

Internalizing the Client Protection Principles: The case of IDEPRO in Bolivia

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case study

2012

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Printed in the United States of America.

To access this publication online, visit www.seepnetwork.org.

ACKNOWLEDGEMENTS

This case study was produced by the SEEP Network in collaboration with FINRURAL Bolivia and the Institución Financiera de Desarrollo (IDEPRO), within the framework of SEEP and the Smart Campaign's project to promote and train microfinance associations in the Client Protection Principles, financed by USAID.

We would like to thank Carla Aguirre, Cara Forster, and Néstor Castro for their valuable contributions and suggestions in the process of developing and reviewing the document, and Melissa Matlock of the SEEP Network for her invaluable support in preparing this case study. Special thanks to IDEPRO managers Monica Velasco, Roberto Casanovas and Gonzalo Araoz, for their time, active participation, comments, and willingness to collaborate in the process of researching and developing this case study.

1. Introduction

The aim of this document is to show the progress made by the Development Finance Institution (DFI) IDEPRO in internalizing the Client Protection Principles, and to describe the conditions at the internal and market level that lead to this DFI's decision to dedicate efforts to the internalization process.

1.1 About IDEPRO

IDEPRO is a Bolivian DFI that is presently in the process of becoming a regulated institution under the Autoridad de Supervisión del Sistema Financiero de Bolivia (ASFI). It specializes in providing both credit and business development services for Micro, Small, and Medium Enterprises (MSMEs) that work in key production chains in the country: chestnuts, garments, textiles, quinoa, wood, tourism, and Singani grape brandy.

IDEPRO's 2012-2014 Strategic Plan identifies ten areas of strategic focus, which are the same factors that differentiate IDEPRO from its competitors. Included among these areas are Social and Environmental Responsibility and Social Performance Management.

A focus on Social Responsibility has been included in Strategic Plans since 2007 and is budgeted for within the annual work plan, built into the Annual Business Plan. Since 2011, IDEPRO has included an environmental focus in the area of Social Responsibility, which currently "guides internal process management and customer service by a philosophy that strengthens values and ethical behavior in all areas and at all levels of management. It follows ethical principles that are compatible with the balance sought between economic growth, social wellbeing and sustainable use of natural resources and the environment, while respecting cultural diversity and promoting a reduction of economic and social inequalities ¹.

The Social Performance approach "directs the operation of the institutional system of decisions, actions and results, towards fulfilling the mission which is translated into core strategic objectives of customer impact." For 2012-2014, a Social Performance Management plan has been incorporated in the Strategic Plan with the goal of "establishing areas, outlook and minimum aspects of measurement, monitoring and continuous improvement of social performance."

For more information on this institution, please visit its website at: www.idepro.org.

1.2 The market context and Client Protection Principles

In a competitive microfinance market such as Bolivia, differentiation is essential to the survival of each financial institution. According to IDEPRO, factors of differentiation are directly linked to the type and quality of an institution's relationship with its customers and the market, through the services and products it offers.



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1. Cita textual del Plan Estratégico Institucional (PEI) 2012-2014 de la institución.

It is increasingly important for IDEPRO to cultivate these relationships as a differentiation strategy since the institution is taking steps towards becoming a regulated institution through the Bolivian regulatory body, ASFI (Autoridad de Supervisión del Sistema Financiero). At this juncture it is important to point out that the regulating agency has defined its institutional stance on this topic as follows:

“structuring a regulatory and supervisory scheme for the national financial system is based on three central themes to enforce the State Constitution and the National Development Plan: i) to ensure the stability and solvency of the financial system in order to protect the savings of citizens; ii) to strengthen advocacy for the rights of financial consumers and promote financial education, primarily in rural areas; and iii) in coordination with governmental agencies, to foster better conditions for the financial system to have a revitalizing effect on the growth and development of economic production, facilitating access to financial services for all production sectors of the Bolivian economy, and prioritizing care for micro and small enterprises, community organizations and production cooperatives, particularly in rural areas.”

In addition, ASFI has developed and implemented Financial Client Protection Practices among its norms, and has created a specific department to deal with this matter.

1.3 About the Role of FINRURAL

FINRURAL, Bolivia’s association of Development Finance Institutions (DFIs), presently has 13 members, one of which is IDEPRO. As of December 31, 2011, DFIs in the Bolivian market constituted 3.75% of the total portfolio and 29.74% of all borrowers in the national financial system.

One of FINRURAL’s functions is an ongoing search for ways it can assist its members in developing and fulfilling their social mission more efficiently. Within this framework, in 2011 it signed an agreement with the Smart Campaign, an international effort to promote client protection in microfinance and keep clients as drivers of the sector. The Smart Campaign endorses tools and resources needed for its members to offer transparent, respectful, and prudent financial services to all of their customers. Through this agreement, FINRURAL agreed to organize events to promote the Client Protection Principles among its members as well as support client protection assessments, known as Smart Assessments, in order to understand the situation of its members’ in fulfilling these principles.

IDEPRO was one of the institutions that, in keeping with its corporate social responsibility and social performance goals, showed the greatest interest in this matter, and finally benefitted from a client protection assessment using the Smart methodology in May 2011. This evaluation was conducted by an international consultant provided by the SEEP Network and an assessor in training from FINRURAL. In this way, the Smart assessment team combined the international consultant’s specialized knowledge with the network’s deep understanding of the local context.

1.3 About the Smart Assessment Process in IDEPRO

According to the IDEPRO General Manager, the evaluation process of the client protection assessment, using the Smart assessment methodology, allowed for an essential internal reflection of the institution, enabling it to deepen its understanding of the Client Protection Principles and to highlight areas of strength, risk, or areas for improvement. It should be emphasized that the management was committed and participated actively from the beginning of the assessment. This attitude had a very positive effect on the successful implementation of the assessment.

The outcomes of this assessment demonstrate in a practical way that while many of the Client Protection Principles were already being applied by the institution, there were still some areas with opportunities for improvement and

potential future risks for the institution.

The most important outcome was that IDEPRO understood that complying with the Client Protection Principles is a gradual process that requires continual improvement under a system of ongoing monitoring. This way of understanding and taking ownership of the assessment outcomes set the stage for a discussion that would make it possible to begin the process of internalizing the Client Protection Principles in IDEPRO.

2. IDEPRO's Current Status

2.1 Internal Institutional Commitments and Agreements

IDEPRO now has Board approval for its 2012-2014 Institutional Strategic Plan. One of the main goals of this plan is to consolidate its institutional culture as a DFI to include its recent areas of focus.

One of the major challenges in this plan is to develop a system for monitoring, evaluating, and strengthening an institutional culture that focuses on social performance and corporate responsibility.



Of course, it is important to highlight that approval of the Strategic Plan demonstrates the will and commitment of various governing bodies (the Board of Directors and General Assembly) and the senior management, which have been working on developing the goals, outcomes, indicators, and objectives, and appointing those responsible for carrying them out.

It should also be mentioned that the Institutional Development Manager, who reports directly to the General Manager and to date has played an outstanding role in implementing these cross-cutting themes within the institution, is tasked with putting this system in place and monitoring its various indicators.

Therefore, IDEPRO is taking advantage of the current juncture in the Bolivian industry and the international context to position itself at the forefront of this issue, which it deems to be a significant differentiating factor on the market.

2.2 The Implementation Process

IDEPRO has taken an important step forward by institutionalizing the Client Protection Principles. This means that customer protection will be built into IDEPRO's existing system of indicators and part of its Institutional Social Performance Plan.

1. The findings of the 2011 Smart Assessment will serve as a baseline for developing an initial improvement plan in areas that are identified as opportunities and for any that might pose risks. For this purpose, the principles and indicators provided by Smart will be used in their entirety and without change. The findings will be reviewed and work plans prioritized by areas of responsibility according to the institutional goals. Goals will be set for the indicators in relation to the prioritized principles and indicators.

2. In this way, the 2011 Smart assessment will become a baseline against which to compare annual self-assessments, which will be used for new, increasingly demanding improvement plans.

If deemed advisable, changes may be proposed in the tool used, to adapt it to the national and institutional context, but only after applying it several times and gaining a better understanding of the methodology.

In accordance with its plans for this period, IDEPRO is working to develop its first improvement plan, which includes the Client Protection Principles and is estimated to be ready for implementation in July 2012.

It should be pointed out that the priorities for the initial and subsequent improvement plans will be set at the managerial level in the Central Office and the Branch Offices and agencies. In other words, the institution will make an effort to work in coordination, addressing any challenges that may arise in the areas of vulnerability and highlighting or emphasizing any strengths highlighted in the Final Assessment Report delivered by the Smart Campaign and FINRURAL and any that are underscored in successive annual assessments.

3. Future Prospects

3.1 Future Prospects

Client protection has been discussed internationally in recent years due to various industry crises that have caused obvious and irreparable harm to clients.

CGAP's "Focus Note #73" from September 2011 proposes reflecting on this issue and the future of the sector, and states that client protection is a cornerstone for consolidating microfinance as an industry that promotes responsible finance. This publication assigns special importance to self-regulation in meeting short-term targets to protect the areas in which clients have no defense.

Likewise, the European Code of Good Conduct for Microcredit Provision, published by the European Union last year, demonstrates the international interest in and status of the customer protection issue. This document offers a set of standards that propose behaviors for managing governance, risk, information, and relations with investors and consumers. These behaviors and obligations include providing sufficient information, consumer rights, avoiding overindebtedness of clients, customer care and ethical conduct on behalf of institutional staff, protecting customer data, and investor relations.

Furthermore, in March 2011, the World Bank offered the sector a best practice guide for financial consumer protection. Chapter IV is dedicated solely to non-bank credit institutions, and covers established customer protection practices.

In Latin America, some SEEP Network members have already started to adopt codes of ethics, codes of conduct, or codes of best practices that promote the voluntary adoption of certain practices included in the Client Protection Principles proposed by the Smart Campaign.

As seen, there is an international movement of diverse stakeholders that seek to consolidate principles, means, and processes for attaining a suitable level of customer protection. These stakeholders approach the same issue from different angles, but their common goal is to bring effective solutions to the market on this important matter.

3.2 For FINRURAL

FINRURAL, an entity that brings together Bolivian DFIs, has been mandated by its members to help strengthen the intervention approaches, the differentiating elements, and the competitive advantages of these institutions in the market.

In keeping with this mandate, particularly in the case of client protection, the association is actively involved in generating suitable spaces for joint efforts and exchange of experiences, not only among its own members, but taking into account other domestic and foreign stakeholders as well.

3.3 For IDEPRO

The IDEPRO Board of Directors has decided to fully incorporate the principal recommendations proposed by the Smart Campaign during the assessment of the institution's client protection practices. Initially, IDEPRO will use the same framework of principles and indicators used for the assessment due to the fact that it considers it necessary that the focus on client protection develop its own trajectory with enough time to evaluate its relevance to the institution's plans and objectives.

In any case, this period for testing Smart's framework will be for identifying indicators that suitably measure—from the viewpoint of internal efforts and goals—the way the institution operates in keeping with its goal of developing a system for evaluation, monitoring and strengthening of the institutional culture with a focus on social performance and corporate responsibility.



4. Conclusions

A growing interest is being seen at various levels (international entities, regulatory bodies, investors, financiers, etc.) in strengthening client protection in microfinance. These initiatives have been taken up by various institutions around the world as an incentive for understanding their internal processes as objectively as possible, lending greater visibility the positive aspects of their customer relations and commencing actions that will make it possible to overcome the policies, processes or conditions that will pose risks to the stability of these relations in the medium and long term.

IDEPRO has decided to start an intensive process of internalizing the Client Protection Principles proposed by the Smart Campaign. Implementing a process of this type requires taking the risk inherent in working under a framework that has not yet been explored in practice, with few or no points of comparison to assess the progress made.

In this regard, although this process is in its initial stages, it is important to continue to monitor the work of this Bolivian DFI in an attempt to document the experiences and lessons learned, as they will be extremely important for the development of the overall industry and for the institutions that are genuinely committed to consumer protection in the microfinance market.



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