



STATE OF THE PRACTICE

# CLIENT PROTECTION IN UGANDA'S MICROFINANCE SECTOR



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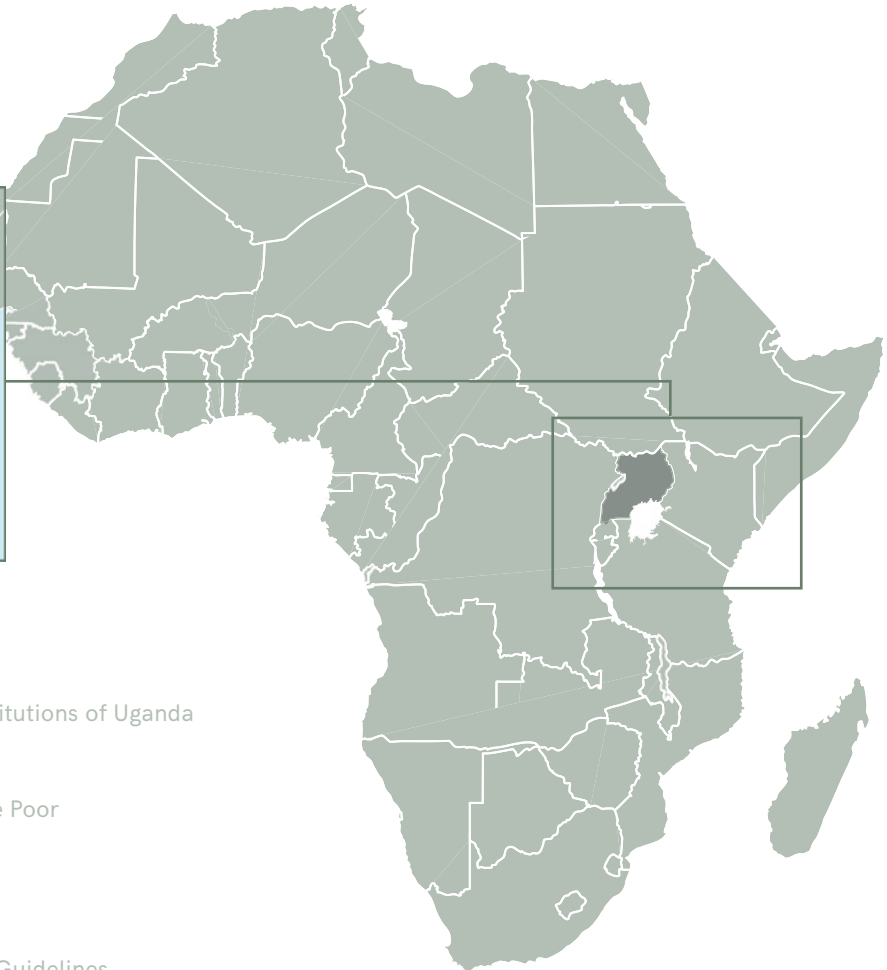


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**Quick Facts**

Republic of Uganda  
Capital: **Kampala**  
Population: **37,873,253**  
GDP (nominal): **\$26.631 billion**  
GDP (per capital): **\$648**

**Acronyms**

ACP	Accredited Credit Providers
AMFIU	Association of Microfinance Institutions of Uganda
APR	Annual Percentage Rate
BoU	Bank of Uganda
CGAP	Consultative Group to Assist the Poor
CRB	Credit Reference Bureau
CEO	Chief Executive Officer
CoC	Code of Conduct
CP	Client Protection
FCPG	Financial Consumer Protection Guidelines
FIA	Financial Institutions Act 2004
GNI	Gross National Income
MDI	Microfinance Deposit-taking Institution
MFI	Microfinance Institution
MIMOSA	Microfinance Index of Market Outreach and Saturation
NBFI	Non-Bank Financial Institution
NGO	Non-Governmental Organization
SACCO	Savings and Credit Cooperatives
SEEP	Small Enterprise Education and Promotion Network

## Acknowledgements

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## Executive Summary

This state of the practice report provides an overview of the legal framework, regulations, and industry practices related to client protection in Uganda's microfinance sector. It draws on findings from five key sources:

### A Code of Conduct baseline assessment

This field study assessed the understanding and perceived implementation of the Smart Campaign Client Protection Principles as detailed in the 2010 version of the AMFIU Code of Conduct. The assessment surveyed CEOs and middle management from 47 financial institutions (53% of AMFIU membership base). The study included a client focus group of 30 clients from one MFI. The findings are far from representative, but nonetheless considered in this analysis. Representatives of the Central Bank, donor agencies, funders and apex bodies, were also consulted.

### Client Protection Market Diagnostic

AMFIU piloted the newly developed SEEP CP Market Diagnostic Tool, designed to develop a comprehensive overview of client protection rules, practices, and issues in country-level markets. The diagnostic was based on a desk review of legal and regulatory texts.

### Client protection assessments

In addition, the analysis aggregates results from four assessments of client protection practices using the Smart Campaign indicators.

### Field research on collection practices by the Smart Campaign

"What Happens to Microfinance Clients Who Default: An Exploratory Study of Microfinance Practices" was published in 2015 and draws on field research conducted in Uganda in 2014.

The report aims to guide Ugandan sector stakeholders on technical and advocacy efforts in this area. A useful companion document to this state of the practice report is the Smart Campaign's model legislation, which offers an example of a complete legal framework for financial consumer protection based on the Client Protection Principles. The model legislation is designed to help policy makers develop and improve legislation, and could help supplement efforts in Uganda to further reinforce existing regulation.

Findings are structured around the seven Client Protection Principles and aim to highlight regulations, industry rules, and industry practices and perceptions, in addition to strengths and weaknesses under each principle.

## Principle 1

**Appropriate Product Design and Delivery**

MFI's feel confident that they are doing what they can to design appropriate products and delivery channels, mainly through product development processes. Client feedback is sought and valued — albeit informally — although most institutions are not seizing the opportunity to learn from exiting clients. Collateral valuation policies are a major weakness, and a relatively high-risk one for clients given evidence that collateral seizures often take place outside the legal process. **Overall, the level of implementation is fair, but there is a pressing need to address the absence of collateral valuation and seizure policies, which pose a risk to consumers.**

## Principle 2

**Prevention of Over-Indebtedness**

This principle is the most challenging to implement, particularly for unregulated institutions. There is evidence that some institutions rely too much on collateral to compensate for insufficient or incomplete repayment capacity analysis — especially for those unregulated institutions without access to the credit reference bureau (CRB). In addition, the finding that institutions have rescheduling policies but do not use them — when seen in light of evidence of questionable collateral seizures — suggests a reliance on collateral seizure to deal with default, rather than seeking alternative solutions to default. Given growing market penetration and saturation in urban areas and the evidence of over-indebtedness in the market, **there is a pressing need to expand affordable access to credit information to all MFIs and to help MFIs strengthen loan appraisal procedures.**

## Principle 3

**Transparency**

MFI's appear to make solid efforts to communicate with clients, but disclosure of terms and conditions is not uniform, despite rules to this effect in the Bank of Uganda's Financial Consumer Protection Guidelines and AMFIU's Code of Conduct. A combination of flat and declining interest rates makes it difficult for clients to compare pricing across MFIs, even when it is publicly disclosed. It is not common practice to give clients documentation post-sale (either the contract itself or a key facts summary), which means clients have nothing to refer to in case of questions, doubts, or litigation. **Strong efforts are needed to harmonize and improve disclosure and client understanding.**

## Principle 4

**Responsible Pricing**

It is impossible to make a sweeping generalization regarding responsible pricing in Uganda based on a sample of four institutions. To get a sense of pricing in Uganda, we can refer to relatively old data from *MFT Transparency* (mostly from 2011) that shows a wide range of pricing (20%-157%) with weighted average APRs for NGOs (72%), NBFIs (76%), and SACCOs (65%), considerably higher than for banks (35%).

## Principle 5

**Fair and Ethical Treatment of Clients**

While codes of conduct are in place, specific conduct regarding collection practices is not specified. The AMFIU Code does not specifically require members to define appropriate collection procedures. Client feedback regarding poor customer care, strictness of repayment delays, and evidence of aggressive recovery practices, suggests an important gap. **Together with weak practices in defining appropriate collection procedures, they pose a high risk to consumers and reputational risks to the sector.** There is a need to raise awareness on appropriate recovery techniques and respectful strategies to deal with clients who default.

## Principle 6

**Confidentiality of Client Data**

The albeit limited evidence from the field suggests that privacy of client data is not perceived as a problem by MFIs or clients. Practices of the assessed institutions show that the infrastructure/systems side of data security is taken seriously. However, disclosure and consent policies are lacking. The risk is that clients are uninformed of how their data is used and shared, and feel betrayed by what amounts to a lack of transparency. This can lead to a loss of trust between clients and providers and reputational issues for the sector. **Weak implementation of the principle poses a risk to clients and the sector, but can easily be addressed with awareness raising and dissemination of examples of practices.**

## Principle 7

**Mechanisms for Complaint Resolution**

**Complaint handling is the principle where the level of implementation is weakest.** Unregulated institutions have no written policies or procedures for dealing with grievances, even if they appear to address issues on an ad hoc basis. AMFIU's complaint handling hotline is one measure to help fill this gap by offering an independent channel for clients. But for larger institutions, it should not fully replace an internal recourse mechanism, which can collect a broader range of client inputs — such as suggestions and product-specific feedback or questions. Having a channel to communicate directly with one's financial provider is both empowering for clients and valuable for the institution in terms of insights into staff behavior, products, and services.



## Introduction

Client protection is about ensuring a fair exchange between providers and consumers. It is key to the sustainable growth of any sector, but takes on a particular importance in microfinance, where the balance of power tips largely in favor of institutions. The “inherent disadvantage of financial service consumers vis-à-vis the power, information, and resources of their providers”<sup>1</sup> intensifies when it comes to low-income clients, and the stakes are particularly high. An unfair practice or uninformed decision can have dramatic consequences on vulnerable clients, an MFI's reputation, and trust in the microfinance sector as a whole.

While the concept of common standards of practice for consumer protection is not new, efforts to promote its application to microfinance are relatively recent. The first set of minimum standards for microfinance institutions dates back to 2008. Known as the Client Protection Principles, these standards emerged after a decade-long push for commercialized microfinance that undeniably increased outreach, but also raised questions about growth, pursuit of profit, and its cost to clients. Promoted by the Smart Campaign, the Client Protection Principles seek to re-center the industry's focus on clients. Alongside regulation and financial education, institutional commitment to a set of common standards such as the Client Protection Principles forms the foundation of a responsible microfinance sector.

Through the MasterCard-supported Responsible Finance through Local Leadership Program (2012–2016), the SEEP Network is engaged with seven microfinance associations in sub-Saharan Africa (Benin, Burkina Faso, Côte d'Ivoire, Ghana, Rwanda, Senegal, and Uganda) to promote responsible microfinance. SEEP is supporting initiatives to:

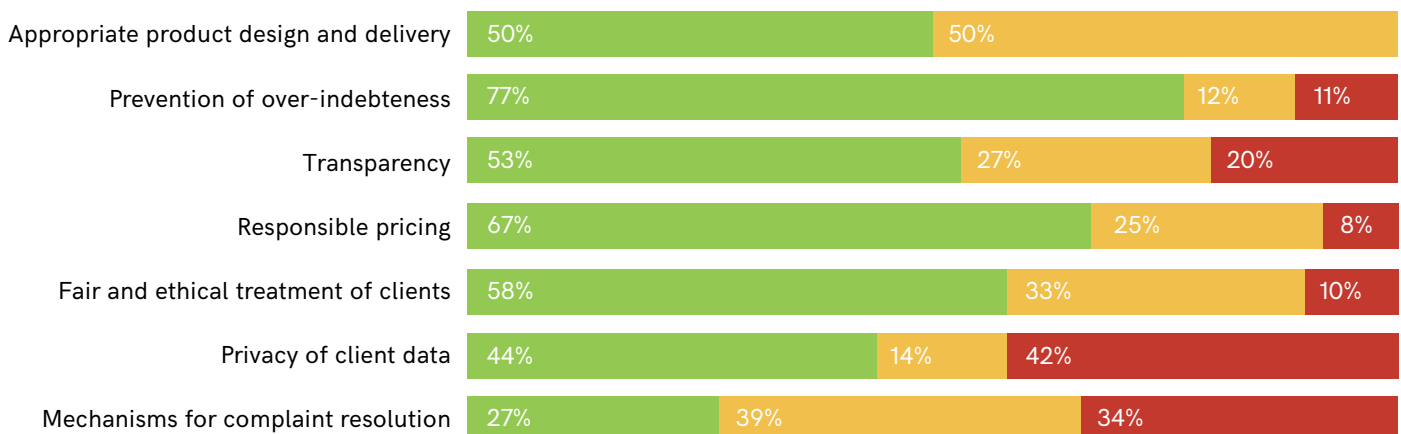
- develop and enforce microfinance sector codes of conduct;
- train and assess MFIs on the Client Protection Principles;
- facilitate the establishment or improvement of credit information sharing systems;
- identify meso-level interventions to promote client protection;
- undertake client protection market diagnostics; and
- promote client grievance and recourse mechanisms.

This publication is part of a series of State of the Practice reports for a few countries under the RFL program. The series aims to highlight strengths and priority areas for improving client protection in each country to help guide sector stakeholders' technical and advocacy efforts in this area.

### Key Findings / Principles in Practice

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

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



<sup>1</sup>Flaming et al, Consumer Protection Diagnostic Study, FSD Kenya, January 2011.

## State of the Practice of Client Protection in Uganda

Microfinance in Uganda is maturing. Emerging from poverty alleviation NGOs in the 1980s, the microfinance sector has come into its own as NGOs gave way to stand-alone MFIs and commercially viable financial institutions. Today the Ugandan sector is a vibrant vector of financial inclusion, serving some 750,000 borrowers and over 2.1 million savers.

The microfinance sector is a relatively complex component of the Ugandan financial sector. Financial providers are categorized into four tiers. The first three are regulated. Tier 3 is composed of micro deposit-taking institutions that work solely in microfinance. Tiers 1 and 2 are bank and credit institutions, of which only some provide microfinance. Tier 4 institutions are non-deposit-taking MFIs and SACCOs. A bill to regulate Tier 4 – which comprises the great majority of microfinance providers – is in process of approval by Parliament.

Tier	Type of Institution	Applicable Law	Regulator	Number (Sector) by March 2016	AMFIU 2015
Tier 1	Commercial Banks	Financial Institutions Act 2004	Bank of Uganda	25	2
Tier 2	Credit Institutions	Financial Institutions Act 2004	Bank of Uganda	4	2
Tier 3	Micro deposit-taking institutions (MDIs)	MDI Act 2003	Bank of Uganda	5	4
Tier 4	Other MFIs and SACCOs	Companies Act, NGO Act, Cooperative Societies Act, Money Lenders Act	None	Over 2,000	89

Market penetration in Uganda is intensifying. The country scores a 3 out of 5 on the 2013 Microfinance Index of Market Outreach and Saturation (MIMOSA), which indicates a “normally functioning market”.<sup>5</sup> A score of 3 means there is room for growth of the sector, but the overall score masks regional differences. Competition in urban areas is clearly growing, with evidence of multiple borrowing (see Prevention of Over-Indebtedness below). This aspect of consumer protection is of growing urgency and calls for regulatory intervention to make the existing credit reference bureau obligatory for all microfinance providers.

The good news is that consumer protection has been on the radar of regulators, who released the Financial Consumer Protection Guidelines (FCPGs) for regulated entities in 2011 and have since emphasized the compulsory nature of these guidelines. It is also a priority for the Association of Microfinance Institutions of Uganda (AMFIU), the umbrella body for MFIs in Uganda. Its members serve nearly 80% of the estimated microfinance clients in the market. The majority of AMFIU's 97 ordinary members come from non-regulated institutions. AMFIU integrated client protection into its Code of Conduct (revised in 2014). In addition, AMFIU has been the driving force behind including client protection into the Tier 4 bill to effectively create a regulatory framework for financial consumer protection for the 2000+ microfinance providers in this category. The association also provides a grievance hotline to address client complaints from members across the country.

### Key Figures<sup>3</sup>

**2,745** Number of legally registered microfinance institutions (2010), includes 2,000+ SACCOs

**750,000** Number of persons accessing services of MFIs 2.1 million savers (2010)

### Average loan size/GNI per capita:

99% for MDIs    73% for SACCOs    55.4% for MFIs<sup>4</sup>

<sup>2</sup>Data 2010 from SEEP's Responsible Finance Market Overview.

<sup>3</sup>Uganda Bureau of Statistics: Report on Census of Microfinance Institutions in Uganda, 2010.

<sup>4</sup>State of Microfinance in Uganda, 2012–2013. GNI/capita Atlas method for 2012 – 630 USD (World Bank data).

<sup>5</sup>Planet Finance MIMOSA 1.0.

## Regulatory texts that apply to regulated institutions (Tiers 1, 2, and 3)

Law establishing the organization of microfinance activities - **Law N°40/2008**

- Disclosure of product information prior to signing a contract (**art. 33**)
- Display of interest rates and fees (**art. 35**)
- There is no deposit protection mechanism in place for the microfinance sector, but **art. 38-39** allows for a Central Bank managed mechanism to cover MFI deposits.

Implementing regulation for microfinance activities Regulation N°02/2009, **Financial Institutions Act Amendment 2015**

- Obligation to use and report to a credit information bureau (**art. 17-18**); **Section 26, 78A of the FIA Amendment Act**
- Obligation to have credit policies with details on credits limits per borrower (**art. 69**)

Regulation on the publication of interest rates and fees applied by banks - Regulation N°14/2011

- Publication of rates and fees: prices and fees should be displayed in local newspapers, banks' websites, and information boards on the banks' premises (**art. 3**)
- Obligation to inform the public and the Central Bank of any change; annex: format in which to publish rates and fees (**art. 4**)
- Obligation to provide a Key Facts Document to consumers before they buy a service - **Bank of Uganda Circular, Nov. 2014**, effective 1 April 2015

Directive on customer service delivery in financial institutions - **Directive 05/2012**

- Publication of interest rates and fees (**art. 3**)
- Obligation to inform the public and the Central Bank of any change (**art. 4**)
- Format in which to publish rates and fees (**Annex**)
- Guiding principles on customer delivery, and obligation for financial institutions to report against progress and customer service delivery status to the Central Bank on a quarterly basis (**art. 3**)

Law on competition and consumer protection - **Law N°36/2012**

- Obligation to inform the consumer (**Chapter V, art 33**)
- Display of prices, right to customer service and care (**Chapter V, art. 35**)

Broadening of financial services that can be offered by financial institutions **Financial Institutions Act Amendment 2015**

- Introduction of regulations for Islamic banking, agency banking, *bancassurance* (insurance provided by banks), mobile banking, and money transfer



From 2012-2014, AMFIU conducted several field and desk studies with the goal of better understanding the state of client protection practices of their membership. These included:

### A Code of Conduct baseline assessment

This field study assessed the understanding and perceived implementation of the Smart Campaign Client Protection Principles as detailed in the 2010 version of the AMFIU Code of Conduct. The assessment surveyed CEOs and middle management from 47 financial institutions<sup>6</sup> (53% of AMFIU membership base). The study included a client focus group of 30 clients from one MFI. The findings are far from representative, but nonetheless considered in this analysis. Representatives of the Central Bank, donor agencies, funding institutions, and apex bodies were also consulted.

### Client Protection Market Diagnostic

AMFIU piloted the newly developed SEEP CP Market Diagnostic Tool, designed to develop a comprehensive overview of client protection rules, practices, and issues in country-level markets. The diagnostic was based on a desk review of legal and regulatory texts.

### Client protection assessments

In addition, the analysis aggregates results from four assessments of client protection practices using the Smart Campaign indicators.

This state of the practice report draws on the findings of these studies, as well as other sources, including field research conducted by the Smart Campaign in Uganda on collection practices in the microfinance sector.

It is structured around the seven Client Protection Principles and aims to highlight regulations, industry rules, and industry practices and perceptions, in addition to strengths and weaknesses under each principle. It aims to guide Ugandan sector stakeholders on technical and advocacy efforts in this area. A useful companion document to this state of the practice report is the Smart Campaign's model legislation, which offers an example of a complete legal framework for financial consumer protection based on the Client Protection Principles. The model legislation is designed to help policy makers develop and improve legislation, and could help supplement efforts in Uganda to further reinforce existing regulation.<sup>8</sup>

## Principle 1

### Appropriate Product Design and Delivery

Providing suitable services that do not cause harm is at the heart of consumer protection. For microfinance institutions, this means having products and distribution channels that are adapted to the clients they serve, which requires considering client characteristics in the product design process. It also means having fair collateral policies. Seeking client feedback is an important part of meeting this principle, as is understanding why clients decide to leave.

#### Relevant regulatory texts

There is no regulation specific to product design and delivery. This is typically the case. A 2014 survey of approaches to financial consumer protection found that regulation of product features is not explicitly covered by regulation. Indeed, product design is context-specific and influenced by a range of factors, making it hard to standardize and even harder to regulate. The FCPGs Part 2, Section 6 nevertheless addresses a few elements of product design and delivery.

- Prohibition of forceful sales (1)(b)(vi), bundling of products (4), and a cooling-off period of 10 days presumably to allow clients time to determine if the product is appropriate (6).
- Requirement that assets be valued fairly (9).
- The Microfinance Deposit Taking Institutions Act No. 5 of 2003, Section 108 of the FIA 2004, mandates the establishment of the MDI Deposit Protection Fund within the Central Bank of Uganda section 8o (1)-(2), administered by the supervision function of the Bank of Uganda.
- The Chattels Securities Act of 2014 governs chattels given as security for a loan.

<sup>6</sup> 56% of the respondents were SACCOs, 35% non-deposit-taking institutions, 6% MDIs (deposit-taking institutions) and 3% credit institutions.

The size of the sample in each strata was in proportion to the number of institutions in each of those categories.

<sup>7</sup> Solli, J., et al. "What Happens to Clients Who Default: An Exploratory Study," January 2016, Smart Campaign.

<sup>8</sup> Available at <http://smartcampaign.org/tools-a-resources/1049-model-law>.

<sup>9</sup> Survey of supervisory authorities from 59 jurisdictions worldwide. Basel Committee on Banking Supervision, Range of practices in the regulation and supervision of institutions relevant to financial inclusion, January 2015. Available at [www.bis.org/bcbis/](http://www.bis.org/bcbis/).

<sup>10</sup> CGAP Focus Note 94.



**AMFIU Code of Conduct, 2015 revision:** Part 2, Section D (i) clarifies what appropriate product design and delivery should entail.

#### Appropriate product design and delivery channels

- a) Suitable product design relates to financial institutions gathering sufficient information from clients to ensure the product is likely to meet the customers' needs and capacity.
- b) Suitable product delivery relates to product design taking into account the processes by which products will be sold.
- c) Ensure that clients are not asked to waive rights, such as the right to sue the provider, receive information, cancel use of the product, maintain privacy, etc.
- d) Minimize the possibility that product changes such as unexpected changes in pricing, terms, or fees, will become necessary during the course of the product life.
- e) Affordability relating to ensuring that the costs of a financial product fit reasonably within a client's paying capacity.

### Perceptions on implementation

When asked which client protection principle they implemented most completely, MFI managers ranked appropriate product design second (cited by 17% of respondents), tied with fair and respectful treatment of clients. Very few respondents cited this principle as challenging to implement.

In the focus group carried out as part of the CoC baseline assessment, clients attest to discussing their product preferences with loan officers during training sessions prior to taking a loan and in conversations with group leaders. They also affirm that they have been consulted by their MFI about new products.

However, research carried out by the Smart Campaign in Uganda found frequent complaints about one aspect of product design: treatment of collateral. Some loan agreements allow for collateral seizure without following legal processes, even when the collateral value far exceeds the loan amount. The pledging of household possessions (beds, pots, pans) is a common requirement to obtain loans, even though seizure of such items could compromise basic survival capacity. While the Chattels Securities Act of 2014 aims to govern collateral registration and valuation, implementation of provisions is still a challenge. Furthermore, the research identified examples of group members keeping the surplus from seized collateral.

### Practice

The results of the client protection assessments suggest that practices are relatively good in the evaluated institutions. The principle records the highest score when combining indicators that are partially and fully met. All the institutions are clearly doing something to ensure appropriate product design and delivery, but there is room to improve practices around analysis of client dropouts and collateral valuation processes.

### Appropriate Product Design & Delivery Channels

50% ○

50% △

- + Most of the institutions have a **product development process** in place and gather client feedback in some form (field visits, complaints channel).
- Institutions often track exiting clients, but do not **investigate reasons for client dropout**, thereby missing out on an easy, low-cost way of collecting valuable client feedback.
- + **Client feedback** is collected, often informally, and used to effect product improvements.
- Institutions generally have **collateral policies** (including a list of assets that cannot be seized) but do not have a formal process for **evaluating collateral**.

## Take away

MFIs feel confident that they are doing what they can to design appropriate products and delivery channels, mainly through product development processes. Client feedback is sought and valued – albeit informally – although most institutions are not seizing the opportunity to learn from exiting clients. Collateral valuation policies are a major weakness, and a relatively high-risk one for clients, given evidence that collateral seizures often take place outside the legal process. **Overall, level of implementation is fair but there is a pressing need to address the absence of collateral valuation and seizure policies, which pose a risk to consumers.**

### Priorities for the Sector

- Instruct institutions on the consumer risk and reputational risk of poor valuation of collateral, over-collateralization, and illegal seizure practices. Lobby for stronger supervision and implementation of the Chattels Securities Act.
- Disseminate examples of collateral valuation and seizure policies to MFIs.
- Integrate provisions regarding collateral into the AMFIU Code of Conduct. MFIs should be expected to define collateral valuation policies and respect the law when it comes to collateral seizures and sale.
- Clarify existing regulation on collateral and selling of client property and its application to microfinance providers.

## Principle 2 Prevention of Over-Indebtedness

Over-lending is perhaps the client protection problem most likely to cause significant harm, both to individual clients and to providers. Financial institutions have the duty to ensure that clients have the capacity to repay without becoming over-indebted. A robust analysis of repayment capacity is key, as well as internal monitoring systems to make sure analysis is done properly. In markets that are competitive or expanding rapidly, it is also important for institutions to participate in market-level initiatives to prevent over-indebtedness, such as cooperation with credit bureaus.

### Relevant Regulatory Texts

- Prohibition of reckless lending (para 1)(b)(ix), with a definition of what it means to “lend recklessly” in para 1 (c). – **FCPGs, Part 2, Section 6**
- Para 1 (d) gives a qualitative definition of the over indebted consumer as someone who is or will be unable to satisfy in a timely manner all of their credit obligations – **FCPGs Part 2, Section 6**
- **Section 26, 78A of the FIA Amendment Act** makes it mandatory for regulated financial institutions to conduct a credit check for all credit.

In Uganda, regulated institutions have access to the Credit Reference Bureau (CRB). It is mandatory for clients of regulated institutions to present a document that details their credit history during loan appraisal. The Bank of Uganda announced plans in 2015 to link a new range of providers to Credit Reference Bureaus. The new range of providers will be called Accredited Credit Providers (i.e., non-BOU regulated entities that provide credit-based goods and services to the public). These ACPs include Tier-4 institutions as well as utilities, telecoms, etc. As of this writing, the ACPs are not yet in place. However, the legal foundation for this broadening of CRB access (the Financial Institutions Amendment Bill of 2015) is in place.

Currently, without access to credit information of potential clients, Tier 4 MFIs rely solely on their loan appraisal systems to assess client repayment capacity. Some Tier 4 institutions have tried to informally share credit information, but without great success.

<sup>11</sup> Order 22 of Rule 70(2) of Ugandan Civil Procedures states that sale of seized collateral must be done in a public auction with a bailiff presiding. Moreover, a debtor's property should not be accessible without the borrower's consent or a court order.



**AMFIU Code of Conduct 2015 revision:** Part 2, Section D (ii) clarifies how members shall prevent over-indebtedness of clients

- a) The institution conducts and carries out analysis of a client's repayment capacity for assessing credit worthiness.
- b) The institution shall have appropriate loan terms and conditions; this relates to use of collateral, ensuring loan repayment schedules correspond with the clients' cash flow, and/or procedures for evaluating a guarantor's credit worthiness and relationship to the client.
- c) The institution shall discourage aggressive and misleading sales techniques.
- d) Staff incentives, such as compensation, shall not encourage over-indebtedness
- e) The institution has mechanisms for ongoing monitoring of the repayment capacity of clients, individually and the market as a whole.
- f) The institution uses market-level initiatives such as a Credit Reference Bureau and financial education programs to prevent over-indebtedness.

Members are committed to "...take reasonable steps to ensure that credit services are based on the need and repayment capacity of the client and that this service will not put borrowers at significant risk of over-indebtedness" (art 2, d).

### Perceptions on implementation

This principle is considered by far the most challenging to implement. The majority of institutions interviewed for the Code of Conduct baseline assessment were struggling with multiple borrowing and high level of client indebtedness. Indeed, multiple borrowing is a confirmed problem, with one 2013 study of over 500 clients of regulated MDIs finding 83% with a microloan as well as debt exposure at other institutions of between US\$1,000 and \$10,000.<sup>12</sup> Many Tier 4 institutions feel the absence of access to the CRB renders their loan appraisal systems inadequate.

As a result, the Smart Campaign research suggests that many rely excessively on collateral as a compensatory mechanism to protect against default.

### Practice

Despite the challenges, the assessed institutions in the sample are largely compliant with this principle – 77% of the 24 indicators are fully met.

Most of the institutions do not have access to the CRB, and thus rely on joint liability mechanisms, cash flow analysis, and repeat clients' credit history to assess creditworthiness.

### Take away

The MFIs in the sample appear to have adequate systems in place to prevent over-indebtedness. However, there is evidence that some institutions rely too much on collateral to compensate for insufficient or incomplete repayment capacity analysis – especially for MFIs without CRB access. This, combined with MFIs' own perception that this principle is the most challenging to implement, **suggests that implementation is probably not consistent across the sector.** In addition, the finding that institutions have rescheduling policies but do not use them – when seen in light of evidence of questionable collateral seizures – suggests a reliance on collateral seizure to deal with default, rather than seeking alternative solutions. Given growing market penetration and saturation in urban areas and the evidence on over-indebtedness in the market, there is a pressing need to **expand affordable access to credit information for all MFIs and to help MFIs strengthen loan appraisal procedures.**

### Priorities for the Sector

- Continue efforts to lobby the Central Bank to open credit bureau access to all Tiers. Promote widespread reporting to the credit bureau among members as a justification to decrease consultation cost.
- Strengthen capability to conduct strong repayment capacity analysis. Promote tools, technical guides, and training on loan analysis. Distribute sample formats for cash flow analysis and loan officer training manuals.
- Disseminate financial education messages addressing the topic of multiple lending and financial planning.

<sup>12</sup>What Happens to Clients Who Default

## Prevention of Over-indebtedness

77% ○

12% △

11% ◇

- + Of the four institutions in the sample, appropriate client **repayment capacity analysis** is conducted before disbursing a loan.
- + There is regular monitoring of **PAR**
- + **Incentive systems** are in place, and they value portfolio quality.
- + **Audit systems** are in place to verify compliance with repayment capacity policy.
- **Insufficient visits to clients** (by internal audit, compliance, or internal control) to verify compliance with policies to prevent over-indebtedness (e.g., to cross-check repayment capacity analysis, loan usage).
- Most institutions have a **rescheduling** policy, but often do not apply it

## Principle 3 Transparency

Transparent communication on products and prices helps clients make informed decisions. Microfinance clients typically have low levels of education or literacy and may be unfamiliar with formal financial products. It is therefore the responsibility of providers to communicate with clients in a way that clients can understand. Transparency encompasses the provision of clear, sufficient, and timely information about products and prices.

### Relevant Regulatory Texts

- Customer consent required to report anything other than negative information to the credit bureau – **MDI Act, 46(2)**
- Prohibition to mislead a consumer or conceal information using small print (less than 10 point), complex language, voluminous documents **FCPGs Section 6(1)(b) (iv) (vii) and (vii)**
- Use of plain language to explain key features, including charges and fees; provision of a key facts document and written terms and conditions; disclosure of applicable charges, fees, or additional interest in case of early termination – **FCPGs Section 6(2)**
- Ensuring of guarantors' awareness of their responsibilities – **FCPGs Section 6(5)**
- Communication of loan and deposit statements – **FCPGs Section 6(7)**
- Provision of notice of changes to terms and conditions – **FCPGs Section 6(8)**
- In debt recovery, provision of detailed breakdown of costs to consumer – **FCPGs Section 6(9)**
- General requirements on transparency, including key facts document, terms and conditions, disclosure of interest rate, fees and charges, guidelines for marketing and promotions – **FCPGs Section 8**
- Obligation to provide a Key Facts Document to consumers before they buy a service – **Bank of Uganda Circular, Nov. 2014, effective 1 April 2015**



#### AMFIU Code of Conduct 2015 revision: Part 2, Section D (iii)

- a) Cost information about products: The institution provides explanation about interest rates, exchange rates, penalties, premiums, and fees in a way that is accurate and understandable.
- b) Non-cost information about products: The institution discloses product attributes such as switching barriers, effects of delinquency or default, etc. Also relates to information about client rights, process for making complaints, and privacy of information.
- c) Use of clear language: Effectiveness of communication between the institution and the client (e.g., use of simple language and multiple ways of delivering information).
- d) Appropriate timing of disclosures: Provision of timely account information before, after, and at the time of establishing a relationship.
- e) Mechanism for confirming client understanding: Double-checking that clients understand the products offered and disclosures made by the financial institution.

### Perceptions on implementation

Transparency was ranked the principle that is "implemented the most." Nearly one-quarter of respondents to the Code of Conduct baseline assessment felt they were implementing this principle well. In the focus group conducted for the assessment, clients demonstrated understanding of the method of declining interest rate calculation versus flat rate calculation. They complained that interest rates were expensive, and the financial expense linked with CRB checks was high. Overall, the perception is that transparency is satisfactory.

The 2013 FinScope survey,<sup>13</sup> however, which sampled over 3000 households, found overall financial literacy low, "with a large proportion of adults unable to fully comprehend issues regarding interest rates (49%), discount rates (45%), and money lending (59%)". The survey also found that only about one in three Ugandans (34%) deem that they get clear and easy-to-understand information from financial institutions.

### Practice

The client protection assessments show divergent practices. Practices among the four MFIs vary widely, converging only around a few indicators. Disclosure practices, in particular, differ from one institution to the next. Some fully disclose **product information**, while others lack **information on savings or insurance** products. Some have clear **contracts**, but others only offer contracts in English, with no local language summary of key terms and conditions. All but one institution in the sample calculate **interest using a flat rate**, which creates confusion around costs. The only practices that stand out as being well implemented by all four institutions involve providing clients with regular information on their accounts (balances, receipts, proof of payment). Still, the aggregated analysis suggests that overall 53% of the indicators are fully met.

### Take away

MFIs appear to make solid efforts to communicate with clients, but disclosure of terms and conditions is not uniform, despite the regulatory guidelines and Code of Conduct. A mix of flat and declining interest rates make it difficult for clients to compare pricing across MFIs, even when it is publicly disclosed. It is not common practice to give clients documentation post-sale (either the contract itself or a key facts summary), which means clients have nothing to refer to in case of questions, doubts, or litigation. Strong efforts are needed to harmonize and improve disclosure and client understanding.

### Priorities for the Sector

- Generalize the Key Facts Document required of regulated institutions to Tier 4 entities. A template with standardized elements of disclosure – including savings – should offer a clear description of prices and other important conditions.
- Move toward declining interest rate calculation methods.
- Make it a legal requirement to provide the contract or a contract summary to clients.

<sup>13</sup>FinScope III 2013 Survey, Key Findings, November 2013.



## Transparency

53% ○

27% △

20% ◇

- + Staff are available to answer questions, and clients generally have **adequate time** to review the terms and conditions of a product prior to signing.
- + The institutions provide **accurate and timely account information** (proof of transactions, updated balances, copies of contracts provided systematically).
- Institutions do not give clients a **hard copy** of documents they sign.
- Group loan clients do not receive individual documentation (passbook, payment book) with contract terms.
- Pricing is rarely published in the **public domain**.
- Institutions commonly use **flat interest rate calculation method** (in which case the quoted interest rate appears much lower than the actual cost of the loan).





## Principle 4 Responsible Pricing

The Smart Campaign defines responsible pricing as pricing that is affordable to clients while allowing for financial institutions to be sustainable. Pricing is deemed responsible when interest rates and fees are in line with peers and do not reflect serious inefficiencies or excessive profiteering. Providers should also strive to provide positive real returns on deposits.

### Relevant Regulatory Texts

- Administrative fee or charge for the revocation or anticipated termination of a contract shall not exceed 5% of the value of the loan – **FCPGs Section 6(6)(b) and (c)**
- In debt recovery, a financial services provider shall not claim unreasonable costs and expenses – **FCPGs Section 6(9)(b)(i)**

Regulation does not specify a standard formula to calculate prices. There is no legal limitation on credit products pricing in the microfinance sector nor supervisory body in charge of enforcing microfinance pricing rules. This is generally the case in most countries, with the exception of zones where usury laws limit pricing (such as WAEMU, the West African Economic and Monetary Union).

#### AMFIU Code of Conduct 2015 revision: Part 2, Section D (iv)

- a) Institution has a formal (internal) pricing procedure for each product to ensure competitive and efficient prices.
- b) Ensure that fees provide a reasonable coverage of the financial institution's costs and to encourage responsible repayment by the client (e.g., late repayment fees that encourage on-time payment).

### Perceptions on implementation

There is little data regarding the perceptions of institutions or clients on this principle. Only two institutions ranked "responsible pricing" as the most challenging principle to implement. In focus groups, clients stated high interest rates and costs as among the problems that need urgent attention.

### Practice

Overall scoring in this area was satisfactory. Pricing is generally in line with peers. Two of the four institutions were found to have considerably higher interest rates than peers for certain products, and one institution was charging particularly high penalty fees.

### Take away

It is impossible to make a sweeping generalization regarding responsible pricing in Uganda based on a sample of four institutions. To get a sense of pricing in Uganda, we can refer to relatively old data from MFTransparency (mostly from 2011) that shows a wide range of pricing (20%-157%), with weighted average APRs for NGOs (72%), NBFIs (76%), and SACCOs (65%), considerably higher than for banks (35%).

### Priorities for the Sector

- Lobby regulators to set a formula for calculating effective interest rates and require disclosure of effective interest rates.

## Responsible Pricing

67% ○

25% △

8% ◇

## Principle 5

### Fair and Ethical Treatment of Clients

Because MFIs frequently target low-income, vulnerable clients with little experience in the formal financial sector, the balance of power tips largely in favor of the institutions. Fair and ethical treatment hinges on commitment to a code of conduct, a non-discrimination policy, and safeguards to detect corruption as well as aggressive or abusive treatment of clients by staff and agents, particularly during the loan sales and debt collection processes. It also involves informing clients of their rights.

#### Relevant Regulatory Texts

- A financial services provider shall not **discriminate** against any consumer on the grounds of sex, race, color, ethnic origin, tribe, birth, creed or religion, social standing, political opinion, or disability – **Guidelines Section 6 (1)(b)(iii)**
- A financial services provider shall **act fairly** and reasonably in all its dealings with a consumer – **Guidelines Section 6(1)(a)**
- A financial services provider shall not: engage in unfair, deceptive, or **aggressive practices** such as threatening, intimidating, being violent toward, abusing, or humiliating a consumer; offer, accept, or ask for **bribes** or other “gifts” or unfair inducements – **Guidelines Section 6(1)(b)**
- A financial services provider shall not include an **unconscionable** term in an agreement – **Guidelines Section 6(1)(b)(v)**
- A financial services provider shall **not recover from third parties** unless they have guaranteed the loan – **Guidelines Section 6(9)(b)(iv)**



#### AMFIU Code of Conduct 2015 revision: Part 2, Section D (v)

- Commitment to code of ethics: The institution commits to a code of ethics, stating the institution's mission and articulating its organization values, such as fair treatment of clients.
- Non-discrimination: All clients are treated equally, regardless of their race, religion, ethnicity, political affiliation, disability, or gender.
- Appropriate incentive structure and sales practices: Staff compensation is aligned with responsible behavior.
- Responsible use of agents: Financial institution is responsible for the behavior of agents.
- Preventing staff from obtaining money or other favors from clients in return for providing products; creating a corporate culture where employees feel safe to be whistle blowers, and systems for detecting and correcting corruption.
- Informing clients of their rights: Institution provides information to clients about their rights, including what is not acceptable behavior by the institution's staff and how to make complaints.
- Client feedback: Institution obtains feedback from clients on quality of its services through client surveys, third party interviews, mystery shopping, and effective system to address client grievances.

## Perceptions on implementation

When asked which client protection principle they implemented most completely, fair and respectful treatment of clients was ranked second (cited by 17% of respondents), tied with appropriate product design. Very few respondents cited this principle as challenging to implement.

In the focus group carried out as part of the CoC baseline assessment, the problems that ranked **least important** to clients were staff corruption and integrity, aggressive behavior of staff, and discrimination against some clients. At the same time, among the most **urgent problems** were strictness on payment days and poor customer care by staff in the banking hall.

The Smart Campaign research findings on collection practices echo some of these findings. Researchers "observed a spiral of low trust [between lenders and borrowers] leading in turn to harsher measures, inflexibility, and opportunistic behavior." According to the study, MFIs largely feel that "clients frequently borrow with fraudulent intent and will take flight when facing repayment difficulties," causing many MFIs to respond harshly to any delinquency, regardless of the reason. Moreover, since MFIs suspect many borrowers of multiple borrowing, as soon as a borrower is late, it is not unknown for "loan officers to rush to the debtor to seize assets before loan officers from other lenders arrive on the scene."<sup>14</sup>

## Practice

Practices of assessed MFIs do not suggest dramatic shortcomings. Most of the indicators were either fully or partially met, with most of the problems stemming from the lack of clear acceptable and unacceptable collection policies.

## Take away

While codes of conduct are in place, specific conduct regarding collection practices is not specified. The AMFIU Code does not specifically require members to define appropriate collection procedures. Client feedback regarding poor customer care and strictness of repayment delays, and evidence of aggressive recovery practices suggest an important gap. **Together with weak practices in defining appropriate collection procedures, they pose a high risk to consumers and reputational risks to the sector.** There is a need to raise awareness on appropriate recovery techniques and respectful strategies to deal with clients who default.

## Fair and ethical treatment of clients



- + The assessed institutions all have **codes of conduct** in place, approved by the Board, but vary in the extent to which staff are aware of the Code.
- + None take a "**zero tolerance**" approach to PAR, recognizing that some delinquency is part of the business. This is important in that it avoids putting excessive pressure on loan officers to recover at any cost.
- + Institutions do not show evidence of **discrimination** against groups of clients.
- **Debt collection practices** are ill-defined. Some institutions specify what is acceptable, but not what is unacceptable. Third-party collection agents, when used, are not advised to respect defined collection practices.
- Staff **training on institutional codes of conduct** is not widespread.
- It is not standard practice to communicate to clients on policies and procedures for **rescheduling**.

<sup>14</sup> What Happens to Clients Who Default



## Priorities for the Sector

- Raise awareness of the importance of appropriate collection procedures and the reputational risks of inappropriate collections.
- Develop training materials that institutions can adapt, with examples and role plays of what appropriate and inappropriate collection practices look like.
- Encourage institutions to define strategies for dealing with default based on an analysis of clients' willingness and ability to pay. Strategies should offer amicable solutions to clients who are willing but unable to repay. Examples exist on the Smart Campaign website.



## Principle 6 Confidentiality of Client Data

"The confidentiality of personal information is a right that protects privacy and individual liberties. From an institutional standpoint, confidentiality of personal financial information can help to prevent losses due to theft and fraud. Clients also have a responsibility to keep their financial information safe (keeping their loan passbooks in a safe place, for example), and to correct any inaccurate data held by their financial institutions."<sup>15</sup> Compliance with this principle implies that "the privacy of individual client data will be respected in accordance with the laws and regulations of individual jurisdictions. Such data will only be used for the purposes specified at the time the information is collected or as permitted by law, unless otherwise agreed with the client."

### Relevant Regulatory Texts

- Provisions to protect customer information and confidentiality, including penalties on credit reference bureaus incurred in wrongful use of client information – **Financial Institutions Act No. 2 of 2004, 78(3)-(4)**
- Provisions for updating the address of a consumer – **Guidelines Section 7(1)**
- Provisions for safeguarding of consumer information (non-disclosure to third parties without client consent) – **Guidelines Section 7(3)**
- Provisions for protection of a customer's account, including what to advise customers, in order to keep account information safe – **Guidelines Section 7 (4) (a) (b)**

<sup>15</sup> Smart Campaign, "Putting the Principles to Work: Detailed Guidance on the Client Protection Principles Version 2.0," September, 2011.

**AMFIU Code of Conduct 2015 revision: Part 2, Section D (vi)**

- a) Complete policy and procedures: Institution has internal policies and procedures to keep client data private unless otherwise mandated by the law.
- b) Institution ensures the security of written and electronic information.
- c) Clients are furnished with information about the institution's privacy policy and procedures, as well as each clients' rights and responsibilities.
- d) Institution has restrictions on collecting data that could be used for discriminatory purposes, such as information about ethnicity, religion, or political affiliations.

**Perceptions on implementation**

This principle is not considered challenging to implement, based on the findings of the CoC baseline study. The clients in the focus group did not cite unnecessary disclosure of client data as a major issue.

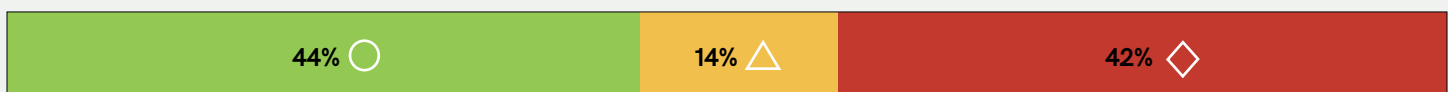
**Practice**

And yet, this principle registers one of the weakest scores. With over half the indicators not met or partially met, the assessed MFIs are far below compliance. While data security infrastructure and systems are in place, institutions lapse on informing clients about when and how their data is used, and on getting consent

**Take away**

The albeit limited evidence from the field suggests that privacy of client data is not perceived as a problem by MFIs or clients. Indeed, practices of the assessed institutions show that the infrastructure/systems side of data security is taken seriously. However, confidentiality, disclosure, and consent policies and procedures are lacking. The risk is that clients are uninformed of how their data is used and shared, and feel betrayed by what amounts to a lack of transparency. This can lead to a loss of trust between clients and providers and reputational issues for the sector. **Weak implementation of the principle poses a risk to clients and the sector, but can easily be addressed with awareness raising and dissemination of examples of practices.**

## Privacy of Client Data



**+** The institutions often have data security policies in place, with secure systems, password protected access to the MIS, regular backups.

**+** Most of the institutions penalize misuse or misappropriation of client data.

**○** Contracts generally do not include a complete privacy clause that informs clients that their data will be kept confidential and protected. Clients are not informed of how their data may be shared.

**○** Institutions do not systematically get client consent to share or to use personal information (with donors, in marketing materials, with credit bureau, with insurance agents).

## Priorities for the Sector

- Train institutions on the importance of confidentiality, disclosure, and consent.
- Drawing on elements in the AMFIU Code of Conduct, promote clients' rights and responsibilities, including the right to know how data is used.
- Drawing on the New Client Welcome Kit tool from the Smart Campaign, disseminate examples of standardized privacy policy, privacy clauses, and consent forms for MFIs.

## Principle 7

### Mechanisms for Complaint Resolution

An effective complaint resolution mechanism is fundamental to consumer protection. Clients have the right to voice and find solutions to their grievances through a readily available mechanism. Implementation of this principle supposes that clients are aware of their right to complain and that MFIs have policies and procedures to guide complaint handling and resolution, including a system to monitor effectiveness.

#### Relevant Regulatory Texts

- **Part 3 of the Financial Consumer Protection Guidelines** is devoted to grievance handling and consumer recourse: "Providers must have documented grievance procedures in place"; "Providers shall inform consumers of the procedures, analyze grievances, keep complainants

#### AMFIU Code of Conduct 2015 revision: Part 2, Section D (vii)

- a) Policy and procedures: Institution has internal policy and procedures for grievance resolution.
- b) Institution ensures that grievance resolution systems are effective, including escalating serious grievances to senior management for attention and resolution, staff training, providing clients easy, accessible, and safe ways to voice complaints, resolving grievances in a timely manner, and learning from complaints.
- c) Provide clients with simple and clear information about their right to complain, how to register grievances, the steps that take place after a grievance is filed, the time frame within which clients should expect their grievances to be addressed, and the steps to follow if they are dissatisfied with how their grievance is handled.

In addition to provisions in the Code of Conduct, AMFIU offers a grievance handling service to members. Clients of member institutions may register grievances on AMFIU's hotline or in person at AMFIU offices. Introduced in 2009, and revamped in 2015, the hotline registered 55 grievances between January 2016 and March 2016, with a turnaround time of 2 of days.

#### Perceptions on implementation

Mechanisms for grievance resolution are not considered challenging to implement by the respondents of the Code of Conduct baseline, but few cited it as the principle they "most implemented" in their institution. A 2016 *Gesellschaft für Internationale Zusammenarbeit* (GIZ) study of 250 clients of regulated institutions found that nearly half know very little about grievance procedures, which is consistent with the Smart assessment findings.

#### Practice

While the only regulated institution in the sample largely complied with the indicators, the non-regulated institutions lack any sort of formal mechanism. They could provide examples of dealing with grievances informally (which explains why clients felt confident their complaints would be dealt with), but none has any formal policy in place to collect or resolve grievances. Staff are not trained on how to deal with grievances.



## Take away

**Grievance handling is the principle where level of implementation is weakest.** Unregulated institutions have no written policies or procedures for dealing with grievances, even if they appear to address issues on an ad hoc basis. AMFIU's grievance hotline is one measure to help fill this gap by offering a fully independent channel for clients. But for larger institutions, it should not fully replace an internal recourse mechanism, which can collect a broader range of client inputs – such as suggestions and product-specific feedback or questions. Having a channel to communicate directly with one's financial provider is both empowering for clients and valuable for the institution in terms of insights into staff behavior, products, and services.

## Mechanisms for Grievance Resolution



+ One institution in the sample has a policy in place to manage grievances.

- Unregulated institutions in the sample do not have an active and effective grievance resolution system (no formal procedure, no dedicated staff).
- None of the institutions have monitoring systems to check that grievances are resolved satisfactorily. Clients are aware of their right to complain, but are not given clear guidelines on how to do it.
- With the exception of one institution that has an active but informal grievance mechanism, there are no policies, procedures, dedicated staff, or monitoring mechanisms in place for grievance handling.

### Priorities for the sector

- Drawing on tools from the Smart Campaign, equip MFI managers in setting up effective mechanisms to handle clients' grievances. A simple, user-friendly tool box with a sample grievance procedures manual, an Excel based tracking tool, and a process flow chart could help microfinance institutions set up mechanisms to collect, analyze, and effectively respond to clients' grievances on a regular basis.
- Develop training modules that MFIs can adapt to train their staff on grievance handling. Introducing grievance mechanisms can create tension among staff, who feel "targeted." Training on the value added and institutional benefits is important when introducing a new system.





## Summary of Priorities for the Sector

As this analysis indicates, there are gaps in client protection practices, but not all pose the same risks to consumers. Moreover, given the time, effort, and resources it can take to bring about sector change, not all the gaps can be addressed at the same time. It is therefore recommended that certain areas be prioritized. Sector stakeholders – AMFIU, governmental authorities, technical and financial partners, investors, donors – can start by addressing those that are likely to pose the greatest risks to clients and institutions. On the next page is a summary of all recommended priority areas for the sector ranked by high, medium, or low risk to clients and stakeholders concerned.

## Conclusion

Financial consumer protection is not new to Uganda. The 2011 Financial Consumer Protection Guidelines for regulated institutions and the AMFIU Code of Conduct, revised in 2014, offer consistent and clear frameworks to encourage **transparency**, promote **fair practices**, and foster **confidence** in financial service providers. However, consumer protection is mainly a **self-regulatory** affair, especially for the Tier 4 entities. While regulated institutions must answer to the Bank of Uganda, which supervises compliance with the FCPGs, unregulated institutions are largely left to their own interpretation of the Code of Conduct.

The findings in this report – drawn from field studies and results of client protection assessments – are far from representative of the Ugandan sector as a whole, but they give a sense of awareness and the level of implementation. They indicate nascent understanding of client protection and identify major gaps in implementation, especially in the areas of **transparency**, **mechanisms for grievance resolution**, and **privacy of client data**. Practices relating to the fair and ethical treatment of clients – namely inappropriate collection practices – pose a high risk to consumers and reputational risks to the sector, and require attention.

In sum, the scaffolding for good client protection practices is in place, but there is still much to be done to fill the gaps. The regulatory framework should be reinforced to include Tier 4 providers, and compliance mechanisms strengthened. Client protection is an area where state prerogatives intersect with private initiative; a multi-stakeholder approach that includes government players as well as technical and financial partners is therefore essential for achieving progress on a sector-wide scale.





## Summary of the Priorities for the sector

	Risk to Clients	AMFIU / Financial and Technical Partners	Government - Supervisory Authorities
Prevention of Overindebtedness	HIGH	Strengthen capacity to conduct <b>strong repayment capacity analysis</b> . Promote tools, technical guides, training on loan analysis. Distribute sample formats for cash flow analysis, loan officer training manuals.	Pursue efforts to open credit bureau access to all Tiers
Fair and ethical treatment of clients	HIGH	Raise awareness on the importance of <b>appropriate</b> collections, and the reputational risks of inappropriate collections	
Fair and ethical treatment of clients	HIGH	Develop <b>training materials</b> that institutions can adapt, with examples and role plays of what appropriate and inappropriate collections look like.	
Fair and ethical treatment of clients	HIGH	Encourage institutions to <b>define strategies for dealing with default</b> based on an analysis of clients' willingness and ability to pay. Strategies should offer amicable solutions to clients who are willing but unable to repay.	
Fair and ethical treatment of clients	HIGH	Sensitize institutions on the consumer risk and reputational risk of <b>poor valuation of collateral</b> , over-collateralization and illegal seizure practices. Disseminate examples of collateral valuation and seizure policies to MFIs.	
Appropriate product design and delivery	MEDIUM	Integrate provisions regarding collateral into the AMFIU Code of Conduct. MFIs should be expected to define <b>collateral valuation policies</b> and respect the law when it comes to collateral seizures and sale.	Clarify existing regulation on <b>collateral and selling property</b> and its application to microfinance providers.
Transparency	MEDIUM	Create templates with <b>standardized elements of disclosure and product contracts</b> — including savings — to ensure key information provided for in Section 8 of the Guidelines. This could take the form of a standardized first page, or "key facts summary page", with clear description of prices and other important conditions.	Make it a legal requirement to <b>provide the contract</b> or a contract summary to clients.
Transparency	MEDIUM	Encourage institutions to disclose <b>effective interest rates</b> , to allow clients to compare pricing.	
Transparency	LOW	Sensitize MFIs to move towards to <b>declining interest rate</b> calculation methods.	
Mechanisms for complaints resolution	LOW	Drawing on tools from the Smart Campaign, equip MFI managers on setting up <b>effective mechanisms to handle clients' complaints</b> . A simple, user-friendly tool box with a sample complaints procedures manual, an Excel-based tracking tool, and process flow chart could help microfinance institutions set up mechanisms to collect, analyze and effectively respond to clients' complaints on a regular basis.	
Mechanisms for complaints resolution	LOW	Develop <b>training modules</b> that MFIs can adapt to train their staff on complaints handling. Introducing complaints mechanisms can create tension among staff, who feel "targeted". Training on the value added and institutional benefits is important when introducing a new system.	
Privacy of Client data	LOW	Sensitize institutions on the importance of <b>confidentiality, disclosure and consent</b> . Drawing on the New Client Welcome Kit tool from the Smart Campaign, disseminate examples of standardized privacy policy, privacy clauses and consent forms for MFIs.	
Privacy of Client data	LOW	Drawing on elements in the AMFIU Code of Conduct, <b>promote clients' rights and responsibilities</b> , including the right to know how data is used.	



## About SEEP



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

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

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

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## About RFL

Microfinance associations play a key role in supporting the sustainable growth of the microfinance industry. The SEEP Network serves these associations by connecting them to a global learning community and by promoting capacity building efforts. As microfinance scales and commercializes in Africa, there exists an opportunity to foster greater consumer protection and transparency within the industry. SEEP is implementing the Responsible Finance through Local Leadership Program (RFL), a four-year partnership with the MasterCard Foundation to improve management capacity of microfinance associations, advance financial transparency, and promote consumer protection. The knowledge and experience that results from this program will be shared with other associations to scale and sustain industry growth across Sub-Saharan Africa and beyond.



