for some time over accusations that MFIs were poaching SHG members, and that members with loans to both MFIs and SHG were repaying the former first.

The clear lesson from the crisis in Andhra Pradesh is that managing such a crisis requires advance preparation. Some of the problems in Andhra Pradesh could have been avoided had MFIs worked together before the crisis and put these fundamentals into practice:

1. Speak with one voice. It is more difficult for outside forces to make their case if the industry is united in its statements and practices in consumer protection issues. This requires that all MFIs give up a little of their autonomy to a trade association authorized to speak on their behalf.

2. Maintain close relationships with the government and the media. Most crises are voiced either through the media or government bodies, and it is helpful to have a positive relationship with them.

3. Establish a code of practice. When developing a code of practice, specific, measurable indicators are better than general statements to show that an industry is serious about consumer protection.

Getting Started: Ten Tips to be More Client Friendly

SEEP's "Ten Tips" is an easy way for any institution to evaluate how client friendly it is and where increased client emphasis may be needed. How does your institution rate?

1. Pro-Client Focus

Institutions that are focused on meeting client needs in an ethical manner will be the most successful and will meet the consumer protection objectives laid out by SEEP. Remember that poor customers want good service and fair treatment as much as wealthier customers. Those institutions that provide this will retain their customers and lower their costs.

2. Transparent Policies

Transparent policies are critical to building trust with clients and maintaining a pro-consumer focus. Educating consumers on pricing and policies of the institution will help them to make more knowledgeable decisions and become better customers.

3. Clear and Fair Pricing

Customers have the right to know the interest rate they are paying or receiving. Institutions should clearly indicate APR and periodic rates. Institutions do not need to view clear pricing as a competitive disadvantage—educating customers and collaborating with other providers will help reduce competitive pressures. Institutions also need to be fair in their pricing. Customers should not pay for inefficiencies, and socially conscious enterprises should not make excessive profits at the expense of customers.

4. Educate Your Customers

Institutions should take responsibility to educate their customers about financial issues. Many microentrepreneurs do not have the knowledge to understand financial terms and evaluate product offerings. Educating customers will help them be better customers and ultimately have a positive impact on your institution. One strategy is to collaborate with others in the industry to provide consumer education so that all benefit.

5. Avoid Over-Indebtedness

Microfinance institutions should invest in both credit analysis and education to avoid over-indebted customers. These not only are pro-client activities, but they will also reduce delinquency and curb development of a poor credit culture. Institutions should also consider credit scoring and support the establishment of credit bureaus to reduce costs while protecting consumers and themselves.

6. Staff Incentives

Staff incentives play a critical role in developing a more client-friendly institution. Staff incentives should be aligned with the institution's customer service strategy. Incentives should take into consideration not only loan origination and collections, but how they are accomplished. Institutions can include complaint handling and ethical behavior standards in their incentive program and review policy.

7. Flexibility

Great customer service depends on the ability of all staff to improvise and be flexible in handling customer issues. Executives need to balance the benefits of a culture of compliance with a culture of customer service. While compliance is impor-

tant for stability, service is critical to retaining customers.

8. Respond to Complaints

Institutions that view complaints as an opportunity for improvement will be more successful than those that ignore them. Customer complaints can be an early warning system if handled appropriately. Institutions should develop a complaint-resolution procedure and market it to customers. It is important for staff to understand why complaints are useful and to reward clients who speak up.

9. Market Your Efforts

Pro-client institutions should market their work both internally and externally. Internally, all staff in the institution should be aware of the pro-consumer focus, policies, and procedures. Externally, clients and third parties that are concerned with consumer protection should understand the organization's client-friendly approach and efforts to prevent misperception or miscommunication.

10. Participate in Your Community

Engaging in community activities improves your institution's image and gives you an opportunity to market your efforts in new ways. Emphasizing your social mission through community activities allows you to focus your commercial principles on your business. Remember that building trust takes time and commitment, but you will be rewarded by retaining your satisfied customers and acquiring new ones.

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Note about the Consumer Protection Working Group

The Consumer Protection Working Group brings together SEEP members to address issues of consumer protection in the microfinance industry. The Working Group developed the SEEP Pro-Client principles in October 2004 and serves as a resource for SEEP members in the development and implementation of consumer protection statements.

Authors

Ximena Arteaga, Grameen Foundation
Monisha Kapila, ACCION International
Patrick McAllister, Consumer Protection Working Group Facilitator
Beth Porter, Freedom from Hunger

Additional input was provided by members of the Consumer Protection Working Group.

Contact

For additional information or to order additional copies, contact The SEEP Network.
1825 Connecticut Avenue, NW
Washington, DC 20009-5721
Tel: 202.884.8392
Fax: 202.884.8479
E-mail: seep@seepnetwork.org
www.seepnetwork.org



About SEEP

SEEP is an international network of over 70 organizations committed to reducing poverty through microfinance and enterprise development. SEEP members are active in over 140 countries and reach over 25 million microentrepreneurs and their families. SEEP promotes professional standards of practice in microfinance and enterprise development, conducts capacity building activities for its members and other practitioners, creates and disseminates publications for application in the field, and serves as a center for collaboration on a broad range of sector-related issues.

–Dana de Kanter, Executive Director

Progress Notes

Previously published in this series:

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- Progress Note No. 3, *Institutionalizing Client Assessment: The Activists for Social Alternatives—India.*
- Progress Note No. 4, *The Emerging Role of Microfinance Programs in Mitigating the Impact of Natural Disasters: Summary Findings of an Impact Assessment of World Vision's Ethiopian Affiliate.*
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