

## A Guide to Assessing and Implementing the Universal Standards for Social and Environmental Performance Management

## **Full Guide (SPI5 Full)**



Version 2.1 - August 4th, 2025



# Summary

Summary	1
Acknowledgements	4
Note to readers	4
Introduction	5
Dimension 1. Social Strategy	8
Standard 1A. The provider has a strategy to achieve its social goals	8
1.A.1 The strategy specifies the provider's target clients, social goals, and how the provider will achiev those goals	
1.A.2 The strategy defines indicators and targets to measure the provider's progress toward social goals	s 15
Standard 1B. The provider collects, analyzes, and reports data that are specific to its social goals	16
1.B.1 The provider collects data on outcomes for clients and their households	17
1.B.2 The provider analyzes outcomes data by client segment.	21
1.B.3 The provider reports social performance data internally and externally	23
Dimension 2. Committed Leadership	26
Standard 2A. Members of the board of directors hold management accountable for achieving the provide social goals.	
2.A.1 Board composition reflects the provider's social strategy and sound governance practices	27
2.A.2 The provider trains board members on their social performance management responsibilities	29
2.A.3 The board makes strategic decisions based on social and financial data	33
2.A.4 Board oversight of senior management is aligned with the provider's social goals	40
2.A.5 The board is responsible for preserving the provider's social goals during times of crisis or institutional change.	44
Standard 2B. Senior management is responsible for implementing the provider's strategy for achieving it social goals.	
2.B.1 The provider includes social goals in its operational plan and the CEO/Managing Director holds senior managers accountable for achieving social targets.	47
2.B.2 Management makes strategic and operational decisions based on social and financial data	49
Dimension 3. Client-centered Products and Services	55
Standard 3A. The provider collects and analyzes data to understand clients' needs.	55
3.A.1 The provider conducts market research and pilot testing.	56
3.A.2 The provider uses data to identify patterns of financial behavior by client segment	59
3.A.3 Collect client feedback on their experiences using products and services.	62
Standard 3B. The provider's products, services, and channels benefit clients	66
3.B.1 The provider uses insights from client data to design products, services, and delivery channels	66
3.B.2 The provider removes barriers that prevent access to financial products and services	69
3.B.3 The provider's products, services, and channels protect clients from harm.	73
3.B.4 The provider's products and services help clients reduce their vulnerability to shock and smooth	
consumption	84



3.B.5 The provider's products and services help clients achieve their goals	86
Dimension 4. Client Protection	90
Standard 4A. The provider does not overindebt clients.	90
4.A.1 The provider makes loan decisions based on a client's repayment capacity	90
4.A.2 The provider monitors the market and responds to heightened over-indebtedness risk	99
Standard 4B. The provider gives clients clear and timely information to support client decision making	103
4.B.1 The provider is transparent about product terms, conditions, and pricing.	103
4.B.2 The provider communicates with clients at appropriate times and through appropriate channels	114
Standard 4C. The provider enforces fair and respectful treatment of clients.	119
4.C.1 The provider's code of conduct requires fair and respectful treatment of clients.	119
4.C.2 The provider does not use aggressive sales techniques.	125
4.C.3 The provider protects clients' rights to respectful treatment during the loan collection process	127
Standard 4D. The provider secures client data and informs clients about their data rights.	131
4.D.1 The provider maintains the security and confidentiality of client data	132
4.D.2 The provider informs clients about data privacy and data rights.	136
Standard 4E. The provider receives and resolves client complaints.	140
4.E.1 The provider has a complaints mechanism that is easily accessible to clients and adapted to their needs.	140
4.E.2 The provider resolves complaints efficiently.	145
4.E.3 The provider uses information from complaints to manage operations and improve product and service quality.	149
Dimension 5. Responsible Human Resource Development	152
Standard 5A. The provider creates a safe and equitable work environment	152
5.A.1 A written Human Resources policy is available to all employees that explains and protects their rights.	152
5.A.2 Employee compensation is equitable and adequate	158
5.A.3 The provider has a safety and health management system.	161
Standard 5B. The provider's Human Resource Development system is designed to attract and maintain a qualified and motivated workforce	
5.B.1 The provider gives employees complete employment documentation and training to understand to job requirements	
5.B.2 The provider gives employees formal opportunities to communicate with management	171
Standard 5C. The provider's Human Resource Development system supports its social strategy	175
5.C.1 During the recruitment and hiring process, the provider assesses each candidate's commitment to achieving the provider's social goals and serving its target clients	
5.C.2 The provider trains all employees on its social goals and on client protection	179
5.C.3 The provider evaluates and incentivizes employees based on social and financial criteria	
Dimension 6. Responsible Growth and Returns	189
Standard 6A. The provider manages growth in a way that promotes its social goals and mitigates risks to clients.	189
6.A.1 The provider's strategic and/or business plan establishes responsible growth targets	



6.A.2 During times of high growth, the provider monitors more frequently data related to responsible	
growth.	193
Standard 6B. The provider sets prices responsibly.	197
6.B.1 The provider charges fair prices.	197
6.B.2 The provider charges reasonable fees.	204
6.B.3 The provider does not transfer unnecessary costs to clients.	207
Standard 6C. The provider uses profits responsibly.	212
6.C.1 The provider engages with equity investors whose investment strategy is aligned with the provide social goals.	
6.C.2 The provider uses its profits for expenditures that benefit clients.	216
6.C.3 The provider has a transparent financial and social structure.	218
Dimension 7. Environmental Performance Management	221
Standard 7A. The provider has an environmental strategy and systems in place to implement it	221
7.A.1 The provider has a strategy to achieve its environmental goals	222
7.A.2 The provider collects, analyzes, and reports data that are specific to its environmental goals	224
7.A.3 The provider's governance and management structure ensures the implementation and oversight the environmental strategy.	
Standard 7B. The provider identifies and manages environmental risks and opportunities.	228
7.B.1 The provider identifies and manages its own environmental risks at headquarters and branch leve	1.229
7.B.2 The provider identifies and manages client-level environmental risks	232
7.B.3 The provider identifies opportunities to finance green practices and technologies.	236
Standard 7C. The provider offers financial and non-financial products and services to achieve its environmental goals	239
7.C.1 The provider offers financial products and services to achieve its environmental goals	239
7.C.2 The provider offers non-financial services to achieve its environmental goals	244



## Acknowledgements

Cerise+SPTF would like to express its warmest thanks to:

- M. Hans Ramm, or his careful proofreading and significant contribution to improving this Guide.
- <u>ADA Appui au Développement Autonome</u>, for its financial support for the translation of this Guide into French and Spanish.
- All our experts from the <u>SEPM Pros Network</u> for their feedback and advice in providing examples and support in the analysis.

## Note to readers

Thank you very much for being part of the Cerise+SPTF community. We are delighted to share this important resource with you.

This new Audit and Implementation Guide for the <u>Universal Standards</u> for Social and Environmental Performance Management (SEPM Guide) is designed to assist you in your journey towards assessing and managing social and environmental performance.

**This guide is currently in version 2.** It will be completed in the coming months: we will incorporate advice from the Organization Information (Org Info) section of the SPI Online tools and add resources in English, Spanish, and French, which you can already find in the <a href="Cerise+SPTF Resource Center">Cerise+SPTF Resource Center</a> on SPI Online. We will regularly update the examples in the Guide based on the work of auditors.

The SEPM Guide is available online in our Resource Center as a public good.

Advice on completing the Org Info indicators is also available online, in the Resource Center.

If you have any questions, please visit our website: <a href="https://en.spi-online.org/">https://en.spi-online.org/</a>

Or contact us at: <a href="mailto:support@spi-online.org">support@spi-online.org</a>

Especially if you would like to give us your feedback on this document!

Good luck with the Universal Standards!

Cerise+SPTF Team



## Introduction

This SEPM Guide is dedicated to the process of assessing and implementing good practices in the inclusive finance sector, in line with the Universal Standards for Social and Environmental Performance Management (the "Universal Standards").

This Guide covers all of the Universal Standards and indicators found in the comprehensive audit tool, SPI5 Full.

The Universal Standards are a comprehensive manual of good practices, divided into seven dimensions covering all of a financial institution's operations: strategy, governance, customer-centric product design, customer protection, responsible human resource development, responsible growth and profits, and environmental performance management. 
→ Download the Universal Standard Manual

As a whole, the Universal Standards help financial institutions place customers, staff, and the environment at the center of all strategic and operational decisions, so that customers benefit from the use of financial products and services. In addition, implementing the Universal Standards strengthens the financial institutions' financial sustainability.

The Universal Standards have been developed, tested, refined, and finalized by stakeholders from around the world since 2005. They are therefore very practical in nature. They do not merely describe a vision or set out broad principles. The Universal Standards provide a clear roadmap that financial institutions can follow to achieve their goals. Now in their third edition (2022), the Universal Standards were first published in 2012. They remain relevant in different geographical contexts and for different types of institutions.

This is a rich and detailed resource. You may be wondering, "Where do I start?" The answer is that there is no single right approach. Two common choices are to start with relatively simple and inexpensive changes (quick wins) or to fill gaps where you see an urgent need for improvement. Or, you may want to start with an assessment of your current situation by reviewing all dimensions. In any case, choose where to start based on your priorities, resources, and the current state of your practices.

Whether you are interested in one, several, or all of these areas, strengthening social and environmental performance involves four fundamental steps:



## The Four Stages of Social and Environmental Performance Management



This is an ongoing process. You will find yourself repeating this journey as your own resources and priorities evolve, as we collectively improve our understanding of best practice, and as the world around us changes.

The Audit and Implementation Guide for Universal Standards for Social and Environmental Performance Management ("SEPM Guide") provides users with practical and actionable guidance for auditing and improving SEPM. Its main objective is to enable all stakeholders to more easily understand the universal standards, evaluate them, and find guidance for putting them into practice.

**For auditing**, it provides scoring guidance and examples on how to understand and score each indicator in the SPI Online tools. For more information on the different tools available using the Universal Standards indicators, please visit the <u>tools section</u> of SPI Online website.

**For implementation**, it provides field experiences, links to concrete examples, and processes for each standard, practice, and indicator, based on more than 20 years of improving social and environmental performance management.

Please visit SPI Online for resources to help you every step of the way.

We love hearing from you, so feel free to email us with questions or to share your experiences: <a href="mailto:support@spi-online.org">support@spi-online.org</a>

Cerise+SPTF Team



## Organization Information

#### Section under construction

We will soon include guidance in French on quantitative indicators on the Organization Information (Org Info) page of the SPI Online audit tools.

For now, you can view the resource in English here: <a href="https://en.spi-online.org/resources/view/guide-organization-information">https://en.spi-online.org/resources/view/guide-organization-information</a>

#### And familiarize yourself with Org Info by watching our video tutorial:

#### How to fill in Org Info on SPI Online? (28 min)

The Organization Information ("Org Info") part of the questionnaire in SPI Online assessment tools contains the financial data and demographic details of the audited financial service provider. This 28-minute tutorial will show you how to fill in these important indicators, to be able to generate a social dashboard that contains a robust summary of the primary social and financial information about the FSP in one succinct report.



## Dimension 1. Social Strategy

Dimension One of the Universal Standards focuses on social strategy. Starting with strategy is important because the first step to achieving good performance is defining what "good" performance is, and then developing a strategy to achieve it. Integrating a social element into the strategy is also important, given the increasing recognition that better customer outcomes strengthen the overall sustainability of the business, and therefore "good" performance must include creating some type of benefits for customers. Note that each financial service provider (the "provider") is setting its own social goals. Many different types of benefits for clients are possible. The essential step is for the provider to define its own "social goals" in line with its vision/mission, capabilities and resource availabilities. They refer the specific benefits that its products and services are expected to create for clients. Then the provider must collect data on its progress toward those goals and use those data to guide decisions.

#### Dimension 1 has two standards:

- Standard 1A: The provider has a strategy to achieve its social goals.
- Standard 1B: The provider collects, analyzes, and reports data that are specific to its social goals.

#### **Resources for Dimension 1**

- Making the Case for Outcomes Management to Financial Service Providers
- <u>Outcomes Management for Financial Service Providers: A proposed standard framework aligned with the Sustainable Development Goals</u>
- Fondo Esperanza Case Study
- KOMIDA Case Study
- Genesis Empresarial Implements Outcomes Management by Client Segment
- The Business Case for Customer Centricity

# Standard 1A. The provider has a strategy to achieve its social goals

Your strategy should specify your target clients, social goals, and a description of how your institution will use products and services to achieve its social goals. It must also define indicators and targets to measure your progress toward your social goals. Each social goal needs to be broken down by at least one target to make it more operational. Each target needs to be measurable by at least one smart indicator. The reason for defining specifically in your strategy whom you are trying to reach and what you are trying to achieve is that all other decisions that you make, including what expenses to approve in the budget, how to define job responsibilities, whom to hire or promote, and what products and services to offer, all build from the strategy. This guide discusses each element of the strategy below.

#### **Resources for Standard 1A**

- Imp-Act/MicroSave Strategic Planning Guidance Note
- Satya's social mission, social goals, SMART objectives, and its indicators
- Satya Microcapital Social Performance Management Policy
- Friendship Bridge Strategic Plan 2021-2025
- Planificación estratégica Integrar la GDS al fortalecimiento de las instituciones
- <u>Demonstrating the Impact of Client-Centric Microfinance--Impact Report 2020 BRAC</u> Microfinance

#### This standard has 2 essential practices:

• Essential Practice 1.A.1: The strategy specifies the provider's target clients, social goals, and how the provider will achieve those goals.



• Essential Practice 1.A.2: The strategy defines indicators and targets to measure the provider's progress toward social goals.

1.A.1 The strategy specifies the provider's target clients, social goals, and how the provider will achieve those goals.

1.A.1.1 The strategy defines the demographic and socioeconomic characteristics of target clients.

#### Indicator in ALINUS | SPI5 Entry | SPI5 Full

Different segments of clients face different obstacles and have different needs. For example, income levels, gender, location (rural/urban), and literacy, all affect the types of products, services, and delivery channels that are best suited to a client.

#### Scoring guidance

- Score "yes" if the provider's strategy mentions its client segmentation approach with specific demographic and/or socioeconomic characteristics of the client segments it wants to serve and if the board and senior management have a clear and consistent understanding of this.
- Score "partially" if the strategy mentions at least basic elements of client segmentation with at least one characteristic of each client segment the provider wishes to serve (e.g., "economically-active"), but does not detail fully its target client segments. Also score "partially" if the provider has a clear mission statement that mentions target client segments with basic characteristics, but the strategy itself does NOT mention them.
- Score "no" if the strategy lacks basic elements of client segmentation with no or unclear demographic and/or socioeconomic characteristics of the clients the provider seeks to serve or if board / senior management cannot share their view on this.
- To verify consistency among answers to this social audit, compare the scoring here to the scores and comments for the Essential Practice 2B1 ("The provider includes social goals in its operational plan and the CEO/Managing Director holds senior managers accountable for achieving social targets.")

#### **Sources of information**

• Strategic plan / Business plan / provider's website / board member/ CEO interviews

#### **Evidence to provide**

Search in the strategic plan and/or the business plan and the provider's website for any mention of target clients or client segments and how they are described and identified. If not, a mission statement, if available, may offer some information about the type of clients to be served. Cross-check the information identified with the understanding by a board member and the CEO.

If the provider intends to serve all residents (i.e. both men and women, of all income and formal education levels and ages, including ethnic and religious minorities) and/or businesses in terms of size (micro, small, medium or large), maturity (established, new, start-ups), and formality (informal or legal entities) in some or all regions (i.e. in urban, semi-urban, and rural areas) of the country, the strategy must define clearly whom and how the provider wishes to serve (e.g.; offering deposit products to all residents, incl. youth savings accounts, but loans only to established informal and formal micro, small and medium-sized businesses in all sectors, except in agriculture, fisheries and forestry).

If the definition of target clients includes terms such as "marginalized," "excluded," or "poor," use the strategy to clarify what is meant by these labels. For example, "exclusion" can be



political, social, geographic, ethnic/racial, religious or economic. The definition of "poverty" may refer to low and/or unstable income, limited assets and limited or no access to healthcare, education, sanitation, or other basic needs.

#### Field examples / Guidance for implementation

Your strategy should define the characteristics of the people you want to reach. Defining your target market will make it easier for your institution to tailor products and services to client needs and preferences and to set realistic targets for client-level change. Define for example these characteristics:

- Demographics (e.g., male/female, urban/rural, age)
- Socio-economic status (e.g., income level, level of education)
- Access to financial services (e.g., banked/unbanked)
- Business activity (e.g., agriculture/trade, new businesses/existing businesses)

#### **Resources for indicator 1.A.1.1**

- Opportunity Bank Uganda's Social Goals, Strategic Activities and Indicators
- Strategic planning: <u>Integrating SPM into microfinance capacity building (MSC and Imp-Act Guidance Note)</u>
- Fonkoze (Haiti) Defines Target Clients

1.A.1. The strategy identifies the benefits that the provider seeks to create for clients, such as:

- providing access to the previously excluded
- reducing vulnerability to shocks
- building assets / Investing in economic opportunities
- creating jobs
- strengthening the roles of women in their household and their local community

#### Indicator in SPI5 Entry | SPI5 Full

The Universal Standards are relevant to every financial service provider that is interested not only in profitability but also in creating benefits for clients. However, not every provider will focus on the same type of benefits. This indicator simply requires the provider to be clear about the type of benefits it is seeking to create as each type of benefit will require its own specific strategy and set of activities.

#### **Scoring guidance**

- Score "yes" if the provider's strategy mentions specific types of benefits that it wishes to create for specific client segments and if the board and senior management have a clear and consistent understanding of this.
  - Note: "Providing products and services" is not sufficient. The strategy must answer "for what?" For example: to invest in economic opportunities, to provide a safe place to save, etc.
- Score "partially" if the strategy mentions some specific elements but with no reference to specific client segments and/or vague client benefits, such as "improve the quality of life" that do not specify what will improve for specific client segments.
- Score "no" if the strategy contains only vague benefits the provider wishes to create without reference to specific client segments or if board / senior management cannot share their view on this.

#### **Sources of information**

• Strategic plan / Business plan / provider's website / board member/CEO interviews

#### **Evidence to provide**



Search in the strategic plan and/or the business plan and the provider's website for any mention of target clients or client segments and how they are described and identified. If not, a mission statement, if available, may offer some information about the type of clients to be served Note any mention of social goals, outcomes, impact, or benefits for clients described in the strategy. Cross-check the information identified with the understanding by a board member and the CEO.

#### Field examples / Guidance for implementation

The benefits you wish to provide for clients, also called your "social goals," describe what positive changes you expect to happen with your chosen target group thanks to the use of your particular products and services. Broadly, there are two types of social goals to consider—outputs and outcomes. Your institution's output goals describe the actions you will take to improve client well-being (e.g., trainings provided, loans made, savings products proposed). Your institution's outcome goals describe how your clients, community, or environment will benefit from your products and services (e.g., improvement in business skills, increase in household assets).

It is important to be clear on whether your goals are output goals or outcome goals. Output goals are typically much easier to measure, but they provide little or no information about changes in clients' lives. Mostly, they describe access or outreach—the number of clients who are being served with financial and non-financial services. And it is possible for clients to have increased access and also be worse off, for example, if greater access to loans leads to over-indebtedness. Measuring outcomes is more complex, because it requires the use of harder-to-measure indicators related to change, such as empowerment or increased income. However, if your social goals include creating positive change for clients or at least not harming them, then your organization should measure client outcomes too.

#### **Resources for indicator 1.A.1.2**

- Opportunity Bank Uganda example of integration of social goals into strategic activities
- <u>Strategic planning: Integrating SPM into microfinance capacity building (MSC and Imp-Act Guidance Note)</u>
- Defining Social Goals: Guidance and an Example From Komida

1.A.1.3 The strategy describes how the provider's products and services create positive change for clients.

#### Indicat SPI5 Full

Whereas indicator 1.A.1.2. focuses on <u>what</u> specific benefits the provider seeks to create, this indicator focuses on <u>how</u> the provider plans to achieve them. The idea is to define what specific products and services will lead to what specific activities and behavioural changes by clients which will, in turn, result in what types of outcomes for clients. This can also refer to the provider's "theory of change." The ultimate purpose is to encourage responsible financial inclusion, improve capacity to cope with risks and vulnerability, and contribute to an improved economic situation.

#### Guide de notation

- Score "yes" if the provider's strategy or annual report states how clients will use its products and services, and how, in turn, that will result in positive changes in clients' lives and if the board and senior management have a clear and consistent understanding of this. [nbsp]
- Score "partially" if the strategy or annual report mentions either only step of the chain of activities that ultimately results in benefits for clients (e.g., the provider offers savings products with no minimum fee and therefore poor people open a savings account), but does not mention all the steps in the process (e.g., omits that after clients open savings accounts, then they spend less impulsively because the



money is not immediately available in their home, and then they are more able to cope with shocks because they have savings when a shock occurs).

- o Note: If the strategy is not fully formalized in strategy documents, but is clear for the board and management, then the answer can be a "partially."
- Score "no" if no document mentions the how the provider's products and services create change, or if board / senior management cannot share their view on this.

#### **Sources of information**

- Strategic plan
- Annual report
- Interviews with board member/ CEO

#### **Evidence to provide**

Read the available documents mentioned above. Note any mention of the provider's theory of change, meaning any causal links it defines between its products/services/activities and outcomes for clients. For example, the strategy might specify in what way the product and service mix (financial and non-financial) and the delivery channels have been designed to reduce financial exclusion, vulnerability, client transaction costs, and/or to promote investment in economic opportunities. Cross-check the information identified with the understanding by a board member and the CEO.

#### Field examples / Guidance for implementation

The ultimate purpose of delivering products and services is to achieve your social goals, also known as benefits for clients. Your institutional strategy should make it clear how your products, services, and delivery channels are designed to create benefits for clients. In the financial inclusion sector, the types of benefits often sought are reducing barriers to financial inclusion, reducing client vulnerability, and increasing capacity to invest in economic opportunities, but other social goals are possible. Each provider will choose which specific benefits it seeks to create. See here for examples of how a provider can articulate the relationship between its products/services and its social goals.

For some providers, the process of articulating this relationship will raise questions about whether products/services/delivery channels should be modified to better support the provider's social goals. For example, your institution might realize that one or more of its social goals will be difficult to achieve given the current product offerings. If this is the case for your institution, you can either modify your social goals so that they are realistic given what you offer to clients, or you can modify your product offerings.

The definition of what inputs and outputs lead to what short- and long-term changes is sometimes called the "theory of change." A <u>theory of change</u> is a useful framework for thinking about the sequence of activities that the provider implements in order to achieve short-term and longer-term outcomes.

#### **Resources for indicator 1.A.1.3**

- Summary of Outcomes Working Group Session on Theory of Change
- <u>Summary of Outcomes Working Group Session on Fundación Paraguaya's Poverty Stoplight Tool and the TrueLift Initiative</u>
- Funnel of Attrition
- Benefits Diagram or Theory of Change Example for Credit and Savings Groups

1.A.1.4 The provider defines a "do no harm" strategy that articulates how it will mitigate the social risks connected to the use of its products and services:

1.A.1.4.1 Negative effects on clients and their households

1.A.1.4.2 Human rights violations

1.A.1.4.3 Corruption and bribery



#### Indicator in ESG Risk | ALINUS | SPI5 Entry | SPI5 Full

Providing access to financial products and services - notably to credit, if the provider fails to assess loan repayment capacity adequately - can harm clients. This is especially true if providers care only about profit, but even providers who sincerely seek to create benefits for clients can create unintentional harm. To mitigate these risks, the provider should define in its strategy the protective measures it can implement to protect clients from negative outcomes related to their income/assets, stress level, well-being of themselves or other household members, human rights violations, corruption, etc.

#### **Scoring guidance**

For each subject in the details:

- Score "yes" if the strategy mentions clearly protecting the client or household from harm and how the provider is integrating these measures into its operations and if the board and senior management have a clear and consistent understanding of this. [nbsp]The provider should have a client protection policy and a conduct of conduct to that staff, managers, and board members have to abide to.
- Score "partially" if the strategy does not or not sufficiently define how it is avoiding harming clients in its strategy, but does implement activities that specifically either seek information from clients on harm they might have experienced or mitigate the risk of client harm (e.g., training staff on client protection, ethical behaviour and rules against corruption in the code of conduct, or seeking client feedback specifically on obstacles, abuse of human right or negative outcomes they have experienced) [nbsp]
- Score "no" if the strategy does not or very insufficiently spell out on how to avoid harming clients and no activities implemented by the provider directly relate to reducing risk of clients' experiencing harm or if board / senior management cannot share their view on this

#### **Sources of information**

- Strategic plan
- Board minutes
- Reports on client complaints
- Code of conduct and related trainings
- Client satisfaction surveys, data from the complaint's mechanism
- Client outcomes data
- Board member/ CEO interviews

#### **Evidence to provide**

Read the strategic plan, board minutes, and reports that management and/or the board read related to client complaints and client satisfaction. Analyze client outcomes data collected by the provider. Note any evidence of steps taken in advance to avoid harm related for example to over-indebtedness, fraud, violations of data privacy, theft due to insufficient cybersecurity (refer to 4D), but also child labor and domestic violence. Note also the mechanisms implemented to identify harm when it has occurred and to take corrective action. Cross-check the information identified with the understanding by a board member and the CEO.

<u>Detail 1A142</u>: Describe the strategy to avoid adverse impacts on human rights. If there is no explicit commitment or strategy, check if there are major gaps with regards to the relevant indicators of 2.A.3, 2.B.2, 3.B.3, 4.A.1, 4.B.1, 4.C.1, 4.C.3, 4.D.1 and 4.E.1 and/or non-compliances with national client protection laws (if these exist and are robust).

<u>Detail 1A143</u>: Financial Service Providers (regulated and unregulated) are supervised by national authorities according to national AML/FT law. Check if the provider has



appropriate anti-money laundering systems and policies (this is also part of the KYC/Know Your Client check) in place to comply with regulatory provisions (e.g. screening of controversial transactions and borrowers in sanctions list or PEP/Political Exposed Person identification) or also internal controls to prevent corruption and bribery from employees (e.g. misappropriation of assets, frauds).

#### Field examples / Guidance for implementation

The risk of unintended harm is linked to providing financial services (notably to credit), and even greater when clients are poor or vulnerable, because often they are not as able as others to understand terms and conditions, to advocate for their rights, to recognize and avoid fraud, or even to distinguish among various product offerings to select the one best adapted to their needs.

Evidence shows that the types of harm that clients have experienced due to use of financial products and services include over-indebtedness, loss of productive assets, loss of funds due to corrupt employees or agents, loss of funds due to fraud, abusive land seizure, abusive detention in case of default of payment, bribery, increased child labor, gender-based violence, reduced access (for example, if non-repayment of a loan leads to blacklisting), depression, and stress.

Human rights violations occur when actions of actors violate, ignore or deny basic human rights (including civil, political, cultural, social and economic rights). Corruption includes practices such as bribery, facilitation payments, fraud, extortion, collusion, and money laundering. It also includes an offer or receipt of any gift, loan, fee, reward, or other advantage to or from any person as an inducement to do something that is dishonest, illegal, or a breach of trust in the conduct of the enterprise's business. This can include cash or in-kind benefits, such as free goods, gifts, and holidays, or special personal services provided for the purpose of an improper advantage, or that can result in moral pressure to receive such an advantage.

#### **OECD MNE Guidance:**

Develop and adopt adequate internal controls, ethics and compliance programs or measures for preventing and detecting bribery, developed on the basis of a risk assessment addressing the individual circumstances of an enterprise, in particular the bribery risks facing the enterprise (such as its geographical and industrial sector of operation). These internal controls, ethics and compliance programs or measures should include a system of financial and accounting procedures, including a system of internal controls, reasonably designed to ensure the maintenance of fair and accurate books, records, and accounts, to ensure that they cannot be used for the purpose of bribing or hiding bribery. Such individual circumstances and bribery risks should be regularly monitored and re-assessed as necessary to ensure the enterprise's internal controls, ethics and compliance program or measures are adapted and continue to be effective, and to mitigate the risk of enterprises becoming complicit in bribery, bribe solicitation and extortion.

Prohibit or discourage, in internal company controls, ethics and compliance programs or measures, the use of small facilitation payments, which are generally illegal in the countries where they are made, and, when such payments are made, accurately record these in books and financial records. making public commitments against bribery, bribe solicitation and extortion, and disclosing the management systems and the internal controls, ethics and compliance programs or measures adopted by enterprises in order to honor these commitments. Enterprises should also foster openness and dialogue with the public so as to promote its awareness of and cooperation with the fight against bribery, bribe solicitation and extortion.

#### **Resources for indicator 1.A.1.4**

- Indicators of Financial Stress, Including Over-indebtedness
- RICHES Toolkit developed by Grameen Foundation
- <u>Making the case: Protecting Women and Children with Women's Economic Empowerment Initiatives</u>



SPM Essentials #8: Barriers, Bias and Banking Webinar

# 1.A.2 The strategy defines indicators and targets to measure the provider's progress toward social goals.

Note that the institution also sets indicators and targets to measure progress toward its environmental objectives (see indicator 7.A.1.2).

1.A.2.1 The provider has at least one measurable indicator for each social goal.

#### Indicator in ALINUS | SPI5 Entry | SPI5 Full

To hold itself accountable to its social goals, the provider must collect specific quantitative and qualitative data, including client output and outcome data, to monitor its performance relative to those goals.

#### **Scoring guidance**

- Score "yes" if the provider has defined at least one smart indicator for each of the targets that specify each of its social goals that the provider seeks to achieve, as defined in its strategy, to track progress towards its social goals.
- Score "partially" if the provider has defined at least one smart indicator for some but not all of its targets that specify some, but not all, of its social goals that it seeks to achieve.
- Score "no" if the provider has not defined any smart indicators for its social targets and goals and/or has defined only vague indicators to track progress toward its social goals.
  - o Note: For consistency, if the provider scores no for EP 1A1, meaning it does not define its social goals, then it should also score no for EP 1A2.

#### **Sources of information**

- Business plan/ strategic document/ operational plan
- MIS
- Client surveys
- Annual report
- Social performance dashboards reviewed by the board of directors
- Social performance dashboards reviewed by management

#### **Evidence to provide**

Note if the provider has a written set of outcomes indicators in any of the documents that management reviews, or if the provider's MIS has fields that collect and store data on outcomes. Also see if reports that the board and/or management review include social data. And check whether client feedback mechanisms, such as focus groups or satisfaction surveys also include questions about client outcomes.

#### Field examples / Guidance for implementation

When selecting indicators, consider how well they meet each of the following criteria: relevance, usability, clarity, feasibility, and comparability. Click here for examples of indicators that meet the criteria.

#### **Resources for indicator 1.A.2.1**

- <u>Criteria for Outcomes Indicators</u>
- ASKI Selects Social Indicators for Its Social Dashboard
- Building MIS Capacity for Social Performance Reporting
- KASHF Foundation Selects Social Indicators for its Social Dashboard
- Selection of Outcomes Indicators



1.A.2.2 The provider has at least one measurable output and/or outcome target for each social goal.

#### Indicator in SPI5 Full

Targets allow the provider to quantify or better qualify its social goals and/or to better identify selected aspects of rather broad goals, and measure progress towards them. Without the help of concrete and clearly measurable targets, the progress towards the social goals cannot be well tracked so that they lose their operational relevance.

#### **Scoring guidance**

- Score "yes" if the provider has defined at least one smart output and/or outcome target for each social goal, but at least two smart client outcome targets that are measured at least annually.
- Score "partially" if the provider has defined smart output and/or outcome targets for some social goals only and/or no or just one smart client outcome target.
- Score "no" if the provider has not set any smart targets for its social goals.

#### **Sources of information**

- Business plan/ strategic document/ operational plan
- MIS
- Client surveys
- Social performance dashboards reviewed by the board of directors
- Social performance dashboards reviewed by management

#### **Evidence to provide**

Search any of the above-mentioned documents for any definition and explanation of targets used to measure each social goal and give examples of precise quantitative targets found. Targets are expressed in quantitative terms, however, they can express qualitative aspects, like satisfaction expressed by clients by scoring. Check whether the targets are SMART: Specific, Measurable, Attainable, Relevant, and Time-bound.

#### Resources for indicator 1.A.2.2

- <u>Guidelines on Outcomes Management for Financial Service Providers</u>
- Make Your Targets S.M.A.R.T
- Komida Sets Social Targets
- Satya's social mission, social goals, SMART objectives, and its indicators

# Standard 1B. The provider collects, analyzes, and reports data that are specific to its social goals.

A provider does not know whether its products are creating benefits for clients unless it collects and analyses data about it. Frequently, providers answer questions about client benefits by showing just easily available transactional portfolio data like numbers of accounts and loan repayments. These data s can look satisfactory, like client outreach, loan portfolio, and deposits (in the case of deposit-taking FSPs) are increasing, loan repayments are mostly on time. However, these transactional data inform about outreach and access only, but not on client outcomes. Do the use of financial and non-financial services lead to behavioural changes of clients in managing better their household budget and their family businesses, in saving more than before for the education of the children, in seizing economic opportunities to grow their family businesses, in improving their housing conditions, in accessing better health care and so forth? How do such positive client outcomes vary among different client segments? Are there also negative client outcomes for specific client segments of becoming over-indebted in terms of eating less, reducing the use of health care



services, and taking children out of school in order to meet loan repayment obligations and/or loosing household and business assets pledged?

For achieving its social mission, the provider must monitor positive and negative outcomes for all of its client segments and understand how outcomes vary among them. If client outcomes are limited or even negative, the provider should use that information to improve its products/services and their distribution channels in order to improve client outcomes. In summary, regular and solid client data collection and analysis gives managers the information needed to make informed decisions and track progress toward social goals.

#### **Resources for Standard 1B:**

- Fondo Esperanza Case Study
- Fondo Esperanza Cómo usar los datos de resultados de los clientes
- FINCA Experience with Outcomes Management case study
- Guidelines on Outcomes Management for Financial Service Providers
- <u>The Drivers for Better Outcomes: How Social and Environmental Performance Management practices</u>
- Outcomes Plenary Presentation: Exploring the connection between SEPM and client outcomes
- Outcomes Plenary Session Notes: Exploring the connection between SEPM and client outcomes
- Understanding and Measuring Women's Economic Empowerment

#### This standard has 3 essential practices:

- Essential Practice 1.B.1: The provider collects data on outcomes for clients and their households.
- Essential Practice 1.B.2: The provider analyzes outcomes data by client segment.
- Essential Practice 1.B.3: The provider reports social performance data internally and externally.

# 1.B.1 The provider collects data on outcomes for clients and their households.

The data collection is related to social client outcomes whereas the indicator 7.A.2.1 refers to environmental outcomes.

1.B.1.1 The provider has protocols for social performance data collection that identify who collects the data, how, and when.

#### Indicator in SPI5 Entry | SPI5 Full

Accurate and timely data collection happens only when the roles and responsibilities are very clear for who does what, and when. This requires also regular checks on data accuracy by internal control/operations and internal audit.

#### Scoring guidance

- Score "yes" if the provider collects a range of client outcomes data consistently and regularly at least annually for tracking progress on all social targets and their corresponding goals. For efficiency reasons the client outcomes data are entered into the MIS, with regular data quality/accuracy checks by operations/internal control and internal audit, and job descriptions reflect employees' responsibilities regarding client outcome data collection and quality/accuracy checks.
- Score "partially" if the provider has established protocols for client outcomes data collection, but employees implement them inconsistently and/or do not carry out data quality/accuracy checks, or if the provider has collected client outcomes data



as follows: (1) as a one-time activity; (2) some data collected on paper but not captured in MIS or databases to be used and analyzed; (3) collection of one or two types of client outcomes data only.

• Score "no" if the provider does not collect client outcomes data in a consistent and regular way that data can be used and analyzed.

#### **Sources of information**

- MIS
- Relevant job descriptions
- Data protocols
- Interviews with IT department / Internal audit / branch staff (tellers, field staff)

#### **Evidence to provide**

A formal system refers to a system based on written procedures, that staff are trained on, that is explicitly referenced in the strategic or operational plans, that generates reports used by senior management and/or board of directors. Discuss with MIS and Operations managers if/how the provider collects social performance data, and the regularity of data collection. Make sure to assess the MIS and identify which social data are available and at which frequency. The MIS must produce regular, reliable information.

Often social data, gender, location is collected through loan or savings applications, so it is important to talk to front-office employees to see how data is collected, and then stored, and analyzed. It also allows the auditor to verify that the reality on the ground matches the provider's data protocols. A verification of the job descriptions can reveal if data collection responsibilities are included for relevant staff and staff interviews can reveal whether they understand their data collection and quality control tasks.

A good practice for providers is to collect notably quantitative client outcomes data at least annually through statistically representative client satisfaction and/or client perception surveys.

#### Field examples / Guidance for implementation

A provider must put in place strong systems in order to ensure efficiency and accuracy in the collection and capture of data. This involves all of the following:

- Designing the data collection format
- Piloting the data collection
- Choosing the data collection team
- Training and incentivizing the data collection team
- Capturing and retaining digital data

#### Data protocols should integrate:

- Who defines the indicators to be collected
- Who collects the data
- · How the data are collected
- Where the data are stored
- Who analyzes the data
- · Who verifies the accuracy of the data
- How the data are reported
- To whom the data are reported

#### **Resources for indicator 1.B.1.1**

- Outcomes Data Collection: The experience of Cashpor Micro Credit India
- MicroLoan Foundation (Malawi) Uses a Data Protocol



1.B.1.2 The provider ensures the accuracy of the social performance data that it collects.

1.B.1.2.1 Employees in relevant positions receive specific training on social performance data collection and entry.

1.B.1.2.2 The provider validates client data by periodic internal audit or management review, including some field-level checks.

#### **▶** Indicator in SPI5 Entry | SPI5 Full

Only accurate data are not useful. Data accuracy requires good data quality and completeness based on regular data checks by both internal control/operations and internal audit.

#### Scoring guidance

#### Detail 1.B.1.2.1

- Score "yes" if the provider has trained and motivated effectively of relevant staff (branch staff, notably tellers and field officers, IT team, internal audit etc.) on accurate social performance data collection and data entry as verified by internal control and/or internal audit reports.
- Score "partially" if training is not systematically/effectively done for all relevant staff (branch staff, notably tellers and field officers, IT team, internal audit etc.).
- Score "no" if staff has not been trained in the collection and entry of social performance data.

#### <u>Detail 1.B.1.2.2</u>

- Score "yes" if both internal control/operations and audit procedures require regular checks of the quality of client data collection and data entry at branch and head office unit level as verified by respective internal control and audit reports.
- Score "partially" if internal control/operations and audit procedures are only partially in place to verify regularly the accuracy of client data collection and data entry but they are not comprehensive enough to ensure accuracy of all client data.
- Score "no" if the provider has not implemented an internal control and audit system to check the accuracy of client data collection and data entry and thus not correct errors of client data collection and data entry, as needed, or when client data from the MIS cannot be used due to lack of accuracy.

#### **Sources of information**

- Staff training materials
- Interview with internal audit, IT manager, and branch staff
- Operational client data collection and data entry manuals
- Internal control and audit reports of the past year
- Review of quality and completeness of MIS data based on a sample of client data

#### **Evidence to provide**

Analyze the social performance data chain from the source of the information (clients, employees) via the accuracy check of data collection and data entry, the analysis of client data up to the reporting of analyzed client data. Verify that this chain is coherent, with no missing link to ensure high quality, complete and timely social performance data. Specify how and when employees such as field officers or tellers / data entry clerks are trained on data collection and data entry. Discuss with internal audit team and with the branch managers how the quality of client data is verified. Specify how (incl. sampling methodology) and when client data are validated. If possible, add how many clients or what % of clients are included in these checks.

You can ask the IT manager to print out a sample of client data and see if any important fields are empty or with many nonsensical data (e.g., number of children is 100 or age is 2).

#### Field examples / Guidance for implementation



The provider should regularly and consistently validate social data, just as it validates financial information. This includes evaluating employees on how well they adhere to the institution's process for collecting quality social data. Validation techniques, that can be used by the internal audit team, may include the following:

- Field level checks
- Visiting or calling a random sample of clients to confirm that interviews with branch employees happened
- Observing the data collector in action and providing feedback on his/her performance.
- Data verification
- Verifying a random sample of data entered by the data entry personnel to confirm accuracy.

The <u>MicroLoan Foundation Malawi case study</u> includes information on how MicroLoan verifies the accuracy of the social performance data that its staff collect. See also the field example from VisionFund International.

#### **Resources for indicator 1.B.1.2**

- <u>Guidelines on Outcomes Management for Financial Service Providers</u>. See in particular the section entitled, "STEP 6 Put systems in place to check data quality."
- Vision Fund International Verifies Data Quality

1.B.1.3 The provider collects data on an ongoing basis to measure whether it is achieving its social goals.

1.B.1.3.1 The provider collects quantitative data that measures both positive and negative changes for clients and their households. Minimum frequency: annually 1.B.1.3.2 The provider collects qualitative data that measures both positive and negative changes for clients and their households. Minimum frequency: annually

#### Indicator in ALINUS | SPI5 Entry | SPI5 Full

Quantitative data and qualitative data both have unique value but also limitations. It is relatively easy to verify the accuracy of quantitative data, and it is much easier to aggregate quantitative data for analysis, but quantitative data tell you only what is happening, not why. When collecting both quantitative and qualitative client outcome data and conduct analysis on positive but also negative changes, the provider gains the most insightful and useful information about clients' changing behaviours and is able to know with more confidence whether it is achieving its social goals, but also what steps it needs to take to address any weaknesses that the data reveal.

#### **Scoring guidance**

- Score "yes" if the provider collects consistently and regularly (at least annually) a range of both quantitative and qualitative client outcomes data, including also analysis of negative changes. The quality of data collection and data entry is assured by regular internal control/operations and audit checks.
- Score "partially" if any of the following are true:
  - The provider does not collect client outcomes data annually, but does analyze systematically the data it has on its clients' financial transactions based on previous outcomes surveys to continue and look for trends that might indicate whether certain client segments are having better or worse outcomes.
  - o The provider collects consistently and regularly either quantitative or qualitative data on client outcomes, but not both.
  - The provider collects consistently and regularly some data on outcomes but it is insufficient to understand whether the provider is creating the types of benefits for clients that it seeks or to understand any negative changes.
  - The provider has collected both quantitative and qualitative outcomes data on clients but did so as an isolated activity. It does not do this on an annual basis.



• Score "no" if the provider does not collect any data on client outcomes consistently and/or regularly (at least annually).

Note: Collecting data on outputs (e.g., number of loans provided, PAR, outreach, and so forth) does NOT constitute client outcomes data.

#### **Sources of information**

- MIS information
- Client surveys and narrative reports
- Loan application forms that include questions on client outcomes
- Focus group discussions with clients and client exit interviews
- Annual reports

#### **Evidence to provide**

Look in the MIS for client outcomes data that are stored electronically. Look at data from all mechanisms the provider has to receive feedback from clients (e.g., call centers, focus groups, satisfaction surveys, outcomes surveys, complaints/suggestions mechanisms, client exit interviews, other client surveys) and check whether the provider is gathering data on client outcomes.

#### Field examples / Guidance for implementation

Quantitative data can tell you that a client withdrew savings, or deposited more this month than last month, or has not taken out a loan in two years, but it will not tell you why. On the other hand, qualitative data are exactly suited to learn how clients are doing. What outcomes have they experienced? What stresses have they encountered? Why did the choose or not choose to use a certain financial service? But qualitative data has its limitations. Foremost among them are that memory is faulty and clients may not be comfortable revealing uncomfortable and very personal information about their financial lives to a stranger.

Many financial service providers collect both quantitative and qualitative data on client outcomes. See field examples for any of the following:

- AMK
- Fondo Esperanza
- Friendship Bridge
- Genesis Empresarial
- IDEPRO
- Juhudi Kilimo
- MicroFund for Women
- SEF

#### **Resources for indicator 1.B.1.3**

- 60 decibels Remote Survey Toolkit
- <u>60 decibels Why Off-Grid Energy Matters</u>
- 60 Decibels Microfinance Index Report
- Satya MicroCapital Financial Inclusion Impact Performance report
- Outcomes Plenary Presentation: Exploring the connection between SEPM and client outcomes
- Outcomes Plenary Session Notes: Exploring the connection between SEPM and client outcomes
- SPM Essentials #8: Barriers, Bias and Banking Webinar
- IDEPRO Desarrollo Empresarial case study
- Caso de estudio IDEPRO un sistema integral de evaluación de impacto
- <u>Demonstrating the Impact of Client-Centric Microfinance--Impact Report 2020 BRAC Microfinance</u>

#### 1.B.2 The provider analyzes outcomes data by client segment.



1.B.2.1 The provider stores data on social performance in its management information system (MIS) in a way that allows for combined analysis of a client's financial and social data.

#### Indicator in SPI5 Entry | SPI5 Full

The purpose of collecting client outcomes data is both to demonstrate current level of performance and to improve weaker areas. For the improvement work, it is necessary for the provider to analyze both financial and social performance simultaneously, so that the provider can see which clients, using which types of products and services, are experiencing which types of outcomes.

#### **Scoring guidance**

- Score "yes" if the provider collects and stores a range of quantitative and qualitative client outcomes data electronically, and if each client has some unique ID that allows the provider to match social performance data records to financial records.
  - Note: Though it is easier for analysis for the MIS to store both social and financial data, it is not required. As long as a unique client ID exists, the provider can merge data from two different databases when doing analysis.
- Score "partially" if the provider stores quantitative and qualitative client outcomes data but does not have a unique identifier that allows for a simultaneous analysis of a client's social and financial data.
- Score "no" if the provider does not collect client outcomes data or collects it, but stores it only in paper files.

#### **Sources of information**

- MIS
- All other databases the provider has
- Reports on client outcomes analysis

#### **Evidence to provide**

Ask if the provider has a unique client ID. Put in the comments section whether that is a national ID or a telephone number or some ID built by the provider. Read reports on client outcomes produced by the provider to see if the reports jointly discuss financial and social data for clients.

#### **Resources for indicator 1.B.2.1**

- Making the Case for Outcomes Management to Financial Service Providers
- MFR Impact Assessment Methodology

1.B.2.2 The provider analyzes outcomes for different segments of clients according to their profile and financial behavior. Minimum frequency: annually

1.B.2.2.1 By client profile: gender; age; location (urban/rural); poverty/income level

1.B.2.2.2 By financial behavior: types of products or services used; tenure with the provider

1.B.2.2.3 Other segments that are relevant to the provider's social goals (please specify)

#### Indicator in SPI5 Full

Different types of clients are likely to experience different outcomes even when using the same product. Analyzing averages only obscures the fact that some client segments are doing better than others. The provider therefore gets the most useful insight from its data when it segments its analysis by demographic and socio-economic characteristics and financial behaviour.



#### **Scoring guidance**

- Score "yes" if the provider analyzes client outcomes by all above-listed segments of clients.
- Score "partially" if the provider does some segmentation of clients in its analysis, but not according to all of the segments listed above. For example, if it segments by economic activity (e.g., agricultural vs retail), but not by gender.
- Score "no" if the provider analyzes outcomes for its entire client database without segmentation or have no outcomes data.

#### **Sources of information**

- MIS
- Interview with IT manager
- All other databases the provider has
- · Reports on client outcomes analysis

#### **Evidence to provide**

Read reports on client outcomes to establish whether the provider is monitoring outcomes by client segment. Also ask the IT department what demographic and socioeconomic data the provider collects on clients.

#### Field examples / Guidance for implementation

At minimum, the provider should collect the following information about each of its clients: gender, age, location (e.g., rural/urban/peri-urban), and poverty or income level. It may also have other characteristics that are relevant to track based on its particular goals, for example outreach to disabled persons or outreach to refugees. Because it has this information, the provider is able to segment all analysis it conducts of client outcomes and monitor whether different groups of clients are doing better or worse. This in turn drives strategic decisions. If the results for a certain group are good, the provider might invest more in expanding its offer of that product or service to that group. If the results are poor, the provider will investigate why the outcomes are not strong and take corrective action.

#### **Resources for indicator 1.B.2.2**

- Making the Case for Outcomes Management to Financial Service Providers
- Friendship Bridge (Guatemala) Client Segmentation by Poverty Profile
- SPM Essentials #1: Use what you have. Discovering client insights in your existing data

# 1.B.3 The provider reports social performance data internally and externally.

1.B.3.1 The provider conducts a social audit. Minimum frequency: every three years.

#### Indicator in SPI5 Entry | SPI5 Full

An external social audit at minimum every three years allows the provider to track progress on building strong social performance management practices, and to remain aware of its current level of implementation of the Universal Standards.

#### Scoring guidance

- Score "yes" the provider had an external SPI audit or a social rating within the last three years.
- Score "partially" if the provider had an external SPI audit or a social rating or a client protection certification, but the most recent one occurred more than three years ago, but no longer than five years. Score "partially" if the provider has conducted a self-



assessed SPI audit or an external client protection assessment within the last three years.

• Score "no" if the provider had never an external SPI audit or a social rating or an external client protection assessment during the last five years.

#### **Sources of information**

- CERISE SPI database
- Raters websites
- Cerise+SPTF client protection website section (for certification and CP assessment)
- Provider's website
- check with the provider if they conducted an audit, rating, CP assessment or certification

#### **Evidence to provide**

Share the links or references to any SPI social audits, social ratings, client protection assessments or certification conducted in the last 5 years.

#### **Resources for indicator 1.B.3.1**

- SPI technical website
- SPI audit guide
- SPI online training videos

1.B.3.2 The provider publishes a report that includes social performance data. Minimum frequency: annually.

#### Indicator in SPI5 Entry | SPI5 Full

Reporting makes the provider accountable to its social goals, both internally and externally. It also shows the provider transparency to report on and willingness to allow its social performance to influence its public reputation. Refer to 7.A.2.2 regarding the internal and external reporting on the provider's environmental performance.

#### Scoring guidance

- Score "yes" if the provider publishes its social performance data as well as key findings and recommendations of external SPI audits and social ratings at least annually on its website, in an annual report, or in any other format.
- Score "partially" if the provider publishes very brief and incomplete information about its social performance, where "incomplete" means the information reported do not address all of the benefits to clients that the provider is trying to achieve, as stated in its strategy. Or if the report is not published annually but every 18 or 24 months. Or if the reports are not public, but can be provided to investors and other stakeholders on request.
- Score "no" if the provider does not publish information about its social performance. Or if the last report is 3 years or older.

#### Sources of information

- Website
- Social media channels
- Annual report
- Social audit report
- Social rating report

#### **Evidence to provide**

Look at all reports, both public (e.g., on the website and through social media channels) and private (e.g., external social audits or social ratings) that the provider can furnish to stakeholders upon request.



#### **Resources for indicator 1.B.3.2**

- Friendship Bridge Client Outcomes Report
- <u>Demonstrating the Impact of Client-Centric Microfinance--Impact Report 2020 BRAC Microfinance</u>
- Friendship Bridge Informe de Resultados de Clientas 2014-2016

1.B.3.3 The provider discusses social performance results with employees. Minimum frequency: annually.

#### Indicator in SPI5 Full

There are multiple benefits to the provider of discussing social performance results with employees: it is motivational to employees to know that their work leads to positive outcomes for clients, it creates a culture where employees understand that members of the leadership team value good social performance, and it gives employees an opportunity to provide feedback that might help the provider achieve even better social performance in the future.

#### **Scoring guidance**

- Score "yes" if there is evidence of pro-active and regular (at least annually, if not quarterly) communication with employees about findings on client outcomes, such as a staff meeting where the team discusses results or an email informing employees of results.
- Score "partially" if there is passive sharing of findings on client outcomes at least annually, such as posting them to the website, but without an effort to make sure all employees are aware of them.
- Score "no" if the provider does not share findings on client outcomes with employees, or does not have any reports on client outcomes.

#### **Sources of information**

- Minutes from annual shareholder meetings
- Agendas or notes from staff meetings
- Staff awards
- Announcements via social media

#### **Evidence to provide**

The way in which the provider communicates with employees about findings on client outcomes can vary. It could be in person or electronically. It could even be tied to trainings, celebrations or awards or acknowledgement of good job performance. The essential is to see whether management has communicated the information and whether employees have responded in any fashion, proving that they received and understood the information provided.

#### Field examples / Guidance for implementation

Juhudi Kilimo in Kenya shares update on its social performance results every year in July for its "SEPM training month" with 2 virtual sessions with all field staff and branch managers, based on content developed by its SEPM committee.



## Dimension 2. Committed Leadership

Commitment to social performance starts at the top. A social strategy is only strong if the Board and senior management understand and uphold it. In order for social performance to be fully embedded in the organization, the governing bodies and senior leadership must build it into the organization's plans and accountability structures. The governance and senior management should be clear, committed and incentivized to achieve the provider's social goals. Dimension 2 lays out the key practices on how the board and senior management bear strategic responsibility and accountability for decision-making and subsequent operations towards achieving the provider's social goals. Please refer to EP 7.A.3 of the "Governance and Management structure ensures the implementation and oversight of the environmental strategy".

- Standard 2A: Members of the board of directors hold management accountable for achieving the provider's social goals.
- Standard 2B: Senior management is responsible for implementing the provider's strategy for achieving its social goals.

# Standard 2A. Members of the board of directors hold management accountable for achieving the provider's social goals.

The board of directors or governing bodies should use social performance information to shape and adjust the provider's social strategy and hold the senior management to account for achieving the social goals. It should also protect the provider's social focus in times of transformation, growth or crisis.

This standard has 5 essential practices:

- Essential Practice 2.A.1: Board composition reflects the provider's social strategy and sound governance practices.
- Essential Practice 2.A.2: The provider trains board members on their social performance management responsibilities.
- Essential Practice 2.A.3: The board makes strategic decisions based on social and financial data.
- Essential Practice 2.A.4: Board oversight of senior management is aligned with the provider's social goals.
- Essential Practice 2.A.5: The board is responsible for preserving the provider's social goals during times of crisis or institutional change.

#### **Resource for Standard 2A**

Nordic Microfinance Initiative's Board Participation in Svasti (watch the interview <u>here</u>)

Note: There are providers where the founding shareholder is also (still) the managing director. These cases are delicate to audit from a governance viewpoint as one person is wearing two strategic hats. Governance cannot function well if the same person as board member is responsible for evaluating its performance as CEO. In this case, it is good governance practice if the other board members without operational functions decide alone – and in absence of the CEO – everything related to the CEO, like annual performance evaluation, renumeration and so forth. If the CEO assumes lead responsibility for SEPM at the board level, it is important that the deputy CEO or another senior manager assumes lead responsibility for SEPM (and environmental performance) at the senior management level.



# 2.A.1 Board composition reflects the provider's social strategy and sound governance practices.

2.A.1.1 Board has an active social performance management (SEPM) committee or equivalent body.

#### Indicator in SPI5 Entry | SPI5 Full

A formal SEPM committee (or at the minimum, a designated SEPM person) ensures the board receives key social performance information, helps challenge the provider when social goals and their targets are not met, keeps the board updated on new trends, resources, social and environmental risks, etc.

#### **Scoring guidance**

- To score 'yes', the provider should have a formal social (and environmental) performance management committee or equivalent body at the governance level, with defined terms of reference, identified persons, and regular role in Board/governance discussions as summarized in Board minutes. If the SEPM (and environmental) responsibilities are shared among different committees, it is required to stipulate clearly specific terms of reference and how these responsibilities are taken in charge by the different committees as well as when/how SEPM subjects are discussed.
- To score 'partially' if
  - 1. Only one board member is in charge of SPEM,
  - 2. The roles and responsibilities in SEPM are not formally defined, or
  - 3. The board is rather passive in assuming its SEPM responsibilities by taking very few concrete actions.
- To score 'no' if no board member assumes responsibilities for SEPM.

#### **Sources of information**

- Board minutes / Committee minutes
- Terms of reference for SEPM committee/ job description for SEPM champion at the board
- Interviews with board members
- Interviews with CEO/managing director and deputy CEO (if the CEO is shareholder)
- Interview with SPM champion at the board

#### **Evidence to provide**

Refer to names/organizational chart/Terms of References/minutes to provide evidence of the regular activity of the SEPM committee/champion.

#### Field examples / Guidance for implementation

Review the activities and mandate of the existing board committees. There should be a committee explicitly tasked with SPM/SEPM responsibilities. If no committee is covering these responsibilities, consider adding a designated SEPM committee. Potential SEPM committee responsibilities include the following: ensuring the credibility of SEPM information; engaging employees at all levels in SEPM; prioritizing SEPM issues to be addressed by the board and senior management; drawing in relevant expertise for SEPM research and analysis; and proposing corrective actions for social performance risks identified by the board. In addition to having a designated committee that is the focal point for SEPM, some providers prefer to build in specific SEPM responsibilities into the responsibilities of other board committees and to signal clearly how the work of each committee

Examples: SEPM committee (representatives from Operations, HR, Audit, Risk) meets quarterly to assess progress towards social goals and their targets based on a template



defined with senior management and the board. One person, the SEPM champion – who could be the risk or internal audit manager – is in charge of reports to the Board at each board meeting (mostly quarterly).

#### **Resources for indicator 2.A.1.1**

- Sèvis Finansye Fonkoze SPM Commitee Charter
- Social Performance Management Board Committee Terms of Reference Example

2.A.1.2 At least one board member has direct work experience with the provider's target clients.

#### Indicator in SPI5 Entry | SPI5 Full

To reflect the needs and preferences of its clients, the social strategy defined by the governing body must be based on detailed knowledge of the target clients, which must feed into strategic decision-making. For this, at least one member of the governing body must be able to provide his/her first-hand knowledge and analysis of the needs of the target clients.

#### **Scoring guidance**

- To score 'yes', if the two conditions are fulfilled:
  - 1. At least one board member must have experience with the provider's target clients through his/her current work, recent (less than 5 years) previous experiences, studies and advice as verified by her/his profile.
  - 2. S/he must be a pro-active board member with no operational functions at the provider.
- To score 'partially', if only one of the above two conditions is fulfilled.
- To score 'no', if none of the two conditions is fulfilled.

#### **Sources of information**

- Board composition and board members curriculum vitae (CV)
- Attendance and participation of the experienced board members (with the target clients) at the board meetings as reflected by the board minutes
- Interviews with Board members

#### **Evidence to provide**

Share in few key words the experience of the Board members related to the target clients of the provider. If the board has a board composition policy or targets related to board member experience, share that as well.

2.A.1.3 At least 20% of board members are women.

#### Indicator in SPI5 Entry | SPI5 Full

Only a truly diversified leadership structure can begin to address existing inequities at a systemic level. Women's representation at the strategic level is key to ensure that the provider take the voice and preferences of female clients seriously and strives at the empowerment of women regardless of being clients or managers/employees. The indicator requests that at a minimum, one pro-active woman for small boards, and at least 20% of board members in larger boards should be pro-active women who bring in the 'gender lens' into all strategic discussions and decision-making.

#### **Scoring guidance**

- Score 'Yes', if the two conditions are fulfilled:
  - 1. At least 20% of board members are women, or if in a small board of 5 or less members, at least one woman is a member, and



- 2. They are pro-active board member(s) bringing in the 'gender lens' into discussions and decision-making as verified by minutes of board minutes.
- Score 'Partially', if just one of the above two conditions is fulfilled.
- Score 'no', if none of the two conditions is fulfilled.

#### **Source of information**

- Board composition
- Attendance and participation of the women members at the board meetings as reflected by the board minutes
- Interviews with women board members

#### **Evidence to provide**

Specify the number of women and the total number of board members. Check the actual participation of female board members in board meetings and interview them.

2.A.1.4 The board includes members whose nationality/ethnicity is representative of the provider's target clients.

#### Indicator in SPI5 Full

The board's full understanding of the socio-economic, cultural, religious and other characteristics of the targeted client segments is a prerequisite for its social performance responsibilities in ensuring that client-centric products/services and their distribution channels are offered and do create positive client benefits. This understanding is best ensured if there are at least two board members from the same nationality as the clients and preferably from the main ethnic groups served by the provider. One of the two board members could be a representative of the employees, if the provider has supported a staff association or company as additional shareholder. It is poor governance, if board members are only foreign shareholders with little knowledge of the clients' livelihood conditions and their social and business environment.

#### Scoring guidance

- Score 'yes', if the two conditions are fulfilled:
  - 1. At least two board members are from the same nationality as the clients, and
  - 2. They are pro-active board members bringing in the 'client-centric lens' into discussions and decision-making as verified by minutes of board minutes.
- Score 'partially', if the above two conditions are not fully fulfilled.
- Score 'no', if none of the two conditions is fulfilled.

#### **Sources of information**

- Board composition
- Board minutes to check attendance and participation of the 'local' board members at the board meetings
- Interviews with 'local' board members

#### **Evidence to provide**

Specify the number of 'local' board members. Explain their actual participation in board meetings.

# 2.A.2 The provider trains board members on their social performance management responsibilities.

Each board member must understand the provider's social goals and the role the board should play in managing social performance. SEPM can seem like a lofty abstraction that board members don't associate with their own day-to-day work. Effective boards need



information on the concrete importance of SEPM, how it will benefit the different client segments and the provider, and what role they as leaders must play.

A board orientation to SEPM should include a discussion of SEPM's importance and how it will benefit the provider and its target clients, a comprehensive look at the social strategy, as well as updates on local initiatives (e.g., regulation; national Codes of Conduct) and international initiatives such as the Universal Standards for Social and Environmental Performance Management and the board's role in managing social performance to achieve the social goals.

#### Discuss the importance of SEPM and how it will benefit the institution

Explain the basics: SEPM is a management approach that puts clients at the center of all strategic and operational decisions. SEPM begins with a clear social strategy, which is then carried out by the board, management, and employees. Once they understand what SEPM is, convince them how valuable it is for the provider to serve satisfied and loyal clients. Discuss how stronger SEPM practices will help the FSP serve clients better, strengthen the institution's financial performance, and help to solve operational challenges. Use language that your board will find appealing. For example, the terms "balanced performance management" and "responsible finance" may be more palatable for financially minded board members. For more tips on discussing SEPM with your board, check out <u>Suggested Talking Points on the Benefits of SPM and Does good client protection impact financial performance</u>.

#### Discuss the Universal Standards and key industry SEPM initiatives

Boards don't need to understand the details of national and international efforts to support strong SEPM practices and the SPI social audit tools as global measurement and reporting tool. But they should know that SEPM is a global initiative, that there are communities of practice dedicated to helping FSPs improve performance, and that impact investors are paying increasing attention. <u>Key message:</u> you aren't acting alone!

#### Discuss the board's role in SEPM

As a part of this orientation, discuss with your board members their specific responsibilities related to the social performance management to include:

- Ensuring that client focus is integrated into the strategic and business plans;
- Reviewing and discussing social performance reports and check for programs and action plans to facilitate the achievement of the social goals to ensure:
  - o The provider is reaching its target client segments; and
  - All products and services and their distribution channels are appropriate to client's needs.
- Suggesting modifications to the products and services, operations, or social goals/targets, based on review of social performance information;
- Hold the CEO accountable for achieving the social goals and their targets;
- Make strategic decisions about growth, prices, and profits that balance social and financial performance;
- Reviewing Human Resources policies to evaluate social responsibility to employees;
- Ensuring your institution is in compliance with national/regional/ international regulation, including codes of conduct;
- Reviewing and updating the mission statement and social strategy (or "Theory of Change"), as necessary

Confirm that each board member agrees to uphold the responsibilities that your institution specifies by having them sign an agreement that details their social performance responsibilities. Essential Practice 6C1 provides further guidance on ensuring that investor board members are aligned with your institution's social goals.

In addition to providing board orientation, consider pairing newer board members with existing ones ("mentors"). Ask the pair to meet one or more times to discuss your institution's history, mission, social goals, and related topics. Board members should visit client



businesses and branch offices within the first year after joining the board; understanding the institution's field operations helps the institution's social goals "come alive" to the board.

If you find that your board resists or deprioritizes its social performance responsibilities, consider using the terms "client-centered," "responsible finance" and "balanced performance management" instead of "social performance." You can also position it within the broader corporate ESG framework for financial service providers. Choose terms that appeal to the financial orientation of board members and describe the financial benefits of pursuing social goals. Often, the lack of interest in social performance is based in a misperception that SPM is a costly distraction from prudent oversight of the provider's financial performance.

For example, the council helped formulate the NWTF's "80-50-30" social performance targets in the Philippines by (1) targeting 80% of new clients living below the poverty line at entry, (2) 50% of those clients showing a positive change in their poverty level after three years, and (3) 30% of those clients moving above the poverty line after five years.

#### **Resources:**

- Suggested Talking Points on the Benefits of SPM
- NWTF Orients the Board on SPM
- Khushhali Bank Microfinance Ltd (Pakistan) provides board with SPM orientation and TOR
- <u>Sèvis Finansye Fonkoze SPM Commitee Charter</u>

2.A.2.1 During new member orientation or subsequent training, the provider trains each board member on the following:

2.A.2.1.1 The provider's social goals.

2.A.2.1.2 The board's role in managing the provider's social performance.

2.A.2.1.3 The Universal Standard for Social and Environmental Performance Management

#### Indicator in SPI5 Entry | SPI5 Full

In order to successfully support and safeguard the social strategy, board members need to understand what that strategy is and how they can help uphold it. New board members should be oriented to social performance and global trends in the area so they know they are part of a larger movement dedicated to socially responsible governance.

#### **Scoring guidance**

- Score 'yes', if SEPM training material are made available to board members and SEPM training sessions are regularly offered to new board members (in line with board rotation among existing shareholders or board representatives of new shareholders) and if both training material and sessions cover at least the social goals, the role of the board in SEPM and an introduction to the Universal Standards.
- Score 'partially', if SEPM orientation is only anecdotical, not systematically done for new members, informal or covers some topics but not others.
- Score 'no', if board members are only vaguely aware of the social goals and its role in SEPM and new board members receive no briefing at all.

#### **Sources of information**

- Board minutes
- Presentation used to train the board
- Interviews with board members
- Interviews with CEO/managing director

#### **Evidence to provide**



Give the date of the board minutes where information is found, or reference to examples cited during interviews with board members or CEO. Note the frequency of such training (e.g., annual or sporadic). Board turnover rates are often high and therefore annual refreshers on SEPM may be warranted in these cases.

#### **Resources for indicator 2.A.2.1**

- NWTF Orients the Board on SPM
- Khushhali Bank Microfinance Ltd (Pakistan) provides board with SPM orientation and TOR

2.A.2.2 Each board member signs an agreement that details his/her social performance responsibilities.

#### Indicator in SPI5 Full

Asking board members to formally confirm commitment to the social strategy and values reinforces the importance of the social goals and their role in upholding it. The agreement can give an overview of the responsibilities related to social performance for the governance bodies.

#### **Scoring guidance**

- Score 'yes', if there is a formal agreement (code of conduct, terms of reference, shareholder agreement) that specifies the social strategy and role of the governing bodies, and if this document is signed by each Board member.
- Score 'partially', if the document is informal, not signed by all board members, or if board commitment is strong, but not formalized in any document or committee. In this case, active participation around social performance and client-centric issues in board meetings (as evidenced in board minutes) can be highlighted as an example of commitment.
- Score 'no', if board members just attend meetings without demonstrating active participation or commitment to social performance responsibilities as evidenced by minutes of board meetings.

#### **Sources of information**

- Board minutes
- Code of ethics, shareholders' agreement or other formal agreement signed by board members
- Interviews with board members
- Interviews with CEO/managing director

#### **Evidence to provide**

Specify how board members demonstrate their commitment to the social strategy.

#### **Resources for indicator 2.A.2.2**

 Khushhali Bank Microfinance Ltd (Pakistan) provides board with SPM orientation and TOR

2.A.2.3 New board members have direct exposure to clients within the first year of joining the board.

#### Indicator in SPI5 Full

The involvement of members of the Board to carry the social strategy implies an in-depth knowledge of the situation of clients, their use of services / products and their distribution channels, changes for them, risks and negative consequences as well. For this, members of



the Board should be invited to meet with clients, or at least should receive regular and solid client outcomes data to discuss customer feedback and perception of their behavioral and economic changes.

#### Scoring guidance

- Score 'yes', if the new board members can meet directly with clients from different client segments, and discuss with them their needs, preferences, satisfaction with the products / services and their distribution channels during the first year of joining the board. Furthermore, they receive as board member access to detailed reports on client satisfaction and other client research studies with differentiation per main client segments (gender, location, age, source of income, type of product used, etc.) and discuss them during board meetings and take corrective actions, as required. These board discussions and corrective actions taken are recorded in the minutes of the meetings.
- Score 'partially', if new board members rarely meet with a representative sample of clients and/or have just access to client outcomes data without discussing detailed client satisfaction and other client research studies.
- Score 'no', if the new board members do not meet with a representative sample of clients and/or have only access to client output data (e.g. satisfaction surveys), or small client survey samples (less than 100 clients) that are not representative of the clientele.

#### **Sources of information**

- Board minutes
- Interviews with board members
- Interviews with CEO/managing director
- Impact/outcomes/client surveys reports and/or dashboards shared and discussed with Board

#### **Evidence to provide**

- Share how the exposure to clients is organized.
- "Direct exposure to clients" includes things like field visit, client visit to board meeting, or equivalent.

## 2.A.3 The board makes strategic decisions based on social and financial data.

Many boards view their role as primarily financial, and as such, they focus on corporate oversight and fiduciary responsibilities. However, this attitude creates a gap between the provider's purpose (benefiting clients) and the board's management priorities. The board should adopt a balanced approach to social and financial performance management by reviewing each decision in light of how it will affect clients. To achieve this balance, the board must:

- Have on-going access to social performance information;
- Use this information to make decisions; and
- Understand how social and financial performance can reinforce one another.

Provide the board with regular social performance reports which contain data on the provider's social goals. Ensure that these reports present information that is needed by the board to fulfil their SEPM responsibilities and they are presented in a meaningful way. Report contents

#### Report content

Report social data that is important to the board by following its preferred reporting structure. This will promote buy-in and facilitate improved decision-making. The three key content areas with the following minimum contents should be covered:



#### 1) Client Protection

- Internal audit report on the staff compliance with the Client Protection policy and the Code of Conduct
- The most recent external client protection assessment
- Analysis of client dissatisfaction including: client retention/feedback data or satisfaction surveys/exit survey data
- Analysis of the risk of client over-indebtedness
- Interest rates and whether they are responsible
- Reports on the state of systems and policies for data privacy and security, including any failures and breeches
- Reports on any fraud or corruption, including any extorsion or bribery

#### 2) Social Strategy

- Outreach to target clients
- Social outcomes indicators that measure progress toward social targets
- The most recent external social audit and/or social rating.
- Profit allocation and data/discussion on "responsible prices and profits" and the alignment of profit allocation with the social strategy

#### 3) Employee working conditions

• Employee retention and satisfaction/effectiveness of HR policies disaggregated by gender, position, and location

#### Report structure

Consider a dashboard report that includes thresholds that trigger decision points around key indicators. In the report, provide a mix of short-term indicators (e.g., client retention by month; progress toward client outreach goals by quarter) and long-term indicators (e.g., change in client poverty levels over two years; results of annual employee satisfaction survey). Together with the board, decide which short-term indicators are relevant to their decision-making timeline and are sensitive enough to provide early warnings.

Think beyond quantitative information. Qualitative information adds richness to data by giving an insight into the reason behind trends (e.g., provide client exit rate numbers, bolstered by data such as narrative answers from focus groups with exiting clients). Segmented information is also a powerful tool for comparative analysis, allowing your board to understand performance variations between different groups/products/branches in relation to key issues (e.g., client exit or level of satisfaction segmented by gender, region, main products, or business type).

If these indicators are new to the board, work with them to learn how to understand and interpret social performance data. Start with a simple report that provides concrete information like client satisfaction data, client and employee retention rates, % female/male clients. Discuss the report and allow the board to discover how the information is useful for decision-making. Use the same report format for several meetings in a row so that members become accustomed to reading the report. Then, discuss with board members how to improve the SPM report to make it more useful for the board. Report frequency

#### Report frequency

Provide an SEPM board report at least annually, and as frequently as is necessary to ensure the board has relevant and timely information needed for decision-making. SEPM should be on the agenda at each board meeting, regardless of how often data are provided to the board. Best to provide the board for each meeting with an integrated report with social performance alongside financial performance. Additionally, at least annually the board should review the social strategy - particularly the social goals and products/services - and make any changes based on the changing client and institutional priorities, if necessary.

Below are the minimum frequencies for each type of report:



#### Annual

- Internal audit report on the staff compliance with the Client Protection policy and the Code of Conduct
- Client risk of over-indebtedness
- · Client dissatisfaction including dormancy, drop-out, exit surveys and complains
- Interest rates
- Data privacy and security, including any breeches or failures
- Fraud, corruption, extorsion, bribery
- Client outcomes
- Profit allocation alignment with social strategy
- Employee turnover rate by gender, position, and location

#### Every 2 years

• Employee satisfaction surveys

#### Every 3 years

· External social audit or social rating

#### Highlight the risk management implications of SEPM

Many aspects of SEPM need to be integrated into your risk management strategy: a failure to deliver positive outcomes for clients will lead to client exit (if the products and services are not helpful, why would clients keep using them?); failure to protect clients will have similar negative impacts and will lead to reputational risks. Conversely, clients who use products and services that help their businesses thrive and improve their well-being are more likely to recommend the provider to their peers, remain clients in the long-term, and be able and willing to repay loans.

Ensure that board risk discussions include this client perspective. It may simply ask: "how does this decision affect clients?" before choosing a course of action. The board should decide on the best way to introduce this check. Each board agenda might include time dedicated to the "client check". To make this practical for board use, segment client data according to characteristics that highlight clients who are most at risk. For example, segmenting exit clients by loan cycle may show that the majority of exit cases happen in the first and second cycles, which is highly costly for the provider, as the recruitment investment is not recovered. If you find this to be the case, providing additional data on those clients—such as demographic and business information as well as exit interview data can help the board make fully informed decisions about how to manage the risk of client exit.

For example, Fundación Génesis Empresarial (Guatemala) created a unique "traffic light" system for tracking their SEPM implementation efforts. The traffic light uses the colors green, yellow, and red to indicate the following:

- ✓ Green: the institution currently implements all of the Essential Practices for the standard, and this implementation is well documented and verifiable;
- ✓ Yellow: the institution has already begun planning for or piloting the implementation of the standard (e.g., a strategy exists but has not been implemented);
- ✓ Red: the institution has not yet considered how to implement the standard.

#### **Resources:**

- Khushhali Bank Reports Using a Social Dashboard
- Aski uses a Social Dashboard for Board Reports
- Fundacion Génesis Empresarial Repots to Board on SPM Progress
- IDEPRO (Bolivia) takes corrective action and launches Pro-Cadenas
- Kashf Foundation SPM Dashboard

2.A.3.1 The board uses the following data, provided by management, to monitor client protection. Minimum frequency: annually.



2.A.3.1.1 Analysis of the risk of client over-indebtedness.

2.A.3.1.2 Analysis of client dissatisfaction: rates of client dormancy and drop-out, results of exit surveys, and client complaints.

2.A.3.1.3 Interest rates and whether they are responsible.

2.A.3.1.4 Reports on the provider's systems for data privacy and security, particularly any failures or breeches.

2.A.3.1.5 Reports on any fraud or corruptions, including extorsion and bribery.

# 

The board's priorities should be consistent with the social strategy. The board should adopt a balanced approach to financial and social performance management, using both information to make informed strategic decisions. The first priority is to focus on client protection as the minimum "Do No Harm" policy under the board's responsibility.

A high-risk market can be identified combining different sources:

- MIMOSA Index score
- <u>EIU Microscope scores</u>: Economist Intelligence Unit provides benchmarking index that assesses the enabling environment for financial access in 55 countries the existence of adverse news.

# **Scoring guidance**

- For each detail, score 'yes', if the board is provided with regular reports that contain accurate (as checked by internal control and audit), updated, complete, and correctly analyzed data on the level of client protection to take informed decisions.
- For each detail, score 'partially', if client protection data is not fully accurate, irregular, not fully complete, not fully analyzed or not fully discussed for decision-making by the board.
- For each detail, score 'no', if the board is not provided with the status of client protection so that the board is not in a position for taking any corresponding decisions.

# Sources of information

- Board minutes, incl. the SEPM reports submitted to the Board
- Interviews with board members
- Interviews with CEO/managing director and Internal Audit manager

# **Evidence to provide**

At least once a year, the board minutes should reflect discussions on the topics listed in the details, based on updates from management and consistent and complete reports on client protection.

Give the date of the board minutes where information is found, source of information for discussion, or reference to examples cited during interviews with board members or CEO. In case of high risk, check that the Board takes into account in strategic decisions any information highlighting human rights violations (client protection issues / labor right issues). To justify compliance, elaborate on the reporting line to the board (reporting from Internal Audit to the board, without undue interference from management, and potentially through a dedicated committee), check the frequency of meetings and the content of the minutes, as well as the reports submitted to the board (which should include a section on corruption and/or fraud cases).

# Resources for indicator 2.A.3.1

- Khushhali Bank Reports Using a Social Dashboard
- Fundacion Génesis Empresarial Reports to Board on SPM Progress
- ASKI Uses a Social Dashboard for Board Reports



2.A.3.2 The board uses the following data, provided by management, to monitor the provider's social strategy (with the listed minimum frequency):

2.A.3.2.1 Outcomes data. Minimum frequency: annually.

2.A.3.2.2 The provider's most recent social audit. Minimum frequency: every three years. 2.A.3.2.3 How profits are allocated, and whether profit allocation is aligned with the provider's social strategy. Minimum frequency: annually.

# Indicator in ALINUS | SPI5 Entry | SPI5 Full Detail 2.A.3.2.1: SPI5 Full

The board's priorities should be consistent with the provider's social strategy. The board should adopt a balanced approach to financial and social performance management to make strategic decisions.

# Scoring guidance

- For each detail, score 'yes', if the board:
  - 1. is provided with regular and timely (at least 1 week prior to board meetings), updated, complete, and well-analyzed data allowing for monitoring effectively the social strategy and
  - 2. is taking the necessary efforts in studying the report(s) and data received and building its opinion during an informed discussion to take informed decisions.
- For each detail, score 'partially', if one of the above two conditions are not fully met (like the data submitted to the board is not regular, timely, updated, complete, and well- analyzed or the board does not take proper effort in monitoring the social strategy) or both conditions are not fully met.
- For each detail, score 'no', if the above two conditions are met very poorly or if the board is passive despite receiving well-analyzed data regularly and in-time.

# Detail 2.A.3.2.1

- To score 'yes' requires, in addition to the above two conditions, that the board receives client outcomes information which is analyzed based on in-depth quantitative and qualitative outcome data.
- Score 'partially' or 'no', if the board is provided with mainly or just client output data and limited or no in-depth quantitative and qualitative outcomes data.

# Detail 2.A.3.2.3

- To score 'yes' requires, in addition to the above two conditions, that the board has included how profits can be used to benefit clients or their local communities as part of its discussion of its last annual profit allocation.
- Score 'partially' or 'no', if the board has not discussed how profits can be used to benefit clients or their local communities when it decided on its last annual profit allocation.

# **Sources of information**

- Board minutes, incl. the SEPM reports submitted to the Board
- Interviews with board members
- Interviews with CEO/managing director and Internal Audit manager

# **Evidence to provide**

At least once a year, the board minutes should reflect discussions on the topics listed in the details, based on updates from management and reports. Once every three years for an external social audit or a social rating.

Field examples / Guidance for implementation

Decisions on dividend distribution, donations to the community, plans to reduce interest rates, etc. are examples of how the board can use profits to reach its social strategy.

# Resources for indicator 2.A.3.2

• Khushhali Bank Reports Using a Social Dashboard



- Fundacion Génesis Empresarial Reports to Board on SPM Progress
- ASKI Uses a Social Dashboard for Board Reports

2.A.3.3 The board uses the following data, provided by management, to monitor decent working conditions for employees (with the listed minimum frequency):

2.A.3.3.1 Employee turnover rate, by gender. Minimum frequency: annually. 2.A.3.3.2 Analysis of employee satisfaction surveys. Minimum frequency: every two years.

# Indicator in ESG Risk | ALINUS | SPI5 Entry | SPI5 Full

Employee turnover rate is an indication of employees' (dis)satisfaction. It is a potential proxy for decent work conditions. The provider should monitor turnover and understand the reasons for employee exit by analyzing employee exit surveys/interview responses. Analyzing turnover by gender can help identify conditions in the workplace that discriminate against women or create a difficult or hostile environment for them.

Monitoring employee satisfaction can also help ensure the smooth functioning of a team and sends a message that the top management values employee feedback.

# **Scoring guidance**

- For each detail, score 'yes', if the board is provided for decision-making with
  - 1. At least annual staff turnover data and analysis, consistent, broken down by at least gender, and
  - 2. With at least every 2 years statistically representative staff satisfaction reports/analysis broken down by at least gender.
- For each detail, score 'partially', if the above two conditions are not fully met.
- For each detail, score 'no', if the above two conditions are largely not met.

# Detail 2.A.3.3.1

• Score 'partially' or 'no', if the employee turnover rate has not been discussed in the last 12 months or the results were not analyzed by gender or were not shared with employees.

# Detail 2.A.3.3.1

• Score 'partially' or 'no', if an employee satisfaction survey has been done in the last 2 years or the results were not analyzed by gender or were not shared with employees.

# **Sources of information**

- Board minutes, incl. the staff turnover/ staff satisfaction reports submitted to the Board
- Staff turnover analysis, staff exit survey reports
- HR policy
- Employee satisfaction survey and report
- Employees interviews
- HR manager interview

# **Evidence to provide**

Specify the employee turnover rate, and how employee exit is monitored and analyzed. Specify when the last employee satisfaction survey was conducted, and what kind of analysis was done on results.

# Field examples / Guidance for implementation

The provider should conduct satisfaction surveys regularly, at least every two years, on at least a representative sample of employees (i.e., the survey should cover all types of



employees and broken down by gender). The results should be disaggregated by gender to understand any discrepancies in perception and satisfaction between men and women, but also potentially between managers and employees, newcomers and older staff, permanent and interim staff, staff from HQ and staff from branches, etc. Analysis by position, gender, branch, etc. may help understand reasons for drop-outs and specific actions to be taken (for remote branches and staff lacking information and motivation from HQ, or for women unable to manage their personal obligations with working hours, for example).

The results should be shared with the employees to ensure transparent communication and appropriation of the actions proposed and to give a weight to the level of satisfaction of staff.

When voluntary departures are due to better opportunities, the provider should define financial or non-financial incentives to maintain staff. Firing staff may indicate internal weaknesses or lack of respect and/or confidence between the provider and personnel. Departure upon the end of contract may indicate the provider does not offer employees stable contracts.

2.A.3.4 The board takes corrective action when it identifies risks to clients, risks to employees, or when the provider is not achieving its social goals.

Indicator in ESG Risk | ALINUS | SPI5 Entry | SPI5 Full | CP Commit | CP Full - Advanced CP

The board's oversight role means that it is responsible for taking action when social targets are not being met to keep in track with the defined social strategy.

# Scoring guidance

- Score 'yes', if concrete, major corrective action over the past two years can be shared (major means involving changes in products terms and conditions, staff incentives, organization, trainings, etc.) or no corrective action was needed as the provider has been fully achieving its social goals.
- Score 'partially', if the board took insufficient corrective action to mitigate significantly risks to clients and employees or to meeting social goals.
- Score 'no', if the board has not consistently identified risks to clients and employees for the past two years and/or has not taken corrective action for the past two years although the provider has not been achieving its social goals.

# **Sources of information**

- Board minutes, incl. the SEPM reports submitted to the Board
- Interviews with board members
- Interviews with CEO/managing director and Internal Audit manager

# **Evidence to provide**

Give the date of the board minutes where information is found, or reference to examples cited during interviews with board members, CEO and/or Internal Audit manager.

# Field examples / Guidance for implementation

Examples of corrective actions:

- Financial provider X has missed its target to have 60% of its portfolio in solidarity group lending, leading the board to request management to review the incentive system which currently incentivizes individual loans more than group loans.
- Financial provider Y fell short of its target to have 2% of clients between 18 and 25 years of age, despite a youth-specific" product, leading the board to request a market study to better understand the barriers facing this target population.



• Financial provider Z' board has taken action to discuss pricing of products as pricing levels were considered to be not consistent with the provider's policy on returns, with ROA above 7.5%, a red flag for client protection.

## Resources for indicator 2.A.3.4

• IDEPRO (Bolivia) takes corrective action and launches Pro-Cadenas

# 2.A.4 Board oversight of senior management is aligned with the provider's social goals.

Board evaluations of the CEO/managing director should be based on the financial performance and the social performance by taking the evaluation criteria directly from the social targets established in the social strategy, like meeting:

- Outreach targets per client segment or per types of products (borrowers, depositors...);
- Client retention targets;
- Client satisfaction targets;
- Employee retention targets.

Board evaluations of the CEO/managing director may also include operational targets related to the implementation of the social strategy, like implementing the past annual SEPM action plan within a given time period.

The board should oversee the CEO/managing director's compensation. If compensation is part-incentive-based, the CEO (and other executives) should be incentivized on both social and financial performance criteria (and maybe also environmental performance criteria). Compensation should be reviewed annually to ensure that the CEO and other senior executives' compensation is comparable to other providers with similar social commitments. The board should also calculate annually the difference between the average annual compensation of executives and lower paid employees (new recruits or junior staff, teller or client staff). If the ratio is higher than 25:1, the board needs to justify the reason and confirm that it is in line with the social goals and strategy.

# Resource

• Kashf Foundation sets social performance indicators as KPIs for its COO

# 2.A.4.1 The board includes social targets in the CEO/Managing Director's performance evaluation.

# Indicator in SPI5 Full

Setting social (and maybe also environmental – see dimension 7) targets as part of the CEO/Managing Director's performance evaluation process sends a strong message about the importance of achieving those criteria. The importance can be further emphasized by basing compensation on social performance criteria. Guidance for indicator 2.A.4.2 discusses how to evaluate CEO performance based on social performance criteria.

# **Scoring guidance**

- · Score 'yes', if
  - the board evaluates annually the performance of the CEO/managing director by considering the progress made on all social targets next to the financial and other targets and
  - 2. the evaluation influences the level of the annual compensation/bonus level of the CEO. This requires that the board has set clear, actionable, "SMART" social targets according to standard 1A.



- Score 'partially', if the above two conditions are not fully met. For instance, the board does not evaluate the social performance of the CEO/managing director annually or the evaluation does not capture all social targets or the evaluation of the social targets is not done consistently.
- Score 'no', if the board does not evaluate the CEO/managing director against social performance targets.

# Sources of information

- Board minutes
- CEO evaluation form (filled in)
- Interviews with board, CEO/ managing director

# **Evidence to provide**

Give examples of what the CEO/managing director is evaluated on.

## Resources for indicator 2.A.4.1

Kashf Foundation sets social performance indicators as KPIs for its COO

2.A.4.2 The board formally assesses the CEO/Managing Director on achievement of social performance targets. Minimum frequency: annually.

# Indicator in SPI5 Entry | SPI5 Full

Assessing the CEO/managing director against social performance targets (in addition to other criteria) sends a strong message regarding their importance.

# **Scoring guidance**

- Score 'yes', if every year the board evaluates the performance of the CEO by considering the progress made on all social targets next to the financial and other targets set forth in the past annual operation plan of the provider. This requires that the board has set clear, actionable, "SMART" social targets according to standard 1A.
- Score 'partially', if the board does not evaluate the progress made on all social targets next to the financial and other targets as annually, but only within the timeframe of 1 to 3 years, and/or if the Board evaluates the progress made on only some social targets annually and/or if the Board does not evaluate consistently (because they are not fully aligned with social strategy, not complete, not clear/actionable/SMART).
- Score 'no', if the board does not evaluate the CEO/managing director against social performance targets.

# **Sources of information**

- Evaluation forms (filled in)
- Board minutes
- Interviews with board members
- Interviews with CEO/managing director

# **Evidence to provide**

Provide the list of criteria used in the evaluation of the CEO/Managing Director and date of last evaluation.

# Field examples / Guidance for implementation

Examples of evaluation criteria to evaluate the CEO in relation to social criteria:

- outreach to target clients
- client retention rate
- employee retention rate
- client satisfaction



• implementation of an action plan for SEPM, within a given period corrective action taken by management in relation to market research, by changing a product or service to better fit clients' needs, etc.

# 2.A.4.3 The board oversees executive compensation.

2.A.4.3.1 If executive compensation is in part incentive-based, executives are incentivized on both social and financial performance criteria.

2.A.4.3.2 The board calculates the difference between the average annual compensation of executives and field employees and is able to justify any ratio higher than 25:1. Minimum frequency: annually.

2.A.4.3.3 The board reviews the compensation of the CEO/Managing Director and senior executives to ensure that compensation is comparable to providers with similar social commitment. Minimum frequency: annually.

The board oversees executive compensation that should be partly-based on the achievement of social performance targets to incentivize the achievement of the social goals. Apart from the CEO/managing director, 'executives' include at least the positions of the deputy CEO/managing director and the managers of Operations, Finance, Human Resources, IT & MIS, and Internal Audit.

The board must ensure that the executive compensation is on a comparable level with the 'triple bottom-line' competitors within the same sector, like the microfinance industry. This excludes benchmarking with the higher level of executive salaries in the banking sector even if the main competitors are commercial banks. Apart from ensuring that executive compensation is market-oriented, the board has to ensure that it is within an socially acceptable ratio of maximum 25:1 compared to the entry level salary of junior field staff or junior tellers.

# **Scoring guidance**

# Detail 2.A.4.3.1:

- Score is 'yes', if the board ensures that the executive compensation is in part incentive-based on the achievement of all social and financial (and other) performance targets. This requires that the board has set clear, actionable, "SMART" social targets according to standard 1A.
- Score 'partially', if the executive compensation is in part incentive-based on the achievement of just some social performance targets and/or the board has not set clear, actionable, "SMART" social targets according to standard 1A.
- Score 'no', if the executive compensation is not in part incentive-based on the achievement of social (and other) performance targets

Verify consistency with 2.A.4.1 and 2.A.4.2, if the answer there is 'no' then the answer here must be 'no' as well.

# Detail 2.A.4.3.2:

- Score 'yes', if:
  - 1. the board oversees that the executive compensation is calculated at least annually and
  - 2. the executive compensation is less than 25 times the salary of a junior field staff
- Score 'partially', if one of the above two conditions is not met. A formal justification
  must be made if the executive compensation is more than 25 times the salary of a
  junior field staff.



• Score 'no', if the executive compensation has not be calculated over the past 3 years or the executive compensation is more than 25 times the salary of a junior field staff without any formal justification.

# Detail 2.A.4.3.3:

- Score 'yes', if the board:
  - 1. reviews the compensation of the CEO/managing director and senior executives at least annually and
  - 2. ensures that the executive compensation is comparable with the peers of similar social commitment (market level within the inclusive finance sector).
- Score 'partially', if one of the above two conditions are not met, like the board reviews executive compensations every second or third year only or the executive compensations exceeds significantly the one of the peers of similar social commitment.
- Score 'no', if both of the above conditions are not met.

# **Sources of information**

- Incentives policy
- Board minutes
- Performance evaluation forms (filled in)
- Interviews with HR
- Interviews with board, CEO/managing director

# **Evidence to provide**

Give examples of criteria used for incentives and what share of the salary is based on incentives.

Specify how the executive to field officer compensation ratio calculation is done, for example "HR regularly calculates the difference between the average annual compensation of its top three management positions and it bottom three lowest paid staff and has set a limit of 20".

Specify when the last comparative compensation review was done and the source of information, as information may be complex to obtain. Possible sources for data on compensation levels for similar institutions: salary survey done by local consultants, data obtained through the national microfinance network, data obtained through an organization that evaluates HR practices such as Great Place to Work.

# Field examples / Guidance for implementation

2.A.4.3.1 Basing incentives on performance criteria sends a strong message about the importance of achieving those criteria. Incentive-based compensation including social performance criteria will help motivate management and ensure commitment to the social goals and strategy.

2.A.4.3.2 The provider should make sure that the spread between annual compensation of its top-level executives and its field employees is appropriate, and in line with the social objectives of the institution. A provider might find that the average salary of the three highest paid managers is 100 times that of the three lowest paid field officers, raising questions as to whether the salary spread reflects institutional values of fairness and equity. One social investor has set the following rule to assess its investees: we score max if the difference is maximum 20, half if the difference stands between 20 and 40, and we score "0" otherwise.

2.A.4.3.3 Reviewing the compensation to ensure that it is comparable to providers with similar social commitment comes as a reality check and verification of local alignment with social objectives. If there are large differences (e.g., high salary required to attract someone with a rare talent that is critical to the provider at the time), the board should determine if the discrepancy is justified.

To keep in line with the social strategy, the board has to oversee that the executive compensation should take into account the social performance targets to incentivize



achievements of social goals (2.A.4.3.1), must be balanced within the organization, not creating inequalities (2.A.4.3.2) and be on the same level, compared to market (2.A.4.3.3).

# 2.A.5 The board is responsible for preserving the provider's social goals during times of crisis or institutional change.

The board should safeguard the social strategy at all times, but particularly during periods of major change that make the provider vulnerable to "mission drift" (e.g., serving relatively wealthier clients over time) or in time of crisis when clients or staff may be in difficult situations.

Institutional change can be linked to:

- New investors
- New products, target clients, and/or geographic expansion
- Digital transformation which leads to management change.

Times of crisis are for example:

- Health crisis (Covid, Ebola),
- Security crisis (local, national tensions),
- Economic crisis (high inflation, sudden rise in unemployment),
- Environmental crisis (flood, drought).

It is important for the board to monitor which guidance is being provided to employees to understand, adapt and manage changes (information, training, tools, etc.).

# **New investors**

Before accepting a new investor, the board and management should consider:

- whether the investor has already made a commitment to, or is likely to commit to the social goals and strategy; and
- whether the investor brings experience and/or resources for social performance.

Mobilizing a new investor requires to balance the need for capital with the desire to bring in an investor who supports the social strategy and shares the social commitment. Some providers have declined donations and investments because they came from organizations whose interests were not aligned with their mission. Even if interests with new investors seem to align, shareholder agreements must include social performance expectations.

# New products, target clients, and/or geographic expansion

The board should protect the social goals when making decisions about new products and outreach to new client segments and geographic areas. It should consider both the commercial and social implications of such decisions and the use of client data during the decision-making process. For example, if the board is deciding whether to add or adjust a savings product, they should consider what percentage of clients are currently saving, over time. If the number is low (i.e., only a small percentage of clients are savers) this suggests that the current saving product is a "finance-only" decision meant to generate capital for the institution rather than to address the multiple needs of clients.

Additionally, if average savings balances are higher than average loan sizes, it might suggest that the current savings product does not meet the needs of the majority of target clients. Using relevant indicators, the board is well-positioned to ask critical questions about the social impact of their new product decisions. Similarly, when deciding whether to pursue new target clients and/or a new geographic area, the board must question whether the needs of the new group are already analyzed and understood, and if so, whether the provider is well-placed to serve those particular new clients and/or new geographical area. Maybe more time is required for consistent client research prior to decide on a new client segments and/or new products? Additionally, the board should think through both the commercial and social advantages of expanding client outreach, and whether the institution will achieve



both, or only one. An example of achieving both may be the expansion into more rural areas, meeting the social goal of financial inclusion and the financial goal of reducing the risk of client exit based on poaching from other urban lenders.

The digitalization of services requires a balanced approach to generate institutional and client value since it requires a large financial investment in terms of staff's time and focus. Digitalization is accompanied by a specific implementation plan in which the board must make decisions regarding which alternative, provider, or service should be chosen in order to achieve both social and financial strategic goals. Financial services digitalization creates the opportunity to advance many **social and financial objectives**, but not all at the same time! To learn more about client-centric digitalization, see <u>A Guide to Digitalization: Steps to Launch Digital Financial Services with a Client-Centric Approach</u>.

# **Responsible exits**

As equity investors play an outsized role in the financial inclusion sector, they should enter into active dialogue on what **responsible exits** should look like, and how to ensure that they do not undermine efforts to **protect clients**, both now and in the future. To learn more, download this joint paper by e-MFP and Cerise+SPTF: Rethinking responsible equity exits: A call to action for impact investors

2.A.5.1 During times of crisis, the board monitors how clients and employees are affected and takes action to protect and support them.

# Indicator in SPI5 Entry | SPI5 Full

The board should safeguard the social strategy at all times, but particularly during periods of crisis that make the provider vulnerable to "mission drift" and during which time there is an increased risk of harm to clients and employees.

## Scoring guidance

- Score 'yes', if the board has analyzed and discussed updated, complete and accurate client and employee data (satisfaction, outcomes, complaints) for monitoring consistently all social targets during the crisis within the past three years to ensure that they can be pursued as recorded in board minutes.
- Score 'partially', if the board does not have complete, updated and accurate client and employee data to analyze the effect of the crisis on the social targets and/or does not monitor consistently all key social targets during the crisis.
- Score 'no', if the board does not analyze the effect of the crisis on the social targets and strategy and/or did not receive relevant client and employee data for monitoring the crisis.
- Score 'not applicable', if no major crisis was observed during the last 2-3 years (depending when the previous external social audit/social rating was done).

# **Sources of information**

- Board minutes, incl. client and employee data submitted to the board
- Interviews with board and CEO/managing director

# **Evidence to provide**

Give examples of information requested/shared with the Board during time of crisis, and decision-making process and actions taken to help clients and/or employees face the challenges linked to the crisis. All countries are still suffering in early 2024, to varying degrees, from the aftermaths of the global pandemic and notably from the Covid-19 lock-downs which has affected the socio-economic livelihoods for many financial providers' clients negatively.

# Field examples / Guidance for implementation

Role of the FSPs in time of crisis:



- Develop mechanisms for rapid and on-going data collection in particular for specific clients groups and segments that may be more affected by the crisis.
- Segment and analyze operational and portfolio data on a regular basis to detect shifts in well-being and stress in different segments of clients that might be obscured in aggregate portfolio statistics.
- Offer flexible and customizable products that can be adjusted to match the specific needs of clients to face the crisis.
- Support clients' business adaptation by offering training, business planning support, and coaching either directly or through partnerships.
- Undertake savings campaigns and incentivize savings to assist clients in building back their resiliency.
- Take the long view: give clients as much flexibility on payments and as much debt relief as is feasible and necessary to help good clients recover.
- Invest in digitalization of services and/or additional agents and points of sale to make accessing services easier for clients in future crises.

## Resources for indicator 2.A.5.1

- Chamroeun Staff Covid-19 survey
- Chamroeun Covid-19 Impact Staff Survey Report 2021
- <u>Case Study: Fundación Espoir Bringing 'Espoir' (hope) to Ecuadorian Women Microentrepreneurs During COVID-19</u>
- Webinar: Maintaining a Healthy & Productive Workforce During the COVID-19
- <u>COVID-19 Client Interview Tool Data Insights and Recommendations for Funders, FSPs, and Regulators</u>

2.A.5.2 During periods of institutional change, the board uses client data to check whether strategic decisions are consistent with the provider's social goals and target clients.

# Indicator in SPI5 Full

The board should safeguard the social strategy at all times, but particularly during periods of major change that make the provider vulnerable to "mission drift" (e.g., serving relatively wealthier clients over time). Major changes may include legal transformation, bringing in new investors, introducing new products, target clients, and/or geographic expansion, digital transformation, etc.

# **Scoring guidance**

- Score 'yes', if the board have used updated, complete, and accurate client metrics for monitoring all social targets and board minutes/interviews can show that the board is analysing them and discussing them during the institutional change period to ensure all social goals can be pursued.
- Score 'partially', if the board does not have updated, complete, and accurate client metrices to analyze consistently the potential effects of the institutional change on the social goals and strategy.
- Score 'no', if the board does not analyze the potential effects of the institutional change on the social goals and strategy.
- Score 'N/A', if no major institutional change was observed in the last two to three years.

# **Sources of information**

- Board minutes
- Strategy/business plan
- Interviews with board members
- Interviews with CEO/managing director



# **Evidence to provide**

Specify the document where the social strategy is laid out, whether the way the institutional changes can impact the strategy is presented, and whether plans to avoid/mitigate mission drift/change in social goals are proposed.

Specify whether Board minutes reflect that indicators related to their social targets were presented and discussed during the institutional change period.

# Resources for indicator 2.A.5.2

- A Guide to Digitalization: Steps to Launch Digital Financial Services with a Client-Centric Approach
- <u>Guía para la digitalización: Pasos para el lanzamiento de servicios financieros digitales con enfoque de cliente al centro</u>

# Standard 2B. Senior management is responsible for implementing the provider's strategy for achieving its social goals.

Senior management should make all strategic and operational decisions with the goal of balancing the financial and social (and other) goals, like:

- Integrating social performance goals into strategic and operational planning; and
- Considering all decisions for their potential effects on clients and employees and monitoring these over time

This standard has 2 essential practices:

- Essential practice 2.B.1: The provider includes social goals in its operational plan and the CEO/Managing Director holds senior managers accountable for achieving social targets.
- Essential practice 2.B.2: Management makes strategic and operational decisions based on social and financial data.

# 2.B.1 The provider includes social goals in its operational plan and the CEO/Managing Director holds senior managers accountable for achieving social targets.

As described in standard 1A, the social strategy should include target clients, social goals and how to achieve them, social targets, and social indicators. Beyond this social strategy, all business plans, shareholder agreements, and new product proposals should be in line with the social goals. A practical way to achieve this alignment is to require a social performance review of all business plans/contracts/strategies/operational decisions before they are finalized. Senior management should discuss how any given plan or decision may:

- Affect clients:
- Affect employees;
- Impact the provider's ability to achieve its social targets, as well as its public reputation;
- Influence social performance related risks;
- Require the collection of additional social performance data; or
- Require adjustments to the stated social goals.

For example, if a provider were considering pursuing a more aggressive growth strategy, senior management and the board would need to consider not only the financial implications, but the effects on staff and clients. Will the strategy help achieve the provider's goal of increasing financial inclusion for unbanked people? (most likely). Will it place additional strain on busy staff? (yes, unless new staff are hired or other efficiencies introduced). Will



clients experience aggressive sales due to new, higher case load targets for staff? (likely, unless mitigating measures are taken).

# Compare performance to targets

A provider cannot truly know how it is performing against its social targets unless it measures and monitors its performance in a regular, objective, and deliberate way. Anecdotal evidence and impressions can be misleading and even grossly inaccurate. Therefore, managers should use social data to track progress on social targets on a regular basis. Such tracking will allow:

- Senior management to hold itself accountable to the social targets;
- Board members and/or investors to hold senior management accountable to the social targets, including holding the CEO/Director accountable to the social targets;
- Senior management to incentivize employees against social performance targets and reward those with good performance;
- Senior management and the board to investigate the reasons for poor results or unexpected results, and to respond, for example, by modifying products, services, and delivery channels;
- To demonstrate progress to external stakeholders, improving its credibility in the marketplace; and
- Employees to see how the provider is progressing (or not) toward its social targets, building awareness about what the provider wants to achieve.

# Hold senior managers accountable for the institution's social goals

Senior managers should be particularly accountable to the social goals as they set the tone for other employees, and their level of commitment to the social goals will determine the provider's overall ability to achieve these goals.

The <u>Example of Social Targets for Senior Managers</u> table provides a list of senior management positions, along with examples of institutional goals for which they are responsible and example targets they should meet. Each senior manager should have such a list of her/his responsibilities and social targets and regular performance reviews should examine her/his success in achieving the social targets.

2.B.1.1 The provider includes its social goals and targets in the business plan or operational plan.

# Indicator in ALINUS | SPI5 Entry | SPI5 Full

It is important to include the social goals and targets in the business or operational plan to ensure that they are integrated into strategic decisions, planning and operations.

# Scoring guidance

- Score 'yes', if all social goals and their corresponding targets are included in the business or annual operational plan. This requires that the scoring is 'yes' for 1.A.2.1 and 1.A.2.2, and at least 'partially' for the essential practices 1.A.1, 1B.1, and 1.B.2.
- Score 'partially', if only some social goals and their corresponding targets are included in the business or annual operational plan. This requires that the scoring is at least 'partially' for 1.A.2.1, 1.A.2.2, and the essential practices 1.A.1, 1B.1, and 1.B.2.
- Score 'no', if only one or none of the social goals and their corresponding targets are included in the business or annual operational plan. The score is also 'no', if the scoring is 'no' for 1.A.2.1, 1.A.2.2, and for the essential practices 1.A.1, 1B.1, and 1.B.2.

# **Sources of information**

- Strategy/Business plan
- Annual Operational plans
- Interviews with CEO/managing director

# **Evidence to provide**



Specify the sections of the business/operational plan that refer to the social goals and their targets. Give concrete examples.

2.B.1.2 he CEO/Managing Director formally assesses senior managers on their achievement of social performance targets. Minimum frequency: annually.

# Indicator in SPI5 Entry | SPI5 Full

Incentives can have a powerful impact on performance. Assessing senior management against social performance targets sends the message that they are a priority.

# Scoring guidance

- Score 'yes', if the CEO evaluates the achievement of all social targets that fall under the job descriptions of the senior managers concerned as part of their annual performance evaluation and if the achievement of the social targets determines their level of the compensation/bonus and career opportunities significantly. This requires that the Board has set clear, actionable, "SMART" social targets according to standard 1A and that the CEO can break them down to make them more specific to the responsibilities of the senior managers concerned.
- Score 'partially', if the CEO evaluates the achievement of only some social targets that fall under the job descriptions of the senior managers concerned as part of their annual performance evaluation and/or if the achievement of the social targets does not determine the level of their compensation/bonus and career opportunities significantly and/or if the evaluation is not carried out consistently (e.g. because the social targets are not "SMART").
- Score 'no', if the CEO does not consider the achievement of any social targets that
  fall under the job descriptions of the senior managers concerned as part of their
  annual performance evaluation and/or if the achievement of the social targets does
  not at all determine the level of their compensation/bonus and career opportunities.

# **Sources of information**

- HR policy
- Evaluation forms of the senior managers (filled in)
- Interviews with the CEO
- Interviews with HR
- Interviews with senior managers

# **Evidence to provide**

List the criteria used in staff performance assessments.

## Resources for indicator 2.B.1.2

Example of Social Targets for Senior Managers

# 2.B.2 Management makes strategic and operational decisions based on social and financial data.

Key field managers and staff should carry out a "social performance check" on all daily business decisions to complement the social performance review of the senior managers and the board with field-level experiences and realities. This "check" can be as simple as asking: "how does this decision affect clients?" before choosing a course of action. Discuss with managers how this check might play out in the normal course of daily business and how it might cause them to change current operations or planned activities.

# **Monitor Social Performance Risk**



Risk management systems tend to focus on financial and operational risks (like fraud), but often ignore risks that are more closely related to serve clients effectively. Internal audit and risk management/internal control should integrate social performance criteria into their regular activities. In addition, external assessments of social performance risks are highly recommended, such as social ratings, external social audits, or client protection certification. The table Monitor Social Performance Risk offers some ideas of common social performance risks.

# **Resources for 2.B.2**

- CRECER (Bolivia) addresses quality in response to lack of impact
- Microloan Foundation responds to missed outreach targets by addressing barriers
- KASHF Foundation Monitors Risk Using Client Interviews
- · CASHPOR Identifies a Social and Financial Risk
- SPM Essentials Webinar #2: Practical ways to address gender-related risks at your organization
- Yannick Milev of Chamroeun interview

# 2.B.2.1 Senior management analyzes the following data and assesses risks. Minimum frequency annually.

2.B.2.1.1 Analysis of client protection risks (over-indebtedness, unfair treatment, lack of transparency, privacy of client data, complaints, fraud, corruption and bribery)

2.B.2.1.2 Analysis of outcomes for clients and their households.

2.B.2.1.3 Analysis of decent work conditions (health and safety, compensation and benefits, working conditions)

# Indicator in ESG Risk | ALINUS | SPI5 Entry | SPI5 Full | CP Commit | CP Full Detail 2.B.2.1.2: SPI5 Full

Social performance risks are an integral part of a complete risk management framework. Indeed, many social performance criteria can serve as warning signs of crisis, institutional and operational weaknesses. Risk assessment of client protection, client outcomes, and decent work conditions may be carried out internally by a dedicated manager or department (e.g. an annual client protection compliance audit), a specific committee or across different operational areas and/or externally by a client protection assessment, a social rating, or an external social audit.

# **Scoring guidance**

# Detail 2.B.2.1.1:

- Score 'yes', if senior management analyses client protection risks systematically and regularly (client over-indebtedness at least every six months, other client protection risks at least annually) based on dedicated internal and/or external in-depth assessments of client protection risks.
- Score 'partially', if senior management analyses client protection risks, but either not systematically as it lacks in-depth assessment reports, or not regularly (client over-indebtedness just annually, other client protection risks not annually).
- Score 'no', if senior management does neither analyse client protection risks systematically nor regularly.

# Detail 2.B.2.1.2

- Score 'yes', if senior management analyses negative and positive outcomes for clients and their households systematically and regularly (at least annually) based on dedicated internal and/or external in-depth client research.
- Score 'partially', if senior management analyses negative and positive outcomes for clients and their households, but either not systematically as it lacks in-depth client research, or not regularly (just once within two to three years).
- Score 'no', if senior management does neither analyse client outcomes systematically nor regularly.



# Detail 2.B.2.1.3

- Score 'yes', if senior management analyses the decent work conditions systematically and regularly (at least annually) based on dedicated internal and/or external assessments, incl. a representative and updated employee satisfaction survey.
- Score 'partially', if senior management analyses the decent work conditions, but either not systematically as it lacks an in-depth assessment, or not regularly (just once within two to three years).
- Score 'no', if senior management does neither analyse the decent work conditions systematically nor regularly.

## Sources of information

- Management reports, reports to board
- Interviews with CEO/managing director
- Interviews with SEPM champion / committee
- Interviews with internal audit and risk management/internal control

# **Evidence to provide**

Specify how risks are assessed (frequency, by whom). Refer to management reports and/or give examples cited in interviews with senior management.

# Field examples/ guidance for implementation

# For 2.B.2.1.1

This includes:

- Rates of client product usage, by product. Minimum frequency: quarterly
- Interest rates and whether they are aligned with the provider's social goals. Minimum frequency: annually
- Mission drift and reputation risk monitor number/levels of targeted clients (women, rural, youth, vulnerable households, etc.); market studies to assess provider's image in the market
- Incidents resulting in harm monitor client complaints; analyze staff misconduct; abusive/aggressive collection practices
- Client exit or dissatisfaction conduct satisfaction surveys, analyze reasons for client exit
- Incentives that can lead to negative behavior review incentive schemes annually to check for unintentional, negative consequences (e.g., client recruitment incentives that lead employees to recruit clients who already have loans with multiple institutions)
- Lack of transparency ensure audit interviews clients to assess their knowledge of terms and conditions

# For 2.B.2.1.2

Analysis of outcomes integrates both positive and negative changes for clients and their households. Minimum frequency: annually

## For 2.B.2.1.3

Analysis includes:

- Employee turnover rate, by gender and by position. Minimum frequency: every six months.
- Analysis of employee satisfaction surveys. Minimum frequency: every two years. Analysis of decent work conditions should include analysis of gender inequalities and discrimination.
- Gender inequalities/discrimination analysis of gender breakdown of staff, remuneration discrepancies
- All analysis above must be disaggregated by gender, position and other relevant categories.

# **Resources for indicator 2.B.2.1**



- Monitor Social Performance Risk
- CRECER (Bolivia) addresses quality in response to lack of impact
- CASHPOR Identifies a Social and Financial Risk

# 2.B.2.2 Internal audit and/or risk management integrates the following criteria into regular monitoring activities:

2.B.2.2.1 Client repayment capacity, loan approval analysis, prevention of aggressive sales

2.B.2.2.2 Transparency to clients

2.B.2.2.3 Compliance with code of conduct; prevention of fraud and corruption

2.B.2.2.4 Collateral seizing and appropriate debt collection practices

2.B.2.2.5 Client data misuse and fraud

2.B.2.2.6 Complaints handling, including review of a sample of cases

It is important that client protection risks are integrated into the control and internal audit frameworks. These risks are more challenging to spot and quantify than 'ordinary' financial and operational risks. Effective risk mitigation is key for implementing the social strategy, as it is closely related to the provider's ability to serve clients effectively. As the Client Protection Policy and the Code of Conduct are to be mainstreamed across all operational aspects and client interactions, internal control needs to check regularly their full compliance by all employees. In addition, a second level control is required by Internal Audit and/or Risk Department through regular compliance audits of Client Protection Policy and the Code of Conduct. The third level control is carried out by external social audits, social ratings, and client protection assessments.

A provider may not have a stand-alone transparency policy, but transparency checks can still be integrated into existing monitoring/audit checklists. Auditors and/or internal controllers/risk managers can verify client understanding and complete product documentation during client visits, or out-going calls to clients as part of client satisfaction surveys.

# **Scoring guidance**

- Score 'yes', if the monitoring of client protection risks are integrated fully and effectively into the control and internal audit frameworks at the branch and clients' level at two institutional levels (i.e. at operational control and Internal Audit and/or Risk Department level). Full and effective integration means that both Operational Control and Internal Audit have formal check-lists or questionnaires on each of above-listed six client protection criteria and the monitoring reports or internal audits are shared with management to take decision in case of non-compliance.
- Score 'partially', if the monitoring of client protection risks are integrated only rudimentarily into the control and internal audit frameworks, like monitoring only some of the six client protection criteria, not preparing consistent reports, not including direct client interviews, and so forth.
- Score 'no', if the monitoring of client protection risks has not (yet) been integrated into the control and internal audit frameworks and monitoring of client protection risks is ad hoc and not consistently.

# **Sources of information**

- Audit/monitoring check-lists of client protection risks,
- Reports by operations / risk management and internal audit
- Minutes of board (quarterly), branch manager meetings (monthly), and operational management committee (weekly)



- Interviews with internal audit and operational control / risk department
- Client focus groups (optional)

# **Evidence to provide**

Specify which criteria are integrated into the client protection risk monitoring/audit frameworks. Verify client protection risk monitoring/audit check-lists to see if there are client visits to verify clients' understanding.

Specify how Internal Audit or Risk Department verifies the loan approval process, and any actions that have been taken to solve incorrect implementation. Does the audit team verify repayment capacity analysis? Use of credit bureau information? Checks for unauthorized refinancing, the presence of multiple borrowers or multiple co-signers within the same household, and other practices that could increase client over-indebtedness.

Verify the internal audit policy is followed. Examples: check 5% of client files annually to ensure calculations are correct and adhere to policy, each branch is audited at least twice a year and double checks 10 client files each time. Is the client data collected validated by internal

audit?

Check whether branch audits includes a minimum number of client visits by year and check whether actual visits are conducted by internal auditor to ask questions about the products taken, staff behavior, transparency, client understanding of terms and conditions, collections practices etc.? Give examples of how Internal Audit verifies policies related to fair and respectful treatment of clients. Specify when Internal Audit last verified the complaints mechanism. If the audit made observations to address, verify that corrective measures were taken.

Verify whether a compliance audit or an internal/external review of the Client Protection Policy and/or the Code of Conduct were carried out with the past two years.

# Field examples / guidance for implementation

- Internal Audit may have a dedicated questionnaire to check on client protection issues, or may integrate checks into the audit of other processes, like:
- Checking staff understanding of the Code of Conduct and the Client Protection Policy, for example, through random tests administered to different types of employees (e.g., various tenures, various geographic locations).
- Conducting business/household visits and client interviews on a representative client sample each year. Check that clients understand their rights, including the right to respectful treatment from employees, and the right to complain.
- Interviewing exiting clients to investigate reasons for leaving the institution (e.g., inappropriate products, employee behavior, difficulties meeting loan obligations).
- Verifying that employees comply with institutional policies on rescheduling/refinancing loans using client visits and loan files.
- Examining data on insurance claim processing, including promptness of claim settlement, and a sample of claims rejections.
- Examining a case of disrespect toward clients, including client and staff interviews, to determine breakdowns in policies and procedures.

# **Resources for indicator 2.B.2.2**

- Social Performance Risks to Monitor
- KASHF Foundation Monitors Risk Using Client Interviews
- CASHPOR Identifies a Social and Financial Risk

2.B.2.3 Management takes corrective action when it identifies risks to clients, risks to employees, or when the provider is not achieving its social goals.

Indicator in ALINUS | SPI5 Entry | SPI5 Full | CP Commit | CP Full



The senior management is responsible, under the supervision of the board, for taking action when social targets are not being met to keep in track with the defined social strategy.

# **Scoring guidance**

- Score 'yes', if senior management took concrete, recent, major corrective action in response of identified social performance and client protection risks.
- Score also 'yes', if no corrective action was needed as the provider is fully achieving its social goals, but senior management regularly assesses the monitoring and audit reports on social performance and client protection risks.
- Score 'partially', if senior management took only minor/insufficient corrective action in response of identified social performance and client protection risks.
- Score 'no', if senior management does not take any corrective action despite clearly identified social performance and client protection risks.

## **Sources of information**

- Management report
- Interviews with senior managers, incl. Internal Audit manager

# **Evidence to provide**

Review corrective actions taken when risks or adverse impacts to clients and employees have been identified and specify the results of the correction actions. Give examples of corrective action with the identified risks it is supposed to mitigate.

## Resources for indicator 2.B.2.3

- CRECER (Bolivia) addresses quality in response to lack of impact
- MicroLoan Foundation responds to missed outreach targets by addressing barriers



# Dimension 3. Client-centered Products and Services

Client-centered design means thinking through how financial and non-financial services help target clients to better manage their budgets and grow their income-generating activities and businesses and, as a result, to improve their livelihoods and achieve their economic goals. Designing client centric products/services and distribution channels requires in-depth understanding about the financial needs and product use of different client groups vary and how client satisfaction and exit varies by client group and the reasons behind these. Products and services should be designed to reduce barriers to financial access as well as helping clients achieve financial goals like coping with risk and emergencies, investing in opportunities, smoothing income or creating a safety net.

# This dimension has 2 standards:

- Standard 3.A The provider collects and analyzes data to understand clients' needs.
- Standard 3.B The provider's products, services, and channels benefit clients.

# **Resources for Dimension 3**

- Using Client Feedback to Inform Product Design. This webinar focuses on dimension 3 of the Universal Standards, Client-centric Products and Services, and in particular on using client feedback to inform product design. Webinar Brief and Slidedeck
- The <u>CGAP Customer Experience Toolkit</u> equips organizations to create empowering customer experiences and includes a Workbook as well.
- The Business Case for Customer Centricity

# Standard 3A. The provider collects and analyzes data to understand clients' needs.

Understanding client needs is key to ensuring that products and services are actually beneficial to clients in progressing toward their business and family goals. The standards go a step beyond "do no harm" of client protection and also focus on understanding the needs and preferences of different types of clients by conducting client satisfaction surveys, examining reasons for client exits, using that information to adjust products and services or develop new ones.

This standard has 3 essential practices:

- Essential Practice 3.A.1: The provider conducts market research and pilot testing.
- Essential Practice 3.A.2: The provider uses data to identify patterns of financial behavior by client segment.
- Essential Practice 3.A.3: Collect client feedback on their experiences using products and services.

# **Resources for Standard 3A**

- <u>Microfund for Women Uses Mixed Research Methods to Evaluate Microinsurance</u> Product
- Friendship Bridge Segments Clients to Create Personas
- SPM Essentials Webinar #1: Use what you have. Discovering client insights in your existing data.
- SPM Essentials series #2 : Practical ways to address gender-related risks at your organization Webinar
- SPM Essentials Webinar #3 Using Client Feedback to Inform Product Design



# 3.A.1 The provider conducts market research and pilot testing.

# Conduct client-centric market research

In addition to data collected to understand whether the social goals are met, market research on the client groups or segments in required to gain a deeper understanding of their needs, preferences, goals and any obstacles and transaction costs to using financial products/services and their distribution channels.

Traditionally, market research starts with a provider's products and services (current or potential) and investigates whether clients like or dislike the different features of these. However, client-centric market research starts with the client, not the product. This means first understanding the lives of the target clients, and then designing or modifying products to satisfy their needs and priorities and help them achieve their goals. This type of market research requires to investigate multiple facets of target clients' lives to understand the holistic picture of the challenges and opportunities the target clients face throughout their lifecycle (beyond purely financial aspects).

For example, in order to understand the needs and preferences of clients living in rural areas, financial information such as agricultural business types, monthly profit generated from these businesses, variations in seasonal income flows, and client demand for various financial services is required. In addition, the following questions require answers to understand their "non-financial" priorities: What are their goals for their families? What are their most significant vulnerabilities? What is their social status and how does that affect their ability and willingness to engage with service providers? For users of digital payment services, understanding is important of their comfort level with a mobile interface, the types of transactions they prefer to do digitally as opposed to face-to-face, and which user errors might affect the safety of the mobile product.

The provider can use multiple sources for client data, including client and field staff interviews, focus groups, surveys, field observations of target client behavior, participatory rapid appraisal, and data mining of the management information system (MIS) which is discussed in greater depth as part of essential practice 3A.2. The Market Research Techniques Table provides a comparison of the uses of various types of market research techniques.

Market research should include non-client members of the target client segments, and it should seek to identify whether the design of the products/services and their distribution channels unintentionally prevents certain people from accessing them

# Field examples and Resources

• Market Research Techniques Table

3.A.1.1 Before introducing new products, services, or delivery channels, the provider conducts market research that includes gathering the following data about its target clients:

3.A.1.1.1 Analysis of market share, market saturation, and potential market

3.A.1.1.2 Client profile data, including gender, age, location (urban/rural), and poverty/income level

3.A.1.1.3 Data on clients' needs, goals, and any obstacles to using financial services

# Indicator in ALINUS | SPI5 Entry | SPI5 Full

Products and services are still often standardized, based on what the sector knows how to do rather than what clients need. Providing high-quality, well-adapted services requires first understanding the financial lives and behaviors of target clients through market research, and then designing the product. Market research is the study of clients and non-clients to identify financial needs, preferences, behaviors and barriers to accessing services.



# Scoring guidance

# Detail 3.A.1.1.1:

- Score 'yes', if the provider is analyzing thoroughly the potential market for new products/services by assessing the current market share and expected competition in all locations/regions where it intends to introduce the new products/services.
- Score 'partially', if the provider is analyzing only rudimentarily the potential market for new products/services by relying on its last annual operational planning exercise without additional primary and secondary data collection, incl. the analysis of competitors.
- Score 'no', if the provider is not carrying out potential market analysis for new products/services by just relying on informal discussions with branch managers and staff.

# Detail 3.A.1.1.2:

- Score 'yes', if the provider is designing new products/services based on in-depth client segmentation research (covering clients and non-clients) which differentiates client profile data according gender, age groups, location (urban/rural), income(poverty) level, etc.
- Score 'partially', if the provider is designing new products/services based on limited and ad hoc client segmentation research (by excluding non-clients) by breaking down client profile data by gender of location only.
- Score 'no', if the provider does not base its design of new product products/services on client segmentation research.

# Detail 3.A.1.1.3:

- Score 'yes', if the provider is designing new products/services based on in-depth research (covering clients and non-clients) on client needs and preferences for financial and non-financial products, client lifecycle goals, and obstacles in using financial services.
- Score 'partially', if the provider is designing new products/services based on limited client research (by excluding non-clients) like ad hoc client surveys and/or on client needs and preferences for financial services only.
- Score 'no', if the provider does not base its design of new product products/services on client research.

# **Sources of information**

- Market and client research reports
- Product term sheets or product prototype descriptions
- Interviews with marketing/ product development
- Interviews with operations

# **Evidence to provide**

- Specify the most recent market and client research done (and refer to related reports, if available) and provide a summary of its results.
- Market research should include an analysis of context to understand market saturation and potential market.
- Data on clients' needs/obstacles can refer to limits on digital capabilities for example

# Field examples / Guidance for implementation

Analysis of the context may include:

- Market research to identify client demand (see below)
- Sector analyses done by the professional association/country network or other actors (consultancy companies, supervisory authorities, multilateral and bilateral development organizations)
- Analysis of the number of financial service providers in the areas where there are branches
- Use of the MIMOSA Index for saturation analyses by country



• Analyses on the capacity of the credit bureau

Regardless of the product or delivery channel, market research should examine:

- Analysis of market share, market situation, and potential market
- Characteristics of target clients or client segments (client profile data, including gender, age, location (urban/rural), poverty/income level, business type, formal literacy level);
- Behaviors of target clients or client segments that affect their economic situation (e.g., savings habits);
- The day-to-day and life-cycle financial needs of target clients or client segments (e.g., home improvements, school fees);
- The economic and social opportunities and constraints faced by the target clients;
- Barriers that target clients face to accessing the products/services (e.g., distance from branch offices, language barriers, lack of financial education, behavioral/psychological barriers such as only focusing on short-term needs);
- Risks and common emergencies that target clients or client segments face (e.g., lack of health insurance, vulnerability to natural disasters);
- The extent to which current products and services meet these above needs; and
- How products/services could better address the above opportunities and constraints.

# **Resources for indicator 3.A.1.1**

- Market Research Techniques
- <u>Microfund For Women Uses Mixed Research Methods to Evaluate Microinsurance</u>
  Product
- Friendship Bridge Segments Clients to Create Personas

3.A.1.2 The provider conducts pilot tests before introducing a new product or making significant changes to an existing product.

3.A.1.2.1 The provider pilot tests products among clients with different socioeconomic and demographic characteristics.

3.A.1.2.2 The provider collects feedback on pilot products from both employees and clients.

# Indicator in SPI5 Full

Pilot-tests are necessary to verify understanding by clients, adaptation of services to target clients' needs and preferences, and to avoid pre-defined expectations on how the services will be used and valued by the clients.

# **Scoring guidance**

# Detail 3.A.1.2.1:

- Score 'yes', if the provider follows a formal and well-defined pilot test process prior to introducing a new product or making significant changes to an existing product. This process should define clear targets:
  - 1. tested with a reasonable sample of clients representative of the different client segments,
  - 2. tested in at least two different branch locations (maybe a an urban and a rural one),
  - 3. identify key indicators to monitor,
  - 4. a deadline when KPIs are measured to assess the suitability of the product, etc.
- Score 'partially', if the provider lacks a formal and well-defined pilot test process (as above-outlined) or makes significant shortcuts in the pilot test process. 'Partially' is also scored, if the provider has conducted a client survey or focus group discussions to gather client feedback on a product to be launched instead of a pilot test process.



• Score 'no', if the provider is introducing a new product or making significant changes to an existing product with neither a pilot test process nor a client survey or focus group discussions to gather client feedback.

# Detail 3.A.1.2.2:

- Score 'yes', if the provider follows a formal and well-defined pilot test process prior to introducing a new product or making significant changes to an existing product. This process should comprise the collection of systematic client and staff feedback on piloted products on a representative basis.
- Score 'partially', if the provider lacks a formal and well-defined pilot test process with the collection of systematic client and staff feedback on a representative basis or makes significant shortcuts in the pilot test process. 'Partially' is also scored, if the provider has conducted a client survey or focus group discussions to gather client feedback on a product to be launched instead of a pilot test process.
- Score 'no', if the provider is introducing a new product or making significant changes to an existing product without the collection of client and staff feedback neither as part of a pilot test process nor in the form of a client survey or focus group discussions.

# **Sources of information**

- Product fact sheet or prototype descriptions
- Product pilot testing process, if described in a product development manual or elsewhere
- Interview with Marketing / Product Development
- Interview with Operations
- Pilot test Report

# **Evidence to provide**

- Take a recent example and describe the pilot test process, its duration, the sample of target clients and a summary of the results and changes made to the product post pilot phase.
- Confirm that pilot testing and feedback exist for all types of recent products (including insurance, payments, digital tools, etc...).

# **Resources for indicator 3.A.1.2**

- Responsible Digital Transformation the case of Hermandad de Honduras in English
- Responsible Digital Transformation the case of Hermandad de Honduras in Spanish

# 3.A.2 The provider uses data to identify patterns of financial behavior by client segment.

# **Analyze product usage**

Product **uptake** refers to clients buying the provider's products and services, signing up for a service (e.g., opting into SMS savings reminders), or entering into contract (e.g., opening a savings account). Product usage is different—it refers to actual transactions or interactions between the client and the products/services. The distinction is important, because many providers measure product success by uptake alone, measuring for example, the number of clients who purchase optional insurance or the number of savings accounts opened. Though uptake is an important measure of product suitability, product usage is a better indicator of how valuable products are to clients.

Monitor whether and how clients are using the products and services that they have purchased or signed up for—especially savings, insurance, and additional services designed to assist them in managing their finances. Transactional data on product usage can give important insights into financial behavior and uncover unmet needs or opportunities and barriers. Low usage should prompt to investigate the reasons that clients are not using the products over time. Transactional data should be analyzed by demographic and



socioeconomic segment as it is unlikely that all client segments are using products in the same way.

# Segment client data

Client segmentation can help divide a heterogeneous market into several smaller, more homogeneous markets based on one or more meaningful characteristics. Providers should segment client data for all products, not just credit. Segmentation acknowledges that even among the "low income" population segment, peoples' wants, needs, and behaviors are nuanced. The Segmentation Variables Table is a menu of possible segmentation variables to use with existing and potential clients.

## **Resources for 3.A.2**

- Segmentation Variables Table
- SPM Essentials Webinar #1: Use what you have. Discovering client insights in your existing data.
- SPM Essentials Webinar #2 : Practical ways to address gender-related risks at your organization Webinar

3.A.2.1 The provider analyzes transactional data (PAR, average loan size, loan repayments, savings deposits and withdrawals) by demographic and socioeconomic segments of its clients.

# Indicator in SPI5 Entry | SPI5 Full

Segmenting and analyzing transactional data (uptake, amounts, repayment issues, etc.) by client characteristics give insight into the specific needs and behaviors of different client types and allows for more client-centric products or specific support.

# Scoring guidance

- Score 'yes' if the provider is analyzing several transactional data across all different products and by client segments with demographic and socioeconomic characteristics like gender, age groups, location, income/poverty level, formal literacy level, sector, etc.
- Score 'partially' if the provider is analyzing transactional data for one product type only or with only one basic client segmentation like gender or location.
- Score 'no' if the provider is not analyzing transactional data by client segments of different demographic or socioeconomic characteristics.

# **Sources of information**

- Interviews with marketing/ product development
- Interviews with operations
- Any relevant analytical report used for product development
- Transaction reports: Reports broken down by client segments on PAR, average loan size, loan repayments, deposits and withdrawal, claims ratios, etc.

# **Evidence to provide**

Specify the characteristics used to segment the transactional data (age, education, gender, employment status, etc.).

# Field examples / Guidance for implementation

Transactional data is generated from the clients transacting like loans requested, approved, loan amounts, repayments, savings account openings, savings account withdrawals/deposits, savings balances, etc.

It is useful to integrate the data collected to prepare the transaction: all type of information from clients, captured in MIS, that allows for analysis of repayment and allows for the transaction to take place. Transactional data are collected on a regular basis, based on



tracking of any transaction, and sometimes directly from clients. Data on capacity to repay for example, tend to be reliable because the provider uses them to analyze clients' repayment capacity. Data collected during a loan application process can also be quite detailed in terms of sources and amount of income for the client and its household.

## **Resources for indicator 3.A.2.1**

• Insights from Transactional Data

3.A.2.2 The provider analyzes product use (types and frequency) by demographic and socioeconomic segments of its clients.

# Indicator in SPI5 Entry | SPI5 Full | CP Full

Understanding which types of clients (men, women, urban, rural, by sector, by age groups, etc.) use different products provides insight into clients' needs and preferences. Beyond product access, it is important to understand how clients actually used it.

# Scoring guidance

- Score 'yes' if the provider:
  - 1. analyses the usage of all its products and
  - 2. doing this by main client segmentation, like gender, location, age groups, formal literacy level, income/poverty level, and sector.
- Score 'partially' if the provider meets only partially the above two conditions, like analyzing usage of loan products only or by very rudimentary client segmentation.
- Score 'no' if the provider is analyzing the usage of loan products occasionally, but without any client segmentation.

# **Sources of information**

- Interviews with marketing/ product development
- Interviews with operations
- Any relevant analytical report used for product development or in marketing

# **Evidence to provide**

Refer to reports that analyze product usage by client characteristic and how these reports have been used to understand clients' needs and preferences as well as actual use of products.

# Field examples / Guidance for implementation

- Example:
  - Providers are often communicating on the percentage of women clients, but direct interviews with these women borrowers, for example, may show that the loans are actually used by their husband, father, brother, or any other member of the family. In this case, access and usage differ and the needs of the women clients may not be served.
  - Segmenting savings data (e.g., deposit amount and frequency) by several relevant client characteristics (e.g., age groups, employment status, and gender) could provide valuable information on how savings habits vary among client segments. Combined with interviews with each of those segments, findings maybe that young people prefer to save for specific goals (e.g., education, car purchase) and would respond well to goal-oriented savings products, salaried employees want an easier way to deposit their paychecks, men benefit from savings reminder SMS messages, and women business owners need to be able to check their account balances from their mobile phones.



# 3.A.3 Collect client feedback on their experiences using products and services.

The provider collects client feedback on their experiences using the products and services and delivery channels. The purpose of collecting feedback is to investigate whether clients use and value the financial products and services as expected and whether they face challenges accessing or using them.

# **Understanding client satisfaction**

Collecting client satisfaction data is one specific type of market research. Providers should use one or more methods for collecting satisfaction data, such as a formal client satisfaction survey, client focus group discussions, or meetings between clients and employees to discuss client satisfaction (with the results shared with managers). It can be collected on an ongoing basis or at least every other year. Selecting a representative client sample is important to reduce bias. Client satisfaction is different from client complaints. Both types of data are important. They can be complementary—for example, if mining complaint data to better understand an area of low client satisfaction.

Client satisfaction data investigate the provider's ability to meet client needs, such as: reducing risks and coping with common emergencies, investing in economic opportunities, and addressing anticipated household needs. Client feedback should address the following:

- Who is the actual user of the product, and what is the end use of services (e.g., business working capital, consumption smoothing, lump sums for asset building and life events);
- Overall satisfaction with the client experience and value of the products;
- Satisfaction with the convenience, safety, and reliability of distribution channels to access the services;
- Satisfaction with the timeliness, ease of procedures, conditions, and guarantees to obtain the services;

Client satisfaction surveys also allow to determine whether products are used as expected. If there is a gap between how products are designed to be used, and how they are actually used, then there is at risk of client exit, repayment problems, and/or not meeting the social goals.

# Track client retention/exit

Client dormancy, cancellation, and exit are also good indicators of product appropriateness. Track client retention on a regular basis (at least annually) and by different segments (at least: client characteristics, products, branches/areas). Choose a retention formula, and use it consistently over time. Information to calculate client retention rates are usually available in the MIS if the MIS has a unique client identification system that allows to distinguish between exit clients and clients who are simply resting between loans (and who eventually re-join), as well as clients who have graduated to other institutions that offer larger loans. These important distinctions can affect retention rates significantly.

It is important to calculate client retention rates regularly with reporting to the board and senior management. A high exit rate across branches and certain client segments can be evidence of a product design failure. Segmenting the data by branch, and even by loan officer, helps management focus their attention more precisely on problem areas. In addition to monitoring the rate for potential client and portfolio problems, the board and senior management should determine a level of client retention that they consider "unacceptable": a level that prompts further action (e.g., interviews with clients to inquire about the problem; placing particular branches/managers on probation; offering emergency loans after a natural disaster).

# **Understanding client exit and dormancy**



Client survey questions should provide management with information to understand the reasons behind client exit and take corrective action. Sample client exit survey questions and examples of how exit data can be used to make operational and product adjustments are available. Some providers choose to conduct exit surveys on a regular basis. Others have found that exit survey responses tend to be similar over time, so they conduct exit surveys on an annual basis and when they wish to investigate specific problem areas (e.g., low client attendance at group meetings). Finally, look for ways to augment survey data with other client information including portfolio and demographic information from your institution's MIS and additional market research gathered from focus groups, client interviews, and other methods. Exit data alone may not be sufficient to make conclusive decisions, but combining exit survey findings with other information provides a more complete picture of the client experience.

# Field examples and guidance

- Example Exit Survey Questions
- Using Exit Data to Inform Product Design and Improve Operations
- <u>Ujjivan Collects Satisfaction Data Face-To-Face</u>
- <u>Deconstructing Drop-Out Uncovering the reasons behind attrition among village-banking microfinance clients</u>
- Al Majmoua Customer Satisfaction Survey
- Al Majmoua Exit Survey

3.A.3.1 The provider conducts client satisfaction surveys. Minimum frequency: every other year.

# Indicator in ALINUS | SPI5 Entry | SPI5 Full | CP Commit | CP Full - Progress CP

Regular client feedback is essential for making sure products meet client needs. Complaints reports are not sufficient. Satisfaction surveys or other systematic ways of collecting feedback provide insight into how products are actually used, perceived and appreciated by clients. These insights serve to design appropriate products. Examples of other systematic means of gathering feedback include client focus group discussions, or meetings between clients and employees to discuss client satisfaction.

If the survey focuses on specific products, the sample may be focused only on the users of these products. For general satisfaction surveys, a representative sample should be used.

# Scoring guidance

- Score 'yes' if the provider:
  - 1. has conducted a general client satisfaction survey in the past 24 months
  - 2. based on a representative sample of clients.
- Score 'partially' if one of the above two conditions are not met. For instance, the provider has conducted a client satisfaction survey in the past 24 months, but it was not based on a representative client sample.
- Score 'no' if both above conditions are not met.

## **Sources of information**

- Client satisfaction survey methodology, questionnaires, and reports on the findings
- Interviews with marketing/ product development
- Interviews with operations
- Interviews with clients and field staff

# **Evidence to provide**

Specify the date of the most recent client satisfaction survey. If relevant, describe other forms of client feedback and its regularity. Specify the sample size of the most recent satisfaction survey. Provide a summary of the results.

# Field examples / Guidance for implementation



In case of highrisk areas (risks of over-indebtedness, higher levels of client complaints, etc.), client surveys may need to be conducted annually.

# **Resources for indicator 3.A.3.1**

- <u>Ujjivan Collects Client Satisfaction Data Face-to-Face</u>
- <u>Definition of a representative sample</u>
- Selecting a Sample Size
- <u>CGAP's Customer Experience Workbook</u> offers a sample customer satisfaction survey that guides the FSP through important factors to consider when conducting client satisfaction surveys, and it provides example questions about customers' experiences at service locations.
- Al Majmoua uses <u>client satisfaction</u> and <u>client exit</u> surveys to understand the client experience and make adjustments to products and services. This case study examines the technical aspects of the surveys, including sampling, training staff on survey use, and creating the questionnaires.
- ASKI Philippines gathers client feedback on product features, non-financial services that complement microfinance, customer service, and how ASKI compares with key competitors.
- Encuesta de satisfacción de la socias de Pro Mujer Argentina
- Encuesta de satisfacción de clientes : Movimiento Manuela Ramos CrediMujer

3.A.3.2 The provider conducts interviews with dormant and/or exiting clients to look for evidence of product design failures.

# Indicator in ALINUS | SPI Entry | SPI5 Full | CP Full

Client drop-outs/dormancy represent lost investment for a provider and thus come at a cost. A high incidence of exits or inactive clients can indicate dissatisfaction, although it is natural for a certain percentage of clients to leave a provider when they no longer need services, when they move, or obtain access to a formal institution offering different services. Providers need to have an approximate idea of how many clients are leaving (or inactive) and why: are they dissatisfied or has financial access worsened their socio-economic situation? Or is it simply that they do not have an immediate financial service need, but may eventually come back?

# **Scoring guidance**

- Score 'yes' if:
  - 1. the provider is conducting client drop-out or exit surveys and calculating client retention rates regularly as an established practice to identify product design failures and
  - 2. has used the results for corrective action to improve its current products/services and their distribution channels and to design new products/services more client-centric.
- Score 'partially' if the provider is conducting client drop-out or exit surveys and calculating client retention rates regularly to identify product design failures, but has not used the results to improve its products/services and their distribution channels.
- Score 'no' if the provider is not conducting client drop-out or exit surveys to identify product design failures.

# **Sources of information**

- Client drop-out survey methodology, questionnaires, and reports on the findings
- Client complaint reports
- Client satisfaction and / or exit survey methodology, questionnaires, and reports on the findings
- Interviews with marketing/ product development
- Interviews with operations
- Reports on interviews with exiting or dormant clients



# **Evidence to provide**

- Reports on client exit interviews: Specify how dormancy/drop-outs data is collected, and with what frequency it is analyzed.
- Provide an example of how this information has been used to inform product design, operations and/or customer service.

## Resources for indicator 3.A.3.2

- The Smart Campaign tool <u>Collecting and Using Client Exit Data</u> provides detailed guidance on creating and using an exit survey instrument.
- The SPTF's <u>Learning from Exit Clients discusses how to collect and use exiting client</u> data.

3.A.3.3 The provider investigates whether stresses at the household level make it more difficult for clients to use its products and services.

# Indicator in SPI5 Full

Sometimes, there are factors at the household level that limit clients' or potential clients' ability to use products and services. This is particularly true of women who may face opposition from their spouse to set up their own bank account or borrow. Women may also face time constraints from balancing their caregiving and income earning roles that limit their participation in certain products.

Financial stress can also place constraints on women's time and mobility. The COVID-19 pandemic placed stress on households in several ways from closing off sources of income to limiting mobility to health crises. Providers should investigate these possible constraints and stresses in their client surveys and include this lens in their analysis.

# Scoring guidance

- Score 'yes' if the provider:
  - 1. includes questions in client interviews and surveys about factors in the household context that may affect product usage and
  - 2. use this information to review its products/services and their distribution channels.
- Score 'partially' if the provider includes questions in client interviews and surveys about factors in the household context that may affect product usage, but does not use this information to review its products/services and their distribution channels.
- Score 'no' if the provider includes questions in client interviews and surveys about factors in the household context that may affect product usage.

# **Sources of information**

- Interview with marketing / product development
- Interview with operations
- Interview with field staff
- Client interviews and survey methodology, questionnaires and reports on the findings

# **Evidence to provide**

Specify the type of study conducted, the main findings regarding customer stress, and the measures envisaged.

# **Resources for indicator 3.A.3.3**

- <u>COVID-19 Client Interview Tool Data Insights and Recommendations for Funders, FSPs, and Regulators</u>
- Caso de toma de decisiones impulsada por los datos del COVID-19 en Perú COOPAC MF Prisma



- RICHES Toolkit, Phase 1: Social Performance Management Guide
- RICHES Toolkit, Phase 1: Risk Assessments Evaluating Your Organization's Risks of Harmful Work for Children and Adults
- SPM Essentials Webinar #8: Barriers, Bias and Banking Webinar

# Standard 3B. The provider's products, services, and channels benefit clients.

Collecting client feedback and data on client outcomes should serve the purpose of offering suitable and client-centric products and services through appropriate channels that create client benefits. Standard 3B focuses on using client data (market research, client transactional and usage data, client satisfaction, complaints and exit surveys, and outcomes) to make decisions regarding the design and improvement of products and services to benefit clients.

This standard has 5 essential practices:

- Essential Practice 3.B.1: The provider uses insights from client data to design products, services, and delivery channels.
- Essential Practice 3.B.2 The provider removes barriers that prevent access to financial products and services.
- Essential Practice 3.B.3: The provider's products, services, and channels protect clients from harm.
- Essential Practice 3.B.4: The provider's products and services help clients reduce their vulnerability to shock and smooth consumption.
- Essential Practice 3.B.5: The provider's products and services help clients achieve their goals.

## **Resources for Standard 3B**

- SPM Essentials#3: Using Client Feedback to Inform Product Design
- Understanding and Measuring Women's Economic Empowerment

# 3.B.1 The provider uses insights from client data to design products, services, and delivery channels.

As discussed in the guidance for Standard 3A, providers should base product/service/distribution channel decisions on market and client research. The example below demonstrates a distribution channel decision that was based on data collected through client surveys and MIS analysis.

# Delivery Channel Choice based on Client Needs: An Example Segmented client data show:

- ginented cheft data show.
- Clients living in the east? live within 2 km of their local branch office, and clients in the west? live within 10 km.
- Clients in the west spend three times more on transportation to branches than clients in the east.
- Over 85% of clients living in both the east and west own mobile phones.
- Clients in both regions prefer the convenience of mobile banking.

# Distribution channel decision based on client needs:

The provider decides to pilot mobile banking, as a majority of its clients has expressed demand for it. It begins with five branches located in the west, as these clients live further from their local branch offices and spend more money on transportation to the branches. Koperasi Mitra Dhuafa (KOMIDA) in Indonesia offers us another example of how an organization can turn client survey data into actionable insights that inform product



innovation. Many other factors are key, like technological opportunities and business models (incl. potential partnerships with Mobile Network Operators - MNOs), relative size of investment for the FSP, regulation, level of digital literacy of clients, etc.

To complement or deepen their understanding of client needs and behaviors, some providers use the Human Centered Design (HCD) process to turn client insights into suitable and beneficial products, services and distribution channels. In addition to offering a suite of products and services designed to fit clients' financial lives, it is essential that the employees understand product suitability by being trained in how to match clients with the right products/services. A provider can have perfectly designed products, but in order for clients to benefit from them, staff must be able to assist clients in choosing the appropriate products and options.

# Field Examples/Implementation Guidance:

- Komida Uses Data-Driven Product Design
- <u>Human-Centered Design</u>
- <u>Human Centered Design Toolkit Product design & development methodology to reflect on new products</u>
- <u>Design Toolkit--Design for Mobile Money Smartphone App for Financial Inclusion in</u> Pakistan
- Estudio de Caso Mujeres Unidas Adaptación de productos y servicios por zonas

3.B.1.1 The provider designs new products, services (financial and non-financial), and delivery channels using insights from market and pilot studies, client feedback, and client outcomes data.

# Indicator in SPI5 Entry | SPI5 Full | CP Full - Advanced CP

Clients are the best source of information - gathered through market research, satisfaction surveys, client focus group discussions, complaints and any other client feedback system - to design client-centric products/services and their distribution channels.

# **Scoring guidance**

- Score 'yes' if the provider designs new products, services and distribution channels based systematically on representative client feedback gathered through different client feedback systems, like market and pilot studies, client satisfaction, client outcomes, complaints, etc.
- Score 'partially' if the provider designs new products, services and distribution channels which is not based systematically on representative client feedback. It may use pre-product-launch information (market research, pilot studies) or post-product-launch (client satisfaction surveys, outcomes data) or informal client feedback only.
- Score 'no' if the provider designs new products, services and their distribution channels without guidance from representative client feedback.

# **Sources of information**

- Product term sheets
- Interviews with marketing/ product development
- Interviews with operations
- Interview with customer service
- Product development policy/manual (if the organization has one)
- Product suitability policy (if the organization has one)

# **Evidence to provide**

• Show how the management uses results of client feedback to improve products/services and their distribution channels.



- Show how measures are discussed, implemented, and monitored, and records of these actions exist. The provider should evaluate the clients' ability to interact effectively with the technologies it uses to provide services and information.
- Provide one or more specific examples of how client and market data has been used to inform product or service design.

# **Resources for indicator 3.B.1.1**

• Komida Uses Data-Driven Product Design

3.B.1.2 The provider modifies its existing products and services in response to clients' needs, feedback, and outcomes.

# Indicator in SPI5 Entry | SPI5 Full | CP Full

As for new product design, clients are your best source of information to understand any failures or unsuitable features in your product.

# **Scoring guidance**

- Score 'yes' if the provider:
  - 1. is modifying existing products/services and their distribution channels based systematically on representative client feedback gathered through different client feedback systems, like market and pilot studies, client satisfaction, client outcomes, complaints, etc. and
  - 2. at least one concrete and documented example exists.
- Score 'partially' if the provider is modifying existing products, services and their distribution channels which is not based systematically on representative client feedback. It may use not-representative and informal client feedback only.
- Score 'no' if the provider is modifying existing products, services and their distribution channels without guidance from representative client feedback.

## **Sources of information**

- Product fact sheets
- Interviews with marketing/ product development
- Interviews with operations
- Interview with customer service

# **Evidence to provide**

• Provide one or more specific examples of how client feedback has been used to modify a product or a service or its corresponding distribution channel.

## **Resources for indicator 3.B.1.2**

- <u>VisionFund Uganda Reduces the Barriers to Financial Inclusion Through Product Term Changes</u>
- Association Base Fandima Develops a Flexible Group Lending Methodology

3.B.1.3 The provider dedicates resources (funds and employee time) for ongoing development and improvement of products, services, and delivery channels.

# Indicator in SPI5 Full

The implementation of active client-focused product development and improvement requires involvement of staff and resources. This is a strategic decision that should be made in the planning and budgeting process and reflected by a dedicated unit (e.g. product development, market & client research) in the organizational chart.



# **Scoring guidance**

- Score 'yes' if the provider has institutionalized market and client research for the design and improvement of products/services and their distribution channels in terms of dedicated:
  - 1. staff time (as reflected in job descriptions) and
  - 2. an annual budget line for market research, client satisfaction surveys and other client feedback mechanisms.
- Score 'partially' if dedicated staff is charged with market and client research for the design and improvement of products/services and their distribution channels, but there is no dedicated budget line for market research, client satisfaction surveys and other client feedback mechanisms. Score also 'partially', if dedicated staff financial resources are only available occasionally for market and client research and not on an ongoing basis.
- Score 'no' if the provider has not institutionalized market and client research for the design and improvement of products/services and their distribution channels in terms of dedicated staff time and a budget line.

# **Sources of information**

- Budget or financial plan (detailed)
- Interview with CEO / financial director
- Interview with marketing / product development
- Organizational chart/ job descriptions

# **Evidence to provide**

Specify what is currently implemented (in terms of process and organization) and whether there is a specific budget allocated.

# 3.B.2 The provider removes barriers that prevent access to financial products and services.

# **Product Suitability and Features**

Product suitability is one of the most important ways to protect clients' interests and assist them to make economic progress. Unsuitable products and delivery channels create barriers that prevent access.

Barriers to access are factors that prevent target clients from using products and services. In addition to understanding how current clients and former clients use products and services, the provider should identify why non-clients from your target group do not use products and services.

Examples of such barriers include product features that do not match client income flows, distribution channels that are not convenient or affordable for clients, product terms that are too complicated for target clients to understand, and collateral or fee requirements that are set too high. Barriers can also include clients' own behaviors, such as an over-focus on short-term needs, leading to reluctance to save or purchase insurance.

In addition to the products features, products/services should consider the financial capability of target clients, as this has significant implications for product design. Financial capability refers to a client's capacity to act in his/her own financial best interest and to select and access financial services that suit his/her needs. Financial capability is based on a client's literacy, attitudes, skills and consumer behavior. It is important to understand the target clients' financial capability and how it affects their use of financial services.

The following are examples of how a client's financial capability influences product uptake and access:



- For group-based financial products, poorer people are often excluded by group members who believe them to be less reliable and trustworthy, or poorer people may self-exclude based on negative self-perception.
- Many clients do not want to use distribution channels that allow family members to see or access their savings.
- Some clients are more likely to save if they have set a savings goal, even if it is non-binding.
- A client might refuse insurance because a premium expenditure is a certain and nearterm expense, while the claim benefit is uncertain and distant.

# Field Examples/Implementation Guidance

- <u>VisionFund Uganda Reduces the Barriers to Financial Inclusion Through Product Term</u>
  <u>Changes</u>
- Association Base Fandima Develops a Flexible Group Lending Methodology
- Génesis Locates Point of Sale Devices in Client Businesses

3.B.2.1 The provider offers loan sizes and loan terms that are suited to the client's economic profile, cash flow, and business type.

# Indicator in ALINUS | SPI5 Entry | SPI5 Full

To address the challenges of financial inclusion, products should minimize barriers to entry by allowing for small amounts, loan collateral guarantees adapted to the assets of economically excluded populations, repayment schedules aligned with the target clients' cash-flow (combined for the household and the business activities), and accessible distribution channels (e.g., credit/debit cards, mobile banking, points of service, agents), soft guarantees for MSME, etc.

# **Scoring guidance**

- Score 'yes' If a wide range of different loan terms (like size, tenor, repayment schedule, repayment modes, grace period, type and scope of collateral requirements, pre-payment conditions, etc.) for each loan product leads to loans tailor-made to the specific needs of each borrower and her/his household. This requires qualified credit staff in carrying out proper cash-flow analyses so as to advise each loan applicant on her/his most optimal loan terms.
- Score 'partially' if loans fit only partially the specific needs of each borrower and her/his household because of limited choices of loan terms available and/or credit staff have limited capacity in cash-flow analyses.
- Score 'no' if the provider offers standardized loan products with no or little different loan terms to adjust to the specific needs of each borrower and her/his household or if credit staff do not carry out proper cash-flow analyses.
- Verify consistency with 3B32 on collateral requirements and 3B31 on repayment schedule.

# **Sources of information**

- Strategy/business plan
- Product policy and operational manuals
- Product fact sheets and descriptions
- Interviews with operations manager
- Interviews with marketing/ product development
- Interview with CEO
- Client interviews, incl. focus groups (optional)

# **Evidence to provide**

Specify how loan products are designed to promote financial inclusion. For example, are loan sizes small enough to be accessible to low-income clients if irregular cash flow? Are guarantee requirements for MSMEs soft enough to include informal MSMEs? Do repayment



schedules make sense given the cash flows of rice farmers? Are there efforts to adapt distribution channels to meet specificities of the target client segments?

# Field examples / Guidance for implementation

The following product/service features should match the needs of target clients:

- Size: Maximum and minimum loan sizes and savings requirements should match target clients' income, business type, savings habits, etc.
- Loan terms, repayment schedules and savings withdrawal conditions: Loan terms and repayment schedules should match the cash flows of target clients, and savings withdrawal conditions should be designed to provide target clients with maximum access to their savings when they need it. Association Base Fandima in Burkina Faso provides an example of how it completely redesigned the terms of its group lending product to reach its target clients.
- Price: Prices should be affordable to clients. Guidance for standard 6B discusses setting prices that are affordable to clients.
- Guarantee/collateral requirements: Collateral requirements should match target clients' access to physical collateral and/or guarantors. VisionFund Uganda provides a useful example of revision to product terms and collateral.
- Product use requirements: Requirements for product use should be consistent with target clients' needs and livelihood activities.

To ensure financial inclusion, some questions can be checked with clients:

- Did your last loan meet the needs for your last business activity? If not, why not?
- What about the loan duration and size of the loan? Did it satisfy your needs? Why or why not?
- Are you able to save on a regular basis? If not, what is limiting your options given the characteristics of our savings products?

# **Resources for indicator 3.B.2.1**

- <u>VisionFund Uganda Redecus the Barriers to Financial Inclusion Through Product Term</u>
   <u>Changes</u>
- Association Base Fandima Develops a Flexible Group Lending Methodology

3.B.2.2 The provider offers delivery channels that reduce barriers to access for clients.

3.B.2.2.1 The provider offers clients multiple delivery channels.

3.B.2.2.2 The provider uses technologies that are appropriate to the digital literacy of the target segments.

# Indicator in SPI5 Entry | SPI5 Full

Barriers to access can be cultural, religious, and/or socio-economic, such as: language, distance from the provider's service points, client transaction costs to visit the provider's next service point, movement radius of women due to religious, caretaking, and security reasons, gender composition of the provider's field staff, literacy requirements, technology skills or device requirements, etc. Proposing multiple distribution channels and ensuring adaptation to limited digital literacy can help in reaching excluded populations.

Important is to minimize client transaction costs in applying for, and using products and services in terms of transportation costs to and from the next service point, the number of visits required, the convenience of the timing and average time spent for these visits, and the total time spent to apply for a given product/service and to transact. This is best fulfilled, if the next service point is within 2 km of the clients' residence with minimum visits required as most transactions and information exchanges are digitalized.

# **Scoring guidance**

Detail 3.B.2.2.1:



- Score 'yes' if the provider is offering several distribution channels for all main products that are adapted to the different client segments by requiring low client transaction costs.
- Score 'partially' if the provider is offering only few distribution channels that are not well adapted to the different client segments with little consideration given to client transaction costs. For instance, digital loan repayments are offered via one partner bank, but most clients do not have an account with this partner bank and branches of this bank are far from the clients.
- Score 'no' if the provider is not offering borrowers to repay their loans and/or make deposits via at least one digital channel and/or does not have service points within 2 km of the clients' residences.

### Detail 3.B.2.2.2:

- Score 'yes' if the provider is regularly monitoring and ensuring that all its target clients (incl. clients with low literacy levels and of higher age brackets) are using effectively its digital distribution channels by offering them hands-on staff counseling and digital literacy trainings, as required.
- Score 'partially' if the provider is monitoring only occasionally whether all its target clients are using effectively its digital distribution channels and/or does not provide effective client training in digital literacy.
- Score 'no' if the provider does not monitor whether all its target clients are using effectively its digital distribution channels and/or does not offer any client training in digital literacy.

#### **Sources of information**

- · Observations in at least two branches, incl. a rural branch or service point
- Interview with operations
- Interview with customer service / marketing
- Client interviews

## **Evidence to provide**

Describe the distribution channels and how they are adapted to the target clients. Calculation of the client transaction costs for applying and transacting for the main products/services.

## Field examples / Guidance for implementation

Distribution channels should be affordable, convenient, and reliable for all target client segments (e.g., mobile banking, smart cards/prepaid cards, points of sale, ATMs, or agents for remote areas if necessary). They should be adapted to overcome cultural, religious, and/or socio-economic barriers such as language, literacy levels, gender roles, etc. Fundación Genesis Empresarial provides an example of delivery channel innovation and adaptation to reduce barriers for its clients.

3.B.2.3 If the provider offers savings, it sets minimum requirements and withdrawal conditions that are compatible with the cash flows of the target segments.

## Indicator in SPI5 Full Option "Epargne"

Clients may find it difficult to access saving products that have high or strict requirements in terms of initial deposit, maintaining a minimum balance, account management fees, withdrawal fees, or other conditions limiting withdrawals.

### Scoring guidance

• Score 'NA (not applicable)' if the provider does not offer savings, current or deposit accounts regardless whether or not the provider has regulatory approval to offer such accounts.



- Score 'yes' if there are no limiting conditions on minimum balance, minimum transaction size, various fees, withdrawal conditions and so forth. This would apply in the case of:
  - 1. a minimum account balance of 1 USD equivalent,
  - 2. no minimum transaction size,
  - 3. no fees for transactions, account balance queries, and payment receipts,
  - 4. no withdrawal restrictions (except higher deposit interest rates forgone for term deposits), and
  - 5. a maximum account opening and closure fee of 1 USD equivalent.
- Score 'partially' if there are some limiting conditions on minimum balance, minimum transaction size, various fees, withdrawal conditions and so forth. For instance, there are minimum account balances of 2 or more USD equivalent or minimum transaction sizes or any fees for transactions, account balance queries, and payment receipts or withdrawals restricted to one per month.
- Score 'no' if there are strongly limiting conditions on minimum balance, minimum transaction size, various fees, withdrawal conditions and so forth.

### **Sources of information**

• Deposit fact sheets, saving product description / brochure / marketing material

### **Evidence to provide**

Refer to the product factsheets and product brochures setting the product terms and conditions and describe them briefly. Analyze whether and how they pose a barrier for the target clients.

# 3.B.3 The provider's products, services, and channels protect clients from harm.

Providers should take care to ensure that their products, services and distribution channels protect clients from harm. Some of the key areas to review to ensure they are aligned with best practices for client protection include:

- Repayment schedules
- Collateral and guarantor requirements
- Currency risk
- Social risks
- Voluntary insurance
- Monitoring of agent networks and digital channels

## Repayment schedules

Repayment schedules should match the cash flows of target clients and their type of business. If repayment schedules are not aligned with the clients' business cash flow and returns, the clients may be unable to pay on time, and suffer harm as a result of penalties, negative credit bureau reporting, and they may even fall into over-indebtedness. This does not only concern agricultural loans. Flexible repayment schedules are required for all clients to account for any kind of seasonality of income that may happen in any business or household.

## **Guarantee/collateral requirements:**

A policy based on local norms should describe acceptable and unacceptable pledges of collateral and provide clear guidelines for how collateral is registered and valued. Such policy should not accept collateral items that would create severe hardship or affect the client's earning ability or deprive the clients from essential needs. The collateral value should be based on a verifiable market price/resale value, verified by a manager or credit committee. The collateral value should not be excessive as regards to the loan amount. If clients have no asset to offer as collateral, alternative ways to guarantee their loans are required like guarantor, pledge on vehicle, etc.



### **Currency Risk**

Managing foreign exchange ("FX") rate risk is a complex task, but it is important to protect clients from FX risk to the extent possible. Currency mismatch occurs when the provider holds loan assets denominated in the local currency, but has hard currency debt financing on its balance sheet. In this scenario, providers may pass on currency risk by lending in hard currency to their customers or by indexing their lending interest rates to a given foreign exchange rate. However, because borrowers face higher than expected repayment amounts if the local currency is devalued and could suffer harm, providers should consider carefully other options to mitigate this risk before passing it on to clients.

The most direct way to protect clients from FX risk is to lend to them in local currency to the greatest extent possible. Protecting the provider against FX risk is also essential to safeguarding clients. If the provider borrows funds in hard currency, it develop closely monitor and assesses the FX exposure, supplemented by currency hedging without involving clients. The key ratio to monitor is the Foreign Exchange Risk (FER) Ratio, which calculates exposure to currency fluctuations using assets and liabilities, according to the following formula:

(Total Hard-currency Assets - Total Hard-currency Liabilities) / Total Net Assets

A higher ratio reflects a higher proportion of hard-currency assets relative to hard-currency liabilities, and therefore less vulnerability to currency fluctuations. The provider should set a target range for its FER ratio and then closely monitor its balance sheet to gauge its risk exposure. It can reduce FX risks by:

- Maintaining a hard-currency deposit account (including setting a minimum hard-currency cash reserve threshold relative to hard-currency liabilities).
- Borrowing in local instead of hard currency whenever possible, even if local rates are somewhat higher, including drawing on a local line of credit for short-term needs.
- Engaging in "back-to-back borrowing," in which the provider proceeds from a hardcurrency loan into a hard currency account at a local bank, which then serves as collateral for a local currency loan.

If the provider passes the FX risk on to clients by lending in hard currency, it must inform clients of the risk using cost scenarios that help them understand how much more they will pay if the local currency is devalued. Friendship Bridge in Guatemala offers an <u>example of how to manage FX risk responsibly while minimizing risks to clients</u>.

### Social Risks

Some types of client businesses (such as the production and sale of alcohol, the operation of nightclubs, etc.) carry high social risks for the community. Lending to these types of businesses requires additional due diligence to mitigate risk to the clients and their community. Social risks include child labor, forced labor, gender-based violence, etc. Depending on the provider's portfolio breakdown by sector, social (and environmental risks) can be checked from IFC E&S risks by Industry sector.

## **Voluntary Insurance**

Voluntary insurance are all insurance products that the provider do not take out as group policies that are bundled with loan or savings products. Voluntary insurance products tend to be rather expensive and thus offer little client value. As clients usually do not have the tools, data, or skills to assess the value of the insurance products, it is the provider's responsibility to ensure that all insurance products offer client value. Details about how to assess the value of insurance can be found here.

## **Monitor Agents and Networks**

While agent banking help reaching more clients and delivering new services, the provider gives up some control when using agents versus own staff. This phenomenon is heightened when using agents in conjunction with digital financial services. Many client are not only new to both formal finance and technology, they also live precarious financial lives that allow little room for error. The provider must monitor (typically by Internal Audit/internal control) and mitigate the following risks associated with agents and digital channels:



- Inability to transact due to network downtime;
- Insufficient agent liquidity or float, which also affects clients' ability to transact;
- · Transaction mistakes that are difficult or impossible to correct;
- Agent fraud that targets clients (e.g., charging clients extra fees);
- · Loss of client data privacy or security;
- Insufficient recourse mechanisms available at the agent; and
- Confusing user interfaces (e.g., mobile banking menus).

As agents and agent managers frequently underreport problems, the provider should collect client feedback on agents and networks as part of ongoing client satisfaction monitoring.

Solutions to agent/network problems will depend on thecapacity and the availability of cost-effective solutions. In some markets, for example, there is not an easy or low-cost fix for network downtime. A starting point for preventing problems is to make sure that agents are sufficiently trained in client-facing issues. Though the provider has no direct control over external agents who are managed by a third party, it is responsible for verifying that the third party trains their own representatives on at least the following topics:

- Fair and responsible treatment of clients. The training is aligned with the provider's Code of Conduct and spells out unacceptable behavior.
- The provider's debt collections practices and loan recovery procedures.
- Not using aggressive sales techniques and to respect clients' right to refuse products.
- Loan analysis and the credit approval process.
- How the complaints mechanism works, the role of complaints staff, how to appropriately manage complaints until they are resolved, and how to refer them to the appropriate person for investigation and resolution.
- Policies and processes related to privacy of client data.

### **Resources for 3.B.3**

- Friendship Bridge Manages Foreign Exchange Risk
- Fraud in Mobile Financial Services Protecting Consumers, Providers, and the System

3.B.3.1 The provider tailors repayment schedules to the client's cash flows and type of business.

## Indicator in ALINUS | SPI5 Entry | SPI5 Full | CP Commit | CP Full - Entry CP

Repayment schedules should match the cash flows of target clients and their activities to facilitate repayment. Credit products should be designed to require principal to be paid down regularly and or with flexible repayment schedules based on client cash flows. The only credit products that may not require principal to be paid regularly are loans with bullet payments (often agricultural loans associated with seasonality).

## **Scoring guidance**

- This indicator should be scored in line with 4.A.1.2.
- Score 'yes, if the provider tailors the loan repayment schedule based on a qualified cash flow analysis of the business and the household.
- Score 'partially' if the provider determines the loan repayment schedule according to a limited cash flow analysis that does not capture all main household and business expenses and/or the seasonality of incomes.
- Score 'no' if the loan repayment schedule is standardized without being determined by a minimum level of cash flow analysis.

### **Sources of information**

- Product factsheets and brochures
- Interviews with marketing/ product development
- Interviews with operations



- Interviews with field staff
- Interview with MIS department
- Samples of repayment schedules for each loan product
- Credit manual/loan approval process and loan evaluation forms

### **Evidence to provide**

Check whether the provider tailors repayment schedules based on the cash flow analysis of the business and the households for all loan products and provide positive and negative loan case examples.

# 3.B.3.2 The provider's collateral and guarantor requirements do not create severe hardship for clients.

3.B.3.2.1 The provider has a list of assets that cannot be pledged as collateral, which includes items that would create severe hardship or significant loss of income earning ability for the client.

3.B.3.2.2 Collateral valuation is based on a verifiable market price/resale value. The credit committee or second level approval verifies the collateral valuation.

3.B.3.2.3 The minimum requirement for the value of collateral does not exceed two times the loan amount, and cash collateral does not exceed 20% of loan amount. 3.B.3.2.4 If the provider collects title documents, it returns them to the client once the loan is repaid.

## Indicator in ESG Risk | ALINUS | SPI5 Entry | SPI5 Full | CP Commit | CP Full

Detail 3.B.3.2.1: Progress CP Detail 3.B.3.2.2: Advanced CP Detail 3.B.3.2.3: Advanced CP Detail 3.B.3.2.4: Entry CP

Collateral requirements are part of product design. They should align with target clients' access to physical collateral and/or guarantors. Collateral should not include items that would create severe hardship or deprive the client of the ability to earn income. "Soft" collateral reduces entry barriers for the low-income and excluded and can foster a relationship of trust between the provider and its clients.

## **Scoring guidance**

### Detail 3.B.3.2.1:

- Score 'yes' if the provider is enforcing a formal policy in the form of a list of assets that cannot be pledged as collateral, including items that would create severe hardship (e.g. the residence of the borrower and her/his household members) or significant loss of income-earning capabilities (e.g. production equipment and machinery, livestock, etc.). Score also 'yes', if the provider does not pledge any physical assets as collateral.
- Score 'partially' if the provider does not pledge certain assets as collateral that would create severe social and economic hardship for the borrower and her/his household members, but does not have a formal policy with a list of assets that cannot be pledged as collateral.
- Score 'no' if the provider lacks an informal policy not to pledge certain assets as collateral that would create severe social and economic hardship for the borrower and her/his household members.
- Score 'N/A' if the provider uses only group guarantee as collateral, and does not use physical collateral/assets or cash collateral.

### Detail 3.B.3.2.2:

• Score 'yes' if the collateral valuation is based on a verifiable market price/resale value which is verified by the credit committee or a second level approval. Score also 'yes', if the provider does not pledge any physical assets as collateral.



- Score 'partially' if the collateral valuation is based on an estimated resale value, but not on a verifiable market price with little to no verification by the credit committee or a second level approval.
- Score 'no' if the collateral valuation is based on the guesswork of the loan officer and the credit committee without reference to a verifiable market price/resale value.
- Score 'N/A' if the provider uses only group guarantee as collateral, and does not use physical collateral/assets or cash collateral.

### Detail 3.B.3.2.3:

- Score 'yes' if:
  - 1. the minimum value of collateral does not exceed 200% of the loan amount and
  - 2. cash collateral does not exceed 20% of the loan amount.
- Score 'partially' if one of the two above conditions are not fulfilled.
- Score 'no' if both of the two above conditions are not fulfilled.
- Score 'N/A' if the provider uses only group guarantee as collateral, and does not use physical collateral/assets or cash collateral.

### Detail 3.B.3.2.4:

- Score 'yes' if the provider returns all collected title documents to the client right away upon loan repayment. Score also 'yes', if the provider does not pledge any physical assets as collateral
- Score 'partially' if the provider does not return all collected title documents to the client right away upon loan repayment.
- Score 'no' if the provider does not return all collected title documents to the client upon loan repayment.
- Score 'N/A' if the provider uses only group guarantee as collateral, and does not use physical collateral/assets or cash collateral.

### **Sources of information**

- Product factsheets and brochures
- Credit Policy and Operation manual(s)
- Interviews with operations
- Interviews with loan officers
- Interviews with legal department
- Client interviews, incl. focus groups (optional)

### **Evidence to provide**

- Verify whether a list of assets as formal collateral policy or an informal understanding
  of what types of assets not to pledge exists. Discuss with loan officers how collateral
  valuation is done.
- Specify where collateral requirements are defined. Briefly describe the collateral valuation process.

## Field Examples/Implementation Guidance

If conducting client focus groups or interviews some questions to explore: Do you know anyone who has had difficulties repaying the loan? What has happened? Do you think this is fair?

## **Examples:**

Assets that deprive borrowers of their basic survival capacity: goods that are necessary for day-to-day living, such as clothing, housewares required to feed a household; telephone; bed; radiators.

Land titles are generally not appropriate collateral for small loans and are an example of over-collateralizing a loan at great risk to the client. However, in some contexts, this is allowed by law and therefore the law prevails. In these cases, auditors can highlight the risk and suggest that the provider seeks out more appropriate forms of collateral.



Guarantor requirements can also create hardship. If only salaried individuals or landowners may be guarantors, often there are very few of those in a given community. This gives those individuals a lot of power over clients seeking loans, especially women.

3.B.3.3 The provider accepts alternative forms of collateral from clients whose gender or age creates barriers to access in the local context.

## Indicator in SPI5 Full

Alternative forms of collateral may be using a guarantor or pledging a vehicle or any other asset that are taking into account the specific barriers of target groups such as women or young people.

## **Scoring guidance**

- Score 'yes' if the provider is using alternative forms of collateral for women, young, etc. to remove their specific barriers to access loans or not taking any guarantee or collateral.
- Score 'partially' if the provider is using collateral that is removing only partially the specific barriers of women, youth, etc. to access loans.
- Score 'no' if the provider is using collateral with no consideration given to remove any specific barrier of women, youth, etc. to access loans.

### **Sources of information**

- Product factsheets and brochures
- Credit Policy & Operational manual
- Interviews with operations
- Interviews with loan officers
- Interviews with legal department
- Client interviews, incl. focus groups (optional)

## **Evidence to provide**

Identify whether there are specific client segments like women and youth that could be constrained by the collateral requirements in accessing loans. Explain whether and how the types of collateral that the provider requires are an alternative that does not create a barrier to access for women, young, etc.

3.B.3.4 If the provider lends in hard currency, it informs clients of the foreign exchange risk using cost scenarios. The provider can also justify the decision not to lend in local currency.

## Indicator in ALINUS | SPI5 Entry | SPI5 Full | CP Commit | CP Full - Advanced CP

Foreign currency loans increase client risk due to devaluation risk. If the provider has access to local currency funding and the borrower's operations are only in local currency, then loans should be in local currency. If the clients' activities are linked to foreign currencies (exports of merchandise, for example), then foreign currency loans can make sense. In this case, the provider should make sure the borrower knows the risk, and repayment capacity analysis should take into account devaluation risk.

## **Scoring guidance**

- Score 'N/A' if the provider offers loans in local currency only even it is may borrow in foreign currency.
- Score 'yes' if the provider



- 1. offers foreign currency loans only to borrowers who generate a significant part of their income in the same foreign currency (as they are exporting goods and/or services) and
- 2. explains these borrowers the foreign exchange risk using cost scenarios.
- Score 'partially' if the provider only meets one of the above two conditions fully.
- Score 'no' if the provider does not meet both of the above two conditions.

### Sources of information

- Credit manual
- Product factsheets and brochures
- Interviews with operations manager
- Interviews with financial manager
- Client interviews, incl. focus groups (optional)

## **Evidence to provide**

For loans denominated in a foreign currency different from the main currency of the client source of income, demonstrate that the provider clearly explains pricing and cost scenarios to the clients, including a pessimistic scenario.

Please indicate the share of the portfolio in foreign currencies and how foreign exchange risk is addressed/ explained to clients.

## Field examples / Guidance for implementation

Examples of questions for clients:

- If conducting Focus group, these are the type of questions that can be checked:
- Do you receive loans in hard currency?
- What is the currency used for your business (local or same hard currency)?
- Did the provider explain how devaluation or valuation of the currency can affect your repayment?

### **Resources for indicator 3.B.3.4**

Friendship Bridge Manages Foreign Exchange Risk

3.B.3.5 If the client business is related to sectors known to have high social risks, the provider conducts additional due diligence to mitigate risk.

## Indicator in ALINUS | SPI5 Entry | SPI5 Full

The social risks associated with providers can remain low partly due to the limited size of the operation and the industry sector. However, in some cases clients may be involved with handling dangerous substances such as pesticides that can pose health or environmental risks or working in sectors subject to health risks or child / forced labor. Additional due diligence involves the identification, quantification and assessment of social risks associated with some sectors.

## **Scoring guidance**

- Score 'yes' if the provider:
  - 1. is conducting due diligences for high social risks sectors to identify risk mitigation measures and
  - 2. incentivizing clients from high social risks sectors to apply such risk mitigation measures and monitoring them if and how they apply these measures.
- Score 'partially' if the provider is incentivizing clients from high social risks sectors to apply some risk mitigation measures, but not on a formal, systematic and regular basis or without monitoring the clients if and how they apply these measures.
- Score 'no' if the provider is lending to clients from high social risks sectors, but is not incentivizing them to apply any risk mitigation measure.
- Score 'N/A' if the providing is not lending to any high social risks sector.



### **Sources of information**

- Classification of risks for the provider's portfolio
- Credit Policy & Operational manual(s)
- Interviews with operations, with loan officers

## **Evidence to provide**

Show how the provider is identifying high social risks sectors and corresponding risk mitigation measures and how the provider is incentivizing its clients in applying risk mitigation measures. Search for any such formal policy, if available, and present selected case examples to demonstrate the related practice of the provider.

### Field examples / Guidance for implementation

The provider can refer to guidance by sector proposed

- by FMO: Social and Environmental Management guidance Part B- Field guide also available in French
- by IFC: factsheets of E&S risk by Industry sector, also available in French.

To understand child labor, forced labor and human trafficking risk, you can download the <u>Sweat and Toil app</u> for your phone or read the reports <u>here</u>. The app summarizes data found in 3 reports that are updated annually (as they are due to US Congress): Data and research in this app are taken from ILAB's three flagship reports: <u>Findings on the Worst Forms of Child Labor</u>; <u>List of Goods Produced by Child Labor or Forced Labor</u>; and <u>List of Products Produced by Forced or Indentured Child Labor</u>.

### **Resources for indicator 3.B.3.5**

- <u>Social and Environmental Management Guidance for Micro Finance Institutions Part B. Field Guide</u>
- <u>Guide de gestion environnementale et sociale pour les institutions de Microfinance Part B. Guide pratique</u>
- 284 Environmental and Social Risk by Industry Sector Factsheets
- Risques environnementaux et sociaux par secteur d'activité fiches sectorielles

# 3.B.3.6 If the provider offers voluntary insurance, it assesses the value of insurance products to clients:

- 3.B.3.6.1 The provider analyzes data on product use: product uptake, claims ratio, renewal rate, and coverage ratio.
- 3.B.3.6.2 The provider analyzes data on how it processes claims: claims rejection ratio, average time for claim's resolution, reasons for rejection of claims, reasons for lapses in coverage.
- 3.B.3.6.3 The provider analyzes data on client experience with insurance: demographics of those covered, complaints, client satisfaction.
- 3.B.3.6.4 If the claims ratio for life insurance is below 60%, the provider asks the insurance provider to justify the reason.



### Scoring guidance

### Detail 3.B.3.6.1:

- Score 'N/A' if the provider does not facilitate/offer any voluntary insurance product regardless whether the provider is offering compulsory group insurance cover to selected client segments (like credit life plus for all borrowers with loan amounts up to a certain amount).
- Score 'yes' if the provider:
  - 1. is analyzing regularly (at least annually) the client value of each voluntary insurance product facilitated/offered by calculating the following insurance



- performance indicators: product update, claims ratio, renewable rate, and coverage ratio and
- 2. is negotiating with the underwriter for better terms when the client value is below an acceptable level.
- Score 'partially' if the provider is not meeting fully the two above-mentioned conditions. For instance, the provider is calculating just some insurance performance indicators and not regularly and/or does not negotiate with the underwriter for better terms when the client value is below an acceptable level.
- Score 'no' if the provider does not meet both of the two above-mentioned conditions.

## Detail 3.B.3.6.2:

- Score 'N/A' if the provider does not facilitate/offer any voluntary insurance product regardless whether the provider is offering compulsory group insurance cover to selected client segments.
- Score 'yes' if the provider:
  - is analyzing regularly (at least annually) the client value of each voluntary insurance product facilitated/offered by evaluating the claims process in terms of: claims rejection ratio, claims rejection ratio, average time for claim' resolution, reasons for rejection of claims, and reasons for lapses in coverage and
  - 2. is negotiating with the underwriter for a more client-centric claims process when client value is below an acceptable level.
- Score 'partially' if the provider is not meeting fully the two above-mentioned conditions. For instance, the provider is evaluating the claims process only partially and not regularly and/or does not negotiate with the underwriter for a more client-centric claims process if client value is below an acceptable level.
- Score 'no' if the provider does not meet both of the two above-mentioned conditions.

## Detail 3.B.3.6.3:

- Score 'N/A' if the provider does not facilitate/offer any voluntary insurance product regardless whether the provider is offering compulsory group insurance cover to selected client segments.
- Score 'yes' if the provider:
  - 1. is analyzing regularly (at least annually) the client value of each voluntary insurance product facilitated/offered through systematic client segmented feedback on a representative level and
  - 2. is negotiating with the underwriter for improving product terms and conditions based on the client feedback.
- Score 'partially' if the provider is not meeting fully the two above-mentioned conditions. For instance, the provider is not analyzing client value systematically through client segmented feedback and not regularly and/or does not negotiate with the underwriter for improving product terms and conditions based on the client feedback.
- Score 'no' if the provider does not meet both of the two above-mentioned conditions.

### Detail 3.B.3.6.4:

- Score 'N/A' if the provider does not facilitate/offer any voluntary insurance product regardless whether the provider is offering compulsory group insurance cover to selected client segments.
- Score 'yes' if the provider:
  - 1. is monitoring annually the claim ratios of each life insurance product and
  - 2. is negotiating with the underwriter for lower life insurance premiums when the claims ratio is below 60%.
- Score 'partially' if the provider is not meeting fully the two above-mentioned conditions. For instance, the provider is not monitoring the claim ratios of all life insurance products and not regularly and/or does not negotiate with the underwriter for lower life insurance premiums when the claims ratio is below 60%.
- Score 'no' if the provider does not meet both of the two above-mentioned conditions.



### **Sources of information**

- Interview with the department in charge of the insurance products, and, if possible, with the project manager of the underwriter
- Insurance monitoring reports
- Interview with clients on their insurance experience

## Field examples / Guidance for implementation

### Definitions:

- Voluntary insurance are all insurance products that the provider's clients can freely select. The provider usually facilitates the update of such products through a partnership with an underwriter (often via an agent partnership agreement or just be referral depending on the respective micro-insurance regulation).
- Life insurance is where the insurer promises to pay a sum of money to a predetermined beneficiary when the insured person dies or after a pre-determined period. Because this indicator is about "voluntary insurance" you are not assessing here a compulsory credit life insurance, bundled with the loan, that would cover the outstanding loan amount in case of the death of the borrower.
- Claims ratio is the total amount of claims paid out by the insurer divided by the total amount of premium paid to the insurer. This ratio means that the insurer should be paying out benefits of at least 60% of what it earned from the insurance product, as a whole. If not, it means that the premium price should be lowered to maintain an acceptable client value.

#### Resources for indicator 3.B.3.6

• Microfund for Women (Jordan) Insurance Products

3.B.3.7 If the provider uses agents, it monitors agent liquidity and whether agents respect client protection practices and has mechanisms to address problems as needed.

## Indicator in SPI5 Full | CP Full

There are many different types of agents. The main distinction is whether they are working exclusively for the provider (e.g. local people supporting branch staff in serving clients in their own communities on a commission basis like receiving a monthly percentage of the loan interest paid by the borrowers in the local community concerned) or as independent agents for other providers as well (e.g. individual service providers or licensed mobile money providers). Many agents offer cash-in and cash-out services to the clients of the provider, but there are also agents who just collect loan repayments for the branch staff or do not handle cash at all. The provider needs to monitor agent liquidity (i.e. whether clients are able to access funds at all times) only for its agents with cash-out functions. The provider must monitor compliance of all agents with its own client protection practices which is easier with exclusive agents compared to independent agents.

## Scoring guidance

- Score 'N/A' if the provider does not use any type of agents.
- Score "yes" if the provider:
  - 1. is monitoring regularly (at least annually) that all its agents are complying with its own client protection practices, incl. easy access to a client complaints mechanism, and
  - 2. is addressing problems as needed.

In the case that the provider has agents with cash-out functions, it:

- 1. is monitoring agent liquidity regularly (at least monthly on a sample basis) to ensure sufficient liquidity at all times for its clients, and
- 2. is addressing problems as needed.



- Score 'partially' if the provider does not comply fully with one of the two abovementioned conditions to ensure that all agents comply with its client protection practices, but complies fully with both conditions related to the agents with cashout function or vice versa.
- Score 'no' if the provider does not meet both of the two above-mentioned conditions for monitoring the compliance of all agents with its client protection practices even if it monitors agent liquidity.

3.B.3.8 If the provider uses digital channels, it monitors whether the following problems occur and has mechanisms to address problems as needed:

3.B.3.8.1 Transaction errors such as transaction that are not completed or are incorrectly completed; funds transferred to an incorrect account; funds sent to a receiver who was not able to cash out the funds within a certain period of time 3.B.3.8.2 System malfunctions such as extended outage, scheduled downtime, or processing delays

## Indicator in SPI5 Full | CP Full Option "DFS"

Digital channels are all channels that rely on technology to deliver a service. For instance, payment cards, money transfers, digital loans, online banking websites or apps etc...

### **Sources of information**

## Detail 3.B.3.8.1:

- Score 'N/A' if the provider does not offer digital distribution channels to its clients.
- Score 'yes' if the provider
  - is monitoring constantly the well-functioning of all transactions via its digital distribution channels and
  - 2. has mechanisms in place to address transaction errors swiftly (like not or incorrectly completed transactions, funds sent to a receiver who could not cash out the funds within a given time, etc.).
- Score 'partially' if the provider is not meeting fully the two above-mentioned conditions. For instance, the provider is not monitoring timely transaction errors and/or does not detect all types of transaction errors or cannot address all transaction errors swiftly.
- Score 'no' if the provider does not meet both of the two above-mentioned conditions.

### Detail 3.B.3.8.2:

- Score 'N/A' if the provider does not offer digital distribution channels to its clients.
- Score 'yes' if the provider
  - 1. is monitoring constantly the well-functioning of the system of its digital distribution channels and
  - 2. has mechanisms in place to address system malfunctions (like extended outage, scheduled downtime or processing delays).
- Score 'partially' if the provider is not meeting fully the two above-mentioned conditions. For instance, the provider has no effective mechanisms in place to address extended outages.
- Score 'no' if the provider does not meet both of the two above-mentioned conditions.

## **Sources of information**

- Interview with operations
- Interview with IT department
- Interview with clients who are using digital distribution channels



3.B.4 The provider's products and services help clients reduce their vulnerability to shock and smooth consumption.

## **Reducing Client Risks**

Clients need a diverse and flexible set of products/services to reduce risks and cope with emergencies. The provider may offer some products and services like insurance, mobile money transfer, and non-financial services indirectly through partners. Example of products/services which help clients to reduce risks and cope with emergencies include:

- Loans to cope with emergencies and reduce risks, including, but not limited to emergency loans;
- Rescheduling or restructuring of loans, when appropriate;
- Savings to cope with emergencies and reduce risks, including products that allow clients to withdraw money rapidly and without complicated procedures;
- Insurance, including, but not limited to coverage for credit-life, life, health, assets (e.g., home), and agriculture;
- Payments/remittances services that allow clients to quickly receive funds from other people when needed;
- Training services to strengthen clients' capacities to prevent risks (e.g., health education), or to strengthen their capacities to cope with risks (e.g. women's empowerment, or business skills);
- Funds or reserves earmarked in case of natural disasters, such as an emergency fund against which clients can borrow at zero interest; and
- Group risk transfer coverage for all clients against natural disasters and for all farmers against input losses through drought and flood. Group policy covers of the provider may be feasible and affordable if a substantive number of clients are covered (e.g. by insuring its agricultural loan portfolio against adverse weather events). Another option for the provider is to help clients linking to partly or fully subsidized national agricultural insurance and/or social protection programs.

### **Resources for 3.B.4**

- Microfund for Women (Jordan) Insurance Products
- MUSOMA Uses Savings to Help Clients Reduce Risk and Manage Anticipated Needs
- <u>Microfund for Women's Caregiver Experience Lessons from Jordan on Health</u> Microinsurance
- Designing Financial Services to Respond to Household Shocks

3.B.4.1 The provider offers products and services for basic needs, such as housing, energy, and education.

## Indicator in SPI5 Entry | SPI5 Full

Providers should support clients and their household members in getting access to basic needs to ensure the minimum required quality of their living standards.

### **Scoring Guidance**

- Score 'yes' either if the provider (1) offers several targeted, specially designed products and services to help clients in meeting their basic needs (such as housing, energy, health, and education) or (2) demonstrates that its products and services are flexible enough to meet clients' basic needs.
- Score 'partially' if the provider does not meet fully both above-mentioned conditions. For instance, it may offer just one specially designed product/service to help clients in meeting their basic needs or its existing products/services have limited flexibility for clients to meet their basic needs.
- Score 'no' if the provider does not meet both above-mentioned conditions. The provider does not offer a single product/service that helps clients meeting their basic



needs and the existing products/services are too inflexible and their use too restrictive to help clients in meeting their basic needs.

### Source of information

- · Product factsheets and brochures
- Client interviews

### **Evidence to provide**

- Product manuals and marketing materials should include products and product terms that allow clients to meet basic needs.
- The general loan or savings account products should not have use restrictions and have flexible enough terms that clients can use them to meet their basic needs.

3.B.4.2 The provider offers products and services that help clients maintain stable levels of expenditure despite income fluctuation or emergencies. Select all that apply:

3.B.4.2.1 Emergency loans

3.B.4.2.2 Savings with an easy withdrawal process

3.B.4.2.3 Voluntary insurance

3.B.4.2.4 Non-financial services

Indicator in ALINUS | SPI5 Entry | SPI5 Full

Detail 3.B.4.2.2: Option "Savings"

**Detail 3.B.4.2.3: Option "Insurance"** 

**Detail 3.B.4.2.4: SPI5 Full** 

Reducing vulnerability calls for financial and non-financial services that allow clients to cope with risks and emergencies. Understanding clients' situations through market research makes it possible to design products that allow clients to manage risks and cope with emergencies.

The insurance claims process should not put an undue burden on the client to follow up and inquire about the claims progress, resubmit the paperwork, or travel in person to request or provide information. Clients have preferably more than one channel for submitting or following up on a claim.

## **Scoring guidance**

### Detail 3.B.4.2.1:

- Score 'yes' if the provider offers an emergency loan product at free or concessional interest rate to all clients who suffer from different types of an emergency, incl. an unexpected loss of income.
- Score 'partially' if the provider offers an emergency loan product to some client segments only and to a specific type of an emergency only (e.g. a health emergency).
- Score 'no' if the provider does not offer any emergency loan product.

### Detail 3.B.4.2.2:

- Score 'N/A' if the provider does not offer any deposit/savings services regardless whether or not it has regulatory approval to offer deposit/savings services.
- Score 'yes' if the provider offers deposit/savings services with an easy and very fast unconditional withdrawal process.
- Score 'partially' if the provider allows clients to withdraw their savings easier and faster in the case of an emergency.
- Score 'no' if the provider does not offer deposit/savings services with an easy and fast withdrawal process in the case of an emergency.

## Detail 3.B.4.2.3:



- Score 'N/A' if the provider does not facilitate/offer any voluntary insurance products regardless whether the provider is offering compulsory group insurance cover to selected client segments.
- Score 'yes' if the provider facilitates/offers one or more voluntary insurance products of high client value that helps clients to better cope with emergencies, such as an affordable hospital cash insurance or voluntary top-ups of group life insurance covers to cover the spouse additionally.
- Score 'partially' if the provider facilitates/offers one or more voluntary insurance products of medium client value that do help clients to cope slightly better with emergencies.
- Score 'no' if the provider facilitates/offers one or more voluntary insurance products of very low client value that do not help clients to better cope with emergencies. For instance, they carry many exclusions, come with cumbersome claims procedures or are not affordable for the clients.

### Detail 3.B.4.2.4:

- Score 'yes' if the provider offers several client-centric non-financial services (directly or indirectly via partnerships) that help clients to better cope with emergencies or help prevent them, like health diagnostic checks, training in preventive health, training in financial literacy and business management, etc.
- Score 'partially' if the provider offers at least one non-financial service (directly or indirectly via partnerships) that helps clients to better cope with emergencies or help prevent them.
- Score 'no' if the provider does not offer any non-financial service that helps clients to better cope with emergencies or help prevent them.

### **Sources of information**

- Credit Policy & Operational manual(s)
- Other Product Policy & Operational manual(s) for deposit and insurance products
- Client satisfaction surveys
- Market research reports
- Interviews with operations manager
- Interviews with marketing/ product development manager
- Client interviews, incl. focus groups (optional)

## **Evidence to provide**

- Savings must be voluntary and withdrawals easily accessible.
- Emergency loans may be labelled as such, or may be "regular" loans that can be given over a short term (less than 3 months), a very fast turnaround time, and that do not require a specific purpose, to allow clients to quickly address unforeseeable circumstances.
- Types of voluntary insurance include: credit life, life, home owners', agriculture, health, workplace, etc.

### **Resources for indicator 3.B.4.2**

- MUSOMA Uses Savings to Help Clients Reduce Risk and Manage Anticipated Needs
- Insurance Product Based on Client Needs
- Microfund for Women (Jordan) Insurance Products

# 3.B.5 The provider's products and services help clients achieve their goals.

## **Products and Services That Help Clients Achieve Their Goals**

Providers should consider how products and services create benefits for clients, including the ability to invest in economic opportunities and address anticipated household needs at each life cycle stage. These products can include:



- Business loans, such as start-up business capital, working capital, lines of credit, and alternative forms of collateral to facilitate productive loans (e.g., leasing machinery for a business);
- Loans for specific life cycle events such as weddings, funerals, education, and home improvements;
- Savings products that address life cycle needs such as youth savings, educational savings, housing savings, wedding savings, funeral savings, and pension savings;
- Education savings plan to finance the future education of children combined with a life insurance cover for the parents (the insurance will make the remaining deposits in the case of the death of one or both parents); and
- Loans combined with a savings component for specific life cycle events (e.g. upfront savings of 20 or 30% with the remaining amount as house improvement loan.

This <u>example</u> demonstrates a product decision based on the provider's analysis of client needs that helps clients to address anticipated household needs.

3.B.5.1 The provider offers training to clients in areas where they have skill gaps that prevent them from achieving their goals.

## Indicator in SPI5 Full

A wide range of well-adapted trainings and business development services can help clients be prepared to seize economic opportunities, anticipate household needs, and achieve their economic and social goals.

## **Scoring guidance**

- Score 'yes' if the provider is offering (directly or indirectly via partnerships) client-centric training to the majority of its clients for them to overcome skill gaps that prevent them from achieving their goals.
- Score 'partially' if the provider is offering (directly or indirectly via partnerships) client-centric training to less than 20% of its clients for them to overcome skill gaps that prevent them from achieving their goals.
- Score 'no', if the provider is not offering any training to its clients for them to overcome skill gaps that prevent them from achieving their family goals.

### **Sources of information**

- Training manuals
- Product/training program description
- Interviews with operations manager, branch managers
- Client interviews, incl. focus groups (optional)

## **Evidence to provide**

Specify the training plan of the provider, how the training is delivered (in class-room or digitally), and the number of clients who have access to these trainings.

3.B.5.2 The provider offers products/services that enable clients to invest in economic opportunities such as business loans for start-up, working capital, and investment.

## Indicator in SPI5 Entry | SPI5 Full

A wide range of well-adapted products can translate into a wide range of possibilities for clients to seize economic opportunities.

### **Scoring guidance**



- Score 'yes' if the providers is offering a wide range of financial products with flexible terms and size that enable clients to invest effectively in economic opportunities, such as business loans for investment, working capital, and investment.
- Score 'partially' if the provider is offering one or two business loan products that do account for less than 50% of the gross loan portfolio. For instance, the provider is offering working capital loans only or additionally just short-term investment loans of up to two years.
- Score 'no' if the provider is not offering client-centric business loans.

### **Sources of information**

- Credit Policy & Operational manual(s)
- Product description
- Interviews with operations manager, branch managers
- Client interviews, incl. focus groups (optional)

## **Evidence to provide**

Specify the product's purpose and terms that allow it to fit with productive/economic opportunity needs.

## Field Examples/implementation guidance

Providing wide range of business loans may mean making higher-risk loans for the provider in investing in innovative sectors, value chains or start-up.

Short-term loans with monthly repayment are poorly suited to many productive activities. Providers are better positioned to serve artisan and agricultural sectors, for example, by adapting terms, conditions and loan amounts to the specificities of these sectors.

The provider can also offer loans to entrepreneurs, linked with non-financial services for financial literacy, business skills, and market access. Examples of other products include: home improvement loans or housing loans, fixed-term deposits, leasing options, pension services, loans for agriculture, enterprise skills development, business development services, SME loans, checking accounts, etc.

3.B.5.3 The provider offers products/services for major life events such as weddings, maternity care/child birth, housing, higher education, and funerals.

## Indicator in SPI5 Entry | SPI5 Full

A wide range of well-adapted products and services can translate into a wide range of possibilities for clients to address anticipated household needs at each life cycle stage.

## Scoring guidance

- Score 'yes' if the provider offers a wide range of well-adapted savings, loan, insurance or combined products/services that help clients to finance effectively major life cycle events, like weddings, child birth, housing, children's education, and funerals.
- Score 'partially' if the provider offers only one or two products/services that help clients to finance major life cycle events.
- Score 'no' if the provider does not offer a single product/service that helps clients to finance major life cycle events.

## **Sources of information**

- Loan Policy & Operational manual(s)
- Savings Policy & operational manual(s)
- Insurance policy & Operational manual(s)
- Product fact sheets and brochures
- Interviews with operations manager, branch managers
- Client interviews, incl. focus groups (optional)



## **Evidence to provide**

Specify the purpose and terms of all products/services that help clients to finance major life cycle events.

## **Resources for indicator 3.B.5.3**

• Komida Uses Data-Driven Product Design



## Dimension 4. Client Protection

Client protection is the minimum standard for all responsible financial service providers. The standards in this dimension ensure that the financial institution has the practices and systems in place to prevent harm to their clients, while those clients access and utilize their financial and non-financial services. Institutions that seek to create benefits in their clients' lives must first ensure that they do no harm, and it's their responsibility to prevent causing any harm to their clients.

**Important note**: the Client Protection (CP) Standards that are used for CP assessments and Certifications are not limited to this Dimension and are composed of Essential Practices and Indicators across other dimensions of the Universal Standards as well. Please refer to the Client Protection Standards Manual to see a full list.

Dimension 4 includes five standards:

- Standard 4A: The provider does not overindebt clients.
- Standard 4B: The provider gives clients clear and timely information to support client decision making.
- Standard 4C: The provider enforces fair and respectful treatment of clients.
- Standard 4D: The provider secures client data and informs clients about their data rights.
- Standard 4E: The provider receives and resolves client complaints.

## Standard 4A. The provider does not overindebt clients.

Providers are responsible to take adequate care in all phases of their credit process to determine each client's repayment capacity and provide credit within this capacity, such that clients can repay without risk of becoming over-indebted. In addition, providers implement and monitor internal systems that support prevention of over-indebtedness and foster efforts to improve market-level credit risk management (such as credit information sharing/reporting).

This standard has 2 essential practices:

- Essential practice 4.A.1: The provider makes loan decisions based on a client's repayment capacity.
- Essential practice 4.A.2: The provider monitors the market and responds to heightened over-indebtedness risk.

# 4.A.1 The provider makes loan decisions based on a client's repayment capacity.

Providers should have policies, especially for field staff, that define each step in the loan analysis and credit approval process and help prevent client over-indebtedness. Loan collateral/guarantees (cash deposits, assets, joint liability, co-signers, or salaries) should not substitute for good repayment capacity analysis. Make sure that field staff not only know the procedures but understand why over-indebtedness is dangerous for clients and the institution as well as bad for their own portfolios. For more information about the causes of over-indebtedness and the consequences for clients, you can read the field example below on Musoma and/or these market level studies:

- Over-indebtedness of Microborrowers in Ghana
- <u>Drivers of Over-Indebtedness of Microfinance Borrowers in Cambodia: An In-depth Investigation of Saturated Area</u>
- <u>Musoma Investigates and Adresses Causes of Over-Indeb</u>tedness

### Resources for essential practice 4.A.1



- Avoidance of Over-indebtedness: Guidelines for Financial and Non-financial Evaluation
- Smart Lending: Guidelines for Client Protection in the Group Loan Process
- Tool for integrating client protection into the **Group Loan Process**
- Préstamo SMART : Protección al cliente en el proceso de crédito grupal Una guía general para incorporar las prácticas de protección al cliente al proceso de crédito en grupo para instituciones de microfinanzas
- SMART Lending : Protección al cliente en el proceso de crédito indivual Una Guía para Incorporar las Prácticas de Protección al Cliente al Proceso de Crédito Individual para Instituciones de Microfinanzas
- Evitar el sobreendeudamiento directrices para la evaluación financiera

## Implementation for essential practice 4.A.1 Loan approval

- Define the maximum percentage of a borrower's disposable income that can be applied to debt service, including debt from your institution. Establish a maximum debt threshold (no more than 70% where the percentage is calculated as a portion of the client's monthly disposable income, e.g., installment/household surplus. The remaining amount (minimum 30%) is there to allow a safety net for the client in case of emergency expenses, or to account for approximation or errors in the cash-flow analysis, or for a potential unexpected drop of income. Use conservative criteria when the information collected from the client is less reliable than usual, the client is new to the provider, market saturation is high, the provider is experiencing system-wide delinquency, and in other situations where the client may be more vulnerable to overindebtedness. Loan officers should not recommend a loan amount that exceeds the maximum debt threshold for the client. The amount recommended for the client should be based on the cash flow of the client's household and business income, which was constructed during the repayment capacity analysis.
- The benchmark used for the household surplus ratio generally increases for renewal loans, depending on the number of loans the client has with the provider, their other outstanding debts, and the client's repayment history. For example, you may determine the threshold such that for the first loan this ratio must not exceed 50 percent, for the second loan 60 percent, and for all subsequent loans, 70 percent of the client's monthly disposable income.

### Cash flow analysis

- The cash flow analysis should take into account business and household income/expenses and liabilities from all sources, including informal ones such as a loan from a neighbor. Include all household members in the debt assessment (e.g., a spouse's loans outstanding), and count indirect debt as well (e.g., guarantees made for another person's loan).
- In the credit policy, the provider should list the specific sources of income that can count toward the client's total household income. For example, remittances may be a volatile income source in some cases (e.g., a relative living abroad has an informal job and sends variable amounts on an occasional basis)—in which case they should not count as income—or they might be relatively stable (e.g., a husband has steady employment and sends regular payments)—in which case it is likely safe to count the remittances as income. Provide your loan officers with explicit guidance on different income sources and scenarios and guidance on how to account for them in the repayment capacity analysis.

## **Pre-payment**

• Enforce prudent limits for renewal in the case of early repayment. Require a "cooling off period"—a short break of one month—between loans, to inhibit clients from using borrowed money in order pay loans early and also take on a larger loan. Such behavior increases the risk of over-indebtedness and gives the impression that the client's credit history is good, when in fact s/he is borrowing to pay off loans rather than paying off the loans with the income generated from a productive activity



## 4.A.1.1 The provider has a policy and documented process for loan approvals.

4.A.1.1.1 The percentage of a borrower's disposable income that can be applied to debt service may not be higher than 70%, including debt from the provider and other lenders.

4.A.1.1.2 Loan approval decisions are made by at least two people, one of whom does not interact directly with the client.

4.A.1.1.3 If a credit bureau exists, the provider reports client data to credit bureaus and uses credit reports in the approval process for loans.

4.A.1.1.4 If the provider offers group loans, either the provider or fellow group members conduct due diligence for each group member.

Indicator in ESG Risk | ALINUS | SPI5 Entry | SPI5 Full | CP Commit | CP Full

Detail 4.A.1.1.1: Progress CP Detail 4.A.1.1.2: Entry CP Detail 4.A.1.1.3: Entry CP

Detail 4.A.1.1.4: SPI5 Entry | SPI5 Full | CP Full

The details listed here indicate the minimum elements that constitute an appropriate loan approval policy. This policy will likely be in the Credit Manual. The documented process will likely be the forms that loan officers fill out to conduct the research and analysis necessary for the client underwriting process. Any updates or reinforcements of the main policy document may be released as circulars, or memos, and should be reflected in training materials. These documents need to be updated regularly as key reference materials within the provider.

### For 4.A.1.1.1

The percentage of disposable income that can be applied to debt service is usually calculated as: [installment amount] / [net monthly cash surplus] – the remaining amount (thus 30% minimum) is there to allow a safety net for the client in case of emergency expenses, or potential unexpected drop of income / seasonal income, but also to account for approximation or errors in the cash-flow analysis.

### For 4.A.1.1.2

Loan decisions can't be made by the loan officer alone. Since the loan officer collects the data and has the closet relationship with the client, there should be at least one other person (a senior loan officer, the head of credit, or the branch manager) involved in validating the client data collected by the loan officer and verifying that the capacity analysis calculations adhere to policy.

## For 4.A.1.1.3

If there is a functioning credit bureau in the country, it is absolutely critical for the provider to consult the database for every single loan, and to report on every single client.

### For 4.A.1.1.4

Relying on group solidarity to disburse a group loan is not sufficient; the same care should be taken for group loans as individual loans of the same size to ensure that all group members have the capacity to repay their loan. However, the depth of the capacity analysis correlates positively with the loan amount e.g. financial projections are required for a certain loan amount whereas smaller loans can be appraised with a less detailed process, based on historical cash flow data (at least the last 12 months).

## **Scoring guidance**

For each detail, a 'yes' score requires (1) a written loan policy with a documented loan approval process compatible with 4.A.1.1, (2) full comprehension of the credit approval policy by the relevant staff, and (3auditor verified compliance with the credit approval policy for a sample of loans approved for current clients.



## <u>Detail 4.A.1.1.1</u>

- Score 'yes', if the above three conditions are met fully with a written loan policy that comprises 1) an explicit ceiling (in percentage) of the client's monthly disposable income that can be used for debt service (the installment amount) which 2) is based on the client's household and business cash flow.
- Score 'partially', if the above three conditions are not met fully. For instance, the written loan policy does not mention a ceiling for the client's monthly disposable income that can be used for debt service or limited staff comprehension of the loan policy or the sample loan approvals reviewed do not comply fully with the loan policy.
- Score 'no', if 1) one of the above three conditions are not met at all- or 2) all three conditions are met only partially.

## Detail 4.A.1.1.2

- Score 'yes', if the above three conditions are met fully with a written loan policy that comprises at least a 'four-eye' loan approval process 2) in the case of an automated loan approval process, an effective control mechanism of the entered data and the data used for the loan approval is in place.
- Score 'partially', if the above three conditions are not met fully. For instance, the written loan policy does not mention an at least 'four-eye' loan approval or no effective data control mechanism in the case of an automated loan approval process or the sample loan approvals does not comply fully with the loan policy.
- Score 'no', if 1) one of the above three conditions is not met at all or 2)all three conditions are met only partially.

### Detail 4.A.1.1.3

- Score 'N/A', if there is no functioning credit bureau.
- Score 'yes', if, in the case of a functioning credit bureau, the above three conditions are met fully with a written loan policy that requires (1) the consistent use of credit bureau data for each loan approval and (2) the regular reporting on its borrowers' loans and payments to the credit bureau.
- Score 'partially', if the above three conditions are not met fully. For instance, the loan policy does not mention the use of credit bureau data for each loan approval, or the credit staff does not fully understand the importance of using consistently credit bureau data or the sample loan approvals does not comply fully with the loan policy. Score also 'partially' in a case of a not-well functioning credit bureau even if the three above conditions are fully met, as it will not be useful to prevent the risk of over-indebtedness (e.g.: if the credit bureau database is updated only once in a while and does not reflect the exact current outstanding loans a client may have).
- Score 'no', if the provider does not use credit bureau data for loan approval and/or does not report to it in the case of a functioning credit bureau. If there are several entities providing credit reports, the auditor should assess whether the one(s) the provider is using cover(s) the adequate market and risks.

### Detail 4.A.1.1.4

- Score 'N/A', if the provider does not offer group loans.
- Score 'yes', if the above three conditions are met fully with a written loan policy that requires a loan due diligence for each group borrower for loan approval to be carried out by either the provider or a fellow group borrower. Such individual repayment capacity analysis can be less formal and detailed than for individual borrowers.
- Score 'partially', if the above three conditions are not met fully. For instance, the loan policy does not mention the use of a loan due diligence for each borrower or the credit staff or the fellow group borrowers do not fully understand how to analyze the loan repayment capacity of a single group borrower or the sample loan approvals do not comply fully with the loan policy.
- Score 'no', if neither the provider nor a fellow group borrower is analyzing the loan repayment capacity of each group borrower for loan approval.

## **Sources of information**



- Loan Policy & Procedures manual(s), loan approval process
- Loan process documents, client repayment capacity evaluation forms
- Training materials, circulars, handouts etc.
- Interviews with credit staff at various levels of the organization such as loan officer, branch manager, regional manager, Head of Credit/Operations etc. (verifying whether the credit policy is understood and that they are staff incentives to follow it)
- Branch/field observations attending client loan evaluation visits and Credit Committees to see the content of discussions
- Credit bureau process and its data accurateness.

## **Evidence to provide**

- Specify the percentage of client's disposable monthly income that can be used for debt service and cite the document name and page/chapter number where this information can be found.
- Describe the loan approval process, how credit bureau information is included there and how relevant it is to the analysis and explain the Credit Committee composition and process.
- Explain how the staff understand and apply the policies and procedures for loan approval.

#### Resources for indicator 4.A.1.1

- Income generating and survival skills tool (NWTF, Philippines)
- Smart Lending: Guidelines for Client Protection in the Group Loan Process

## 4.A.1.2 The provider conducts a cash flow analysis to evaluate repayment capacity.

4.A.1.2.1 The provider conducts a cash flow analysis that considers income, expenses and debt service related to business and family, and any other sources of revenue, including informal sources.

4.A.1.2.2 The provider does not use guarantees, guarantor income, collateral, and/or insurance coverage as proxies for repayment capacity or as the main basis for loan approval.

Credit staff should assess client repayment capacity for every loan cycle, using a cash flow analysis and review of current indebtedness (formal and informal). To effectively carry out a cash flow analysis for every client, the field staff must understand what data to collect, how to verify it and cross-check it, to reach a realistic picture of the client's disposable income.

The cash flow analysis is based on all the listed elements, consolidating both household and business cash flows, including any outstanding debt. It should apply conservative criteria in projecting income, not underestimate or omit expenses, and should account for seasonality of cash flows.

The Credit Committee uses this analysis to approve the loan and to determine the appropriate loan size for that client. If the cash flow analysis is poor or unverified, the Credit Committee does not rely on guarantees to approve the loan and requests an improved loan analysis.

If due diligence is conducted by group members, groups are trained annually on how to conduct due diligence and the relevant loan criteria they should consider. For loans with a group guarantee, due diligence may be conducted by the provider or group members. For group loans without group guarantees, the provider carries out a repayment capacity analysis for each borrower.



### **Scoring guidance**

For each detail, a 'yes' score requires (1) a written loan policy on how to conduct cash-flow analyses to appraise loan repayment capacity compatible with 4.A.1.2, (2) full comprehension of the loan policy by the staff concerned, and (3) auditor verified compliance of the sample loan approvals with the loan policy.

### Detail 4.A.1.2.1

- Score 'yes', if the above three conditions are met fully with a written loan policy that requires (1) a cash-flow analysis to consider income, expenses and (formal and informal) debt service related to business and family/household and (2) a new cash-flow analysis at each loan cycle.
- Score 'partially', if the above three conditions are not met fully. For instance, the written loan policy does not spell out consistently how to conduct a cash-flow analysis or it does not require a cash-flow analysis for each loan cycle or there is limited staff comprehension of the loan policy, or the sample loan approvals do not comply fully with the loan policy.
- Score 'no', if 1) one of the above three conditions is not met at all or 2) all three conditions are met only partially.

### Detail 4.A.1.2.2

- Score 'N/A', if the provider does not take any type of loan collateral.
- Score 'yes', if the above three conditions are met fully with a written loan policy that stipulates that loan collateral and/or insurance coverage cannot replace the cashflow based repayment capacity analysis as the main basis for loan approval.
- Score 'partially', if the above three conditions are not met fully. For instance, the written loan policy does not mention a ceiling for the client's monthly disposable income that can be used for debt service or limited staff comprehension of the loan policy, or the sample loan approvals do not comply fully with the loan policy.
- Score 'no', if 1) one of the above three conditions are not met at all or 2) all three conditions are met only partially.

### Sources of information

- Loan Policy & Procedures manual(s) and any additional materials that describe how to conduct a cash flow analysis and/or evaluate repayment capacity, and how guarantors and collateral are used.
- Interview with loan officers to verify their understanding of the repayment capacity analysis and the source of information.
- Review a sample of loan files to verify the cash-flow analysis and the weight given to collateral and guarantees.
- Branch/field observation:
  - o attending repayment capacity evaluation visits at the client in 2-3 branches,
  - o attend Credit Committees in 2-3 branches to understand how guarantees weigh in loan decision-making.

## **Evidence to provide**

- Verify a random sample of the calculations of loan repayment capacity analysis in a
  few loan folders during the branch visits to ensure that the capacity analysis is
  complete, and the loan amount recommended is reasonable e.g., within the limits
  established in the policy.
- Ask loan officers to explain the calculations, to ensure they understand the data they need to gather and analyze.
- Describe what matters in terms of capacity to repay in the Credit Committee decision-making process



4.A.1.3 The provider's policy on loan prepayment specifies the conditions under which it is acceptable for clients to pay a loan early in order to take a new loan.

4.A.1.3.1 When the client applies for prepayment to get another loan, the provider specifies a time period and/or percentage of the active loan's principle that must be repaid before being eligible for a new loan.

4.A.1.3.2 When the client is taking another loan immediately after prepayment, the provider conducts a new cash flow analysis.

▶ Indicator in SPI5 Full | CP Full Detail 4.A.1.3.1: Progress CP Detail 4.A.1.3.2: Progress CP

Prepayment refers to the payment of the full outstanding amount of a loan before the end of the loan term, such as a client who has a 12-month loan term but wants to repay it in full by the 8th month. The provider should accept this, if the client can repay her/his debt without refinancing it with a new loan.

The prepayment of a loan and the simultaneous taking of another loan can be a sign of debt stress from the client and can lead to over-indebtedness; it can happen that allowing clients to take ever increasing loans, which are used to pay off existing loans, leads to a vicious circle of debt that can cause dire consequences for the client and his/her household when the stream of credit is interrupted. This is a risk, but it doesn't mean that prepayment to take a new loan is necessarily a bad practice. Thus, the provider should ensure through adequate policy and conditions that loan renewals are carefully disbursed, with adequate safeguards, and that those loans are tracked in the MIS as new loans and monitored.

To prevent client debt stress, the provider should create a policy that encourages responsible behavior by the client that may seek a top-up loan i.e., prepaying the existing loan and immediately taking a larger loan. This policy should also be consistent with the standards on responsible pricing and fees. For example, if the client repays the loan early, they should not be obligated to repay all the interest they would have paid if they had held the loan for the full period of the loan term. At the same time the provider should not make it too easy for the clients to obtain top-up loans as it is not a financially healthy behavior for clients to engage in, though it is common in many markets. Some providers require a waiting period of a month or some shorter period of time between the prepayment of one loan and the disbursement of a subsequent loan, in order to help reduce the use of new loans to pay off existing loans.

### **Scoring guidance**

• Score 'N/A', if the provider's policy does <u>not</u> allow loan prepayments. For each detail, a 'yes' score requires (1) a written loan policy to specify the conditions under which clients can repay early to take a new loan compatible with 4.A.1.3, (2) full comprehension of the loan policy by the staff concerned, and (3) auditor verified compliance of the sample loan approvals with the loan policy.

### Detail 4.A.1.3.1

- Score 'yes', if the above three conditions are met fully with a written loan policy that stipulates (1) a time (cooling off) period and/or a percentage of the active loan's principal to be repaid before being eligible for a new loan and (2) required procedures to implement this carefully without facilitating client over-indebtedness.
- Score 'partially', if the above three conditions are not met fully. For instance, the
  written loan policy neither mentions a cooling off period nor a percentage of the
  active loan's principal to be repaid prior to prepayment or limited staff
  comprehension of the loan policy or the sample loan approvals do not comply fully
  with the loan policy.
- Score 'no', if 1) one of the above three conditions is not met at all or 2) all three conditions are met only partially.



### Detail 4.A.1.3.2

- Score 'yes', if the above three conditions are met fully with a written loan policy that requests a new cash-flow analysis if a new loan is taken immediately after prepayment.
- Score 'partially', if the above three conditions are not met fully. For instance, the written loan policy does not require a new cash-flow analysis for all new loans taken immediately after prepayment or limited staff comprehension of the loan policy or the sample loan approvals do not comply fully with the loan policy.
- Score 'no', if 1) one of the above three conditions is not met at all or 2) all three conditions are met only partially.

### **Sources of information**

- Loan Policy & procedures manual(s)
- Interviews with branch manager and credit officers.
- Prepayment policy and/or credit renewal policy / refinancing policy.
- Review of a random sample of loan files for clients who have prepaid and immediately renewed / refinanced their loans.

## **Evidence to provide**

- Describe the conditions that the provider has defined for renewal following prepayment, and/or for refinancing, and provide the policy name and chapter.
- Describe any safeguards the provider has put in place to help prevent client overindebtedness during this transaction, for example the provider may specify the maximum increase in loan size for a top-up loan by percent of the original loan amount.
- Describe the process that the provider uses in the event that the client requests prepayment on his/her existing loan in order to take out a new loan, including whether a new cash-flow analysis is conducted, when, and by whom.
- Evidence collected from interviews with credit staff and sample loan files.

### Resources for indicator 4.A.1.3

• Refinancing Policy (FUBODE, Bolivia)

4.A.1.4 If the loan approval analysis is done through an algorithm, the provider reviews how well the algorithm functions. Minimum frequency: annually.

4.A.1.4.1 The provider reviews the effectiveness of the algorithm for predicting client repayment.

4.A.1.4.2 The provider checks its algorithms for bias against Protected Categories and corrects it as needed.

## ▶ Indicator in SPI5 Full | CP Full Detail 4.A.1.4.1: Advanced CP

Using algorithms to facilitate repayment capacity analysis for loan approval increases dramatically the risk of client over-indebtedness. This is mainly due to the fact that most algorithms are designed to evaluate the probability that the client will repay, not the actual capacity of the client to repay. Any responsible provider using an algorithm in place of a cash flow analysis and loan officer-based repayment capacity analysis must ensure that the designers of the algorithm understand the provider's mission and target clients prior to designing the algorithm. The provider should test the algorithm on a sample of existing loan files to understand if the results of the algorithm are consistent with their previous repayment capacity analysis and how the two approaches differ and whether or not those differences are consistent with its mission and social goals.

The details provide further guidance:



- After a period of no more than 12 months, the provider conducts a review of the effectiveness of the algorithm at accurately predicting which clients will be willing/able to repay their loans. It is important to conduct this review either in a pilot-test or promptly upon deploying a new algorithm or new criteria to reduce the risk of clients suffering from significant debt stress. If the provider is switching from a cash flow-based repayment capacity analysis to an algorithm, it should also make sure to define specific monitoring indicators and red-flags to have early warnings of potential debt stress among its clients.
- Since the algorithms used in credit decision-making usually use data mining and analysis of big data sets to develop predictions for each client, there is a higher risk of unintentional bias in this process. The algorithms use criteria such as number of contacts in the candidate's phone, or number of social media accounts and interactions as predictors of likelihood of repayment. For example, if a gender divide exists in a certain country in terms of smart phone ownership and smart phone ownership is one of the criteria used in the algorithm, the algorithm may contribute to widening the gender gap in terms of access to credit.
- The International Labor Organization (ILO) defines Protected Categories as those characteristics of a person that cannot be used to discriminate against them for employment purposes, which include ethnicity, gender, age, disability, political affiliation, sexual orientation, caste, and religion.
- The provider should consider how the algorithm's recommendations for credit approval and amount vary based on the gender and ethnicity of the candidates to see whether the biases of the algorithm's designers or the selection of certain data inputs creates a risk of discrimination. If this type of bias is identified, the provider must work with the designers of the algorithm to reduce the amount and effects of bias in the algorithm over time.

### **Scoring guidance**

• Score 'N/A', if the provider does <u>not</u> use an algorithm for the loan approval analysis.

## <u>Detail 4.A.1.4.1</u>

- Score 'yes', if the provider has conducted a review of how the algorithm works both (1) prior to launching and (2) regularly during its period of usage, and at least once in the last 12 months.
- Score 'partially', if the provider meets one of the two above requirements only.
- Score 'no', if the provider fails to meet both above requirements.

### Detail 4.A.1.4.2

- Score 'yes', if the provider (1) evaluates its loan decision-making algorithm for bias against vulnerable clients, such as indigenous, rural or female etc., (2) adjusts the algorithm with the designer, if any biases were detected, and (3) reviews the algorithm for bias whenever the algorithm is redesigned/modified in a significant way.
- Score 'partially', if the provider meets only one or two of the above three requirements.
- Score 'no', if the provider fails to meet any of the above three requirements.

## Sources of information

- Interview with the Head of Credit.
- Interview with the Head of IT and other personnel who were responsible for the design and roll out of the algorithm.
- If the provider hired an external firm to design the algorithm, the TOR and execution reports for that work could be useful to review to know what parameters the firm was given for the design of the algorithm and whether any social considerations were taken into account e.g., avoiding bias in the algorithm due to type of data used etc.
- Any reports on the review of the algorithm's effectiveness.

## **Evidence to provide**

• Describe how the algorithm was developed, tested, and reviewed.



• Provide the date of the last review, how often it is carried out, a description of the type of review that was conducted and by whom, and the outcome of the review.

### Resources for indicator 4.A.1.4

- Responsible Digital Transformation the Case of Hermandad de Honduras—English
- Responsible Digital Transformation the Case of Hermandad de Honduras--Spanish

# 4.A.2 The provider monitors the market and responds to heightened over-indebtedness risk.

Over-indebtedness is not an absolute level of debt, but rather is commonly understood as a situation where a client has to make unacceptable sacrifices in order to repay a loan. Management and board should develop a definition of over-indebtedness for the provider's context (i.e., "what does over-indebtedness mean for our clients, and how do we identify it?"), and they should define indicators and benchmarks that serve as early warnings for over-indebtedness. Examples of such indicators include: PAR by product, branch, and loan officer; number/percentage of clients (1) with multiple loans; (2) repaying loans early; and (3) exiting; early repayment by product; calls on guarantees; and number/percentage of delinquent loans. In particular, the provider should track rescheduled loans, and produce reports at least monthly, as a rising number of rescheduled loans may reflect rising over-indebtedness.

# 4.A.2.1 Senior management monitors portfolio quality to identify over-indebtedness risk. Minimum frequency: monthly

4.A.2.1.1 The provider analyzes portfolio quality by branch, product, and client segment. 4.A.2.1.2 The provider tracks restructured, rescheduled, or refinanced loans.

▶ Indicator in SPI5 Entry | SPI5 Full | CP Full Detail 4.A.2.1.1: Entry CP Detail 4.A.2.1.2: Progress CP

Senior management (including branch management) should monitor the portfolio for potential over-indebtedness problems by analyzing, at least monthly, the data and trends for the indicators that support the provider's definition of over-indebtedness. It should also analyze credit bureau information at the aggregate level (if available) to make informed decisions about products, expansion, and targeting. The board should also receive and review portfolio reports at least quarterly. Portfolio quality refers to non-performing loans, restructured/rescheduled loans, and write-offs. Examples of high-risk factors include: rising number of multiple borrowings, lack of effective credit bureau, high growth, high penetration rates of other providers, high competition, growth models of geographic expansion versus concentration, disaster situations, political conflict, major economic downturns.

When a risk of systemic over-indebtedness arises in the market, the provider should adopt risk mitigating policies, such as slower growth, more conservative loan approval criteria, limits on total number of loans an individual can have at one time from multiple providers, and the corresponding review of the incentives schemes for credit staff (see more about this in Standard 6.A.2).

In addition, the provider should offer restructuring options to its clients, under condition, but as a relief of their debt stress. And in doing that, because this option is offered to clients who experienced difficulties to pay back, it is critical to track them separately, as a rising number of restructured loans may reflect rising over-indebtedness.

Definitions: The term "restructured loans" encompasses both rescheduled and refinanced loans. Rescheduled loans are loans whose term has been modified to permit a new repayment schedule, to either lengthen or postpone the originally-scheduled installments,



or to substantially alter the original loan terms. Refinanced loans are loans that are disbursed to enable repayment of prior loans for which the client was unable to pay the scheduled installments. Refinancing comes usually with a higher amount than the outstanding previous loan due, to allow the client to relaunch its business with a fresh start.

## **Scoring guidance**

## Detail 4.A.2.1.1

- Score 'yes', if senior management and branch management reviews overindebtedness risk at least monthly by (1) monitoring portfolio quality with specific indicators broken down by i) branch and credit staff, respectively, ii) product, and iii) client segment, (2) discussing the data and trends at management meetings, and (3) using this information for decision-making.
- Score 'partially', if the provider meets only partly the three above requirements. For instance, portfolio quality is monitored by branch and product only, but not by client segment or portfolio quality data and trends are discussed only informally with no minutes taken or the provider takes decisions with significant delays.
- Score 'no', if the provider fails to monitor adequately and/or regularly portfolio quality
  or does not take needed decisions despites adequate and regular monitoring of
  portfolio quality.

## Detail 4.A.2.1.2 (should be consistent with 4.C.3.2)

- Score 'yes', if (1) the management information system (MIS) produces automatic monthly reports on the status of rescheduled and refinanced loans and (2) senior and branch management make decisions upon analysis of these reports.
- Score 'partially', if the provider meets only partly the two above requirements. For instance, portfolio quality is monitored by branch and product only, but not by client segment or portfolio quality data and trends are discussed only informally with no minutes taken or the provider takes decisions with significant delays.
- Score 'no', if the provider does not offer restructuring/rescheduling or refinancing of loans or if neither senior management nor branch management take decisions upon the analysis of rescheduled and refinanced loans or the MIS cannot produce monthly automated reports on rescheduled and refinanced loans.

### **Sources of information**

- Interviews with Head of Credit, regional credit managers, and branch managers.
- Interviews with the data analysis or business intelligence staff at head and branch office who analyze the data on restructured and refinanced loans.
- The portfolio monitoring reports generated for management / MIS reports on restructured and refinanced loans.
- The rescheduling/refinancing loan policy.
- Interviews with credit staff at various levels to determine what is the policy and what is the practice with regards to rescheduling and refinancing loans.
- The Loan Policy & Procedures manual(s) (or other document) that contain the institutional definition of client over-indebtedness.
- The interviewer should also ask what steps, if any, have been taken by senior and branch management to address any concerns raised by the analysis of portfolio quality.

## **Evidence to provide**

- The description of the KPIs used to generate monitoring reports on loan portfolio quality at HQ and branch level and the frequency of these reports and by whom.
- If applicable, the institutional definition of client over-indebtedness, and the loan manual(s) and page number where to find the evidence.
- List which data is reported on, what the recent trend data shows, and how management uses this information.

## Field Examples/implementation guidance



Partner Microcredit Foundation (Bosnia-Herzegovina) uses Internal Audit to detect lending practices that could increase client over-indebtedness. Internal auditors regularly visit all branches, and they use a random sampling technique to select clients to interview from each branch. Auditors visit two groups of clients, selected at random: the first group of clients includes all types of clients, while the second sample is selected from delinquent clients only. Each client responds to a detailed questionnaire that auditors use to detect procedural violations by loan officers. The questionnaires also solicit general information on household debt levels. By focusing specifically on delinquent clients, auditors can determine if and how policies or credit staff behaviors may have contributed to client over-indebtedness.

### **Resources for indicator 4.A.2.1**

• Monitoring Individual Repayment in Group Guarantee Mechanism

4.A.2.2 The provider defines PAR levels that trigger additional internal monitoring and response.

## **№** Indicator in ESG Risk | ALINUS | SPI5 Entry | SPI5 Full | CP Commit | CP Full - Entry CP

The provider's risk management department/unit and/or Internal Audit should verify compliance with credit policies and systems on a regular basis. Monitoring by internal control/internal audit should check that field staff execute accurate repayment capacity analysis and other over-indebtedness prevention practices, like credit history checks and accurate collateral valuation. Internal auditors or compliance officers should also visit a representative sample of clients each year to crosscheck compliance through client interviews. Pay particular attention to branches with high PAR or where other risk factors are present, such as high client exit rates, cases of multiple borrowing, or renewals after early repayment. Additionally, where group members are responsible for loan appraisal, this monitoring is essential to ensure that the system is working, and that social collateral is not masking poor credit capacity analysis.

The provider should define a threshold for PAR that prompts closer oversight from Operations, Risk Management, and Internal Audit. This can also include recommended actions from Management at HQ and branch levels to help identify whether this PAR is a warning sign of client over-indebtedness. Responses can include reduced growth targets, more conservative loan approval criteria, and adjustments to staff incentives, etc.

## **Scoring guidance**

- Score 'yes', if the provider must have clearly defined PAR levels which trigger (1) additional monitoring, (2) investigations of the causes of the high PAR by senior and/or branch management, and (3) responses at HQ and/or branch levels to resolve rising PAR.
- Score 'partially', if one of the three above requirements is missing.
- Score 'no', if 2-3 of the above requirements are missing.

## **Sources of information**

- Interview with Operations at HQ and branch level.
- Loan Policy & Procedural manual(s) or a memo or circular from Operations that defines the PAR thresholds that trigger additional monitoring, more in-depth analysis, and follow-up actions.
- Interview with Internal Audit, Risk management.

### **Evidence to provide**

 Provide the source that specifies the PAR levels that trigger additional monitoring and the specified actions required by units at HQ and branch level, including the names of the relevant departments.



4.A.2.3 If the provider's total credit risk has averaged more than 10% during any quarter in the past three years, the provider has taken corrective measures.

### Indicator in SPI5 Full | CP Full - Advanced CP

Definition: Total credit risk is calculated as total PAR30 + 12 sliding-months write off ratio + all rescheduled /refinanced loans. This should not exceed 10% (except in times of crisis, such as Covid-1; justification for this high PAR should be provided).

If total credit risk has averaged more than 10% during any quarter in the past three years, the provider should put in place corrective measures to reverse the trend. In the case of declining portfolio quality linked to client non-repayment, consider whether one or more of the following corrective measures is appropriate:

- Conduct a portfolio audit to understand the issues:
- Reinforce compliance, internal controls, and internal audits on lending practices;
- Reinforce training of field staff on repayment capacity analysis;
- Reduce amount of lending until the PAR can be brought under control; and/or
- Increase measures to monitor context risks, understand client situations that can impact delinquency (economic/environmental/public health crisis, political activity, non-repayment crises in neighboring providers, etc.). In this case, find the best way to support clients (restructuring, access to term savings, etc.).

The provider should differentiate average PAR levels by region, and thresholds may vary by country. Whereas 5% PAR levels are considered great in some regions prior to the Covid-19 pandemic, below 1% PAR can be common in others.

## Scoring guidance

- Score 'N/A', if the provider had less than 10% credit risk in every quarter for the last 3 years.
- If credit risk has been more than 10% in any quarter for the last three years, score 'yes', if management has (1) monitored credit risk levels at least monthly and (2) implemented corrective actions for at least the past two consecutive quarters to adequately reduce it.
- Score 'partially', if management has met only partly the two above requirements. For instance, management has monitored credit risk levels less frequently than monthly or its corrective actions were not y adequate or lasted for less than the past two consecutive quarters.
- Score 'no', if management has not implemented any corrective actions.

## **Sources of information**

Reports that calculate credit risk on a quarterly basis, using the above definition (or the auditor's own calculation, if reports are not available).

### **Evidence to provide**

- A statement about whether total credit risk has averaged more than 10% during any quarter in the past 3 years and, if yes, what the provider has done to address and improve this situation.
- Explain any extenuating circumstances that would have triggered a sharp rise in PAR, such as a pandemic, a coup d'état, a natural disaster (hurricane, flood, earthquake),

### Resources for indicator 4.A.2.3

- Partner Microcredit Foundation Uses Internal Audit to Detect Risky Lending
- Ujjivan Financial Services PVT. LTD. Educates Clients on the Dangers of Over-Indebtedness



# Standard 4B. The provider gives clients clear and timely information to support client decision making.

Providers communicate clear, sufficient, and timely information in a manner and language that clients can understand, so that clients can make informed decisions. The need for transparent information on pricing, terms, and conditions of products is highlighted. The provider must ensure that clients understand the information disclosed.

### **Resources for Standard 4B**

- MFO Crystal Loan Agreement for Small Business Clients
- Contrato de Préstamo para los clientes de negocio JSC MFO Crystal, Georgia

This standard has 2 essential practices:

- Essential practice 4.B.1: The provider is transparent about product terms, conditions, and pricing.
- Essential practice 4.B.2: The provider communicates with clients at appropriate times and through appropriate channels.

# 4.B.1 The provider is transparent about product terms, conditions, and pricing.

Transparency on product information is vital for client understanding. When clients understand the products, they are buying and using, they are more likely to use them successfully. Client success is a major determinant for the health of the loan portfolio. Furthermore, client understanding helps build confidence and trust. The following transparency practices are recommended:

- Product contracts should be in simple language without illegal clauses and not in fine print. If technical language is required by law, ensure that the Key Facts Documents are written in simple language.
- For loans with a group guarantee or a guarantor, clearly define member and/or guarantor obligations, and communicate these to group members and guarantors in a way they can understand.
- If the loan has a variable rate and/or is denominated in a currency different from the main currency of the client's source of income (e.g., the client earns income in pesos and the loan is in USD), clearly explain pricing and cost scenarios to the client, including a pessimistic scenario in which exchange rates change and the loan is not worth as much money.
- For clients using payment services, make sure that the documentation that lists all fees, terms, taxes, and cancellation conditions is provided at your agents' locations where they facilitate payments. Such services include money transfers, bill payments, airtime top-up, and deposit withdrawal.

### **Resources for 4.B.1**

- CREZCAMOS Colombia: Providing transparent information to clients
- Paquete de bienvenida Crezcamos

4.B.1.1 The provider gives a Key Facts Summary Document to borrowers. The document contains the following information:

- i. Total loan amount.
- ii. Pricing, including all fees.
- iii. Total cost of credit: all principal, interest, and fees plus cash collateral.
- iv. Disbursement date and loan term.



- v. Repayment schedule with principal and interest amounts, number, and due dates of all repayment installments.
- vi. All deductions from principal disbursement (e.g.: first installment, commissions, fees, cash collateral, taxes), if applicable.
  vii. How cash collateral / mandatory savings can be used in case of default, if applicable.
- vii. Moratorium interest rates, terms, and conditions, if applicable.

## Indicator in ESG Risk | ALINUS | SPI5 Entry | SPI5 Full | CP Commit | CP Full - Entry CP

The contract should always come with a one to two-page summary of the most important information, called the Key Facts Document, to summarize in an easy to find and easy to understand format the main information pertaining to the client's loan. The Key Facts Document should be written in the local language and use simple forms of expression to convey the most important aspects of the loan in a way that clients with low levels of both literacy and financial literacy can understand and refer to in the future. Loan passbooks which are common in group lending usually serve as Key Facts Documents.

## **Scoring guidance**

- Score 'yes', if all borrowers receive a fully complete Key Facts Document per type of loan that contains the eight above listed information.
- Score 'partially', if the Key Facts Document is missing one or two of the eight above listed information for any type of loan.
- Score 'no', if not all borrowers receive a Key Facts Document and/or the Key Facts
  Document is missing three or more of the eight above listed information for any type
  of loan.

## Sources of information

- Loan contract(s), Key Fact Document(s), client welcome kit(s), in template form and a random sample of Key Fact Documents filled out for specific clients.
- Branch/field Observations: Observe/listen to loan application and loan disbursement meetings in at least two branches and review any welcome kit materials that may be provided to clients in the moment of loan application and loan disbursement to see how this information is conveyed orally to clients who may not be literate or who will benefit from an oral reinforcement of the information contained in the Key Facts Document.
- Interviews with loan officers and clients.

## **Evidence to provide**

- Reference to the Key Facts document of each loan type/product
- Determination by the auditor about whether the Key Facts Document contains all the needed information (listed in the indicator) and/or what information is missing.

### **Resources for indicator 4.B.1.1**

- Key Facts Document Worksheet and Example
- Key Facts Documents for Loan Clients
- Better Designed Disclosure Simplified Key Fact Sheets from Peru and Mexico
- Divulgación mejor diseñada hojas de datos clave simplificadas de Perú y México

## 4.B.1.2 Loan contracts include the following information, as applicable to the product:

- i. Grace period.
- ii. Mandatory savings / mobile wallet amount.
- iii. Automatic account debiting mechanisms.
- iv. Linked products.
- v. Member or guarantor obligations.
- vi. Collateral requirements and seizing procedures.



- vii. Consequences of late payment and default.
- viii. Prepayment conditions: whether it is possible and how it affects the cost.
- ix. Whether terms and conditions can change over time and how that would affect clients.

## Indicator in SPI5 Full | CP Full - Progress CP

The loan contract should be written in the language that the clients speak and should be as short and simple as possible given the legal requirements of the country. The contract should be filled in completely with all nine above-listed information so that the client can fully understand her/his obligations and make informed choices. The client should receive a copy of the contract signed by both sides for her/his record.

"Consequences of late payment" refers to the penalties clients would pay, as well as the process the provider would take in case the client does not pay on time (e.g.: phone call, visit after x days...). "Prepayment conditions" and "how it affects the cost" refers similarly to penalties clients would pay.

## Scoring guidance

- Score 'yes', if all borrowers receive a complete Key Facts Document per type of loan that contains all the nine above-listed information.
- Score 'partially', if the Key Facts Document is missing one or two of the nine above-listed information for any type of loan.
- Score 'no', if not all borrowers receive a Key Facts Document and/or the Key Facts Document is missing three or more of the nine above-listed information for any type of loan.

## **Sources of information**

- The loan contract for each of the FSP's main products.
- Review a random sample of contracts for each type of loan to verify which of the nine above-listed information is shared uniformly.

## **Evidence to provide**

Description of the loan contract, how it differs by product, if applicable, and which items are included in the contract and which are absent.

4.B.1.3 Loan contracts are available in the major local languages.

## Indicator in SPI5 Entry | SPI5 Full | CP Full - Entry CP

The goal is to make the loan contract accessible to the clients by sharing information in a way that they can access and understand, in the local languages spoken in the regions covered by the provider. The following recommendations apply:

- If the country has multiple official languages, then the provider should have contracts available for clients in each of those official languages
- If the clients speak one language and read another (because their native language does not have a written form), then the contract should be in the language that most clients know how to read.
- If the clients speak and read a language that is not an official language of the country but is the language that many clients speak and read, then the contract should be in that language

## Scoring guidance

- Score 'N/A', if there is only one official language in which the large majority of people speak and write.
- Score 'yes', if the loan contracts (1) are in the language(s) that most of the clients speak/read in at least 95% of all branch areas and (2) are available in all of the country's official languages.



- Score 'partially', if the provider meets just one of the above two requirements, but offers loan contracts in the language(s) that most of the clients speak/read in at least 50% of all branch areas.
- Score 'no', if loan contracts are offered in the language(s) that most of the clients speak/read in less than 50% of all branch areas.

### **Sources of information**

- Review of the loan contracts regarding languages used.
- Interviews with field staff to understand the languages utilized by the provider.
- Client interviews to verify whether the random sample clients do both write and speak the language of their loan contracts and Key Facts Documents.

### **Evidence to provide**

Description of which languages the clients use and what languages the contracts are offered in as well as any activities the provider does to help make the contract accessible.

Note that is some countries, the number of local languages is important. In this case, the provider should explain how it ensures that all clients can understand their contract in the language provided.

4.B.1.4 The provider communicates product information in a way that supports informed decision making by clients.

4.B.1.4.1 The provider publishes basic product information, including pricing, at branch or agent locations, or digitally as applicable.

4.B.1.4.2 The provider communicates APR/EIR (or MPR if the majority of loans are under 3 months) in the Key Facts Summary and/or the loan contract.

4.B.1.4.3 The provider's communications are in simple local language; oral information is used for less literate clients.

4.B.1.4.4 The provider's marketing materials do not deceive or mislead clients.

Indicator in SPI5 Entry | SPI5 Full | CP Full

Detail 4.B.1.4.1: Progress CP Detail 4.B.1.4.2: Advanced CP Detail 4.B.1.4.3: Entry CP Detail 4.B.1.4.4: Progress CP

The provider must give sufficient clear information at the right time to facilitate informed decision-making. Field staff should be trained (refer to 5.C.2.2.3) to discuss terms and conditions with clients on several occasions during the product sales and application process. Staff should know how to evaluate client understanding, for example, using a set of conversational questions that can indicate to the staff whether clients understand the information that has been shared with them and are able to apply it as they use their financial products.

### Detail 4.B.1.4.1

The provider should make the main characteristics of its products (e.g., term, minimum and maximum amount, price, product purpose, terms etc.) of its products available to the public so that potential clients can make informed decisions about whether or not to buy the product. Prices should be published in the public domain (e.g., branch poster, website, agent's shop etc.).

The clients must receive the information before they sign the contract and have as much time as desired to review the information prior to signing the contract. Ideally, the client decides when to approach the provider to proceed with the process of committing to a product after having had enough time of at least 24 hours to review the information and consult with any trusted advisor(s).



Other forms of communication include radio and television advertisements, SMS messages, in App notifications, product descriptions, and illustrative examples of calculation on the provider's website or mobile App, if applicable. This information should be published in all the places where clients go to receive information about the products on offer, for example if the FSP has branches, agents, and an App it should offer this information in all of those places. If the FSP does not have one or more of those venues for its clients e.g., fintechs that only have digital operations, then the provider should offer the information through the channel it uses to communicate with its clients, such as the App. For example, the information on the provider's website is not a client facing channel, if only 5% of the country's population has access to the internet. Likewise, if the App contains very clear and detailed information but it is not a sufficient disclosure, if only 3% of the clients have downloaded it.

### Detail 4.B.1.4.2

For loans, information should be disclosed using either APR or EIR. For example, it is not sufficient if the brochure indicates a loan price of 2% per month without listing the APR. In addition to quoting the interest rate in APR or EIR, it is useful for clients to see the interest rate in the form most often used in your market (e.g., flat rates in MENA, CAT in Mexico, TCEA in Peru, TEAC in Bolivia, etc.). Pricing data must be regularly updated in all public communication channels and materials.

### Detail 4.B.1.4.3

If the country is very linguistically diverse (e.g., India, Guatemala, Kenya), the provider should address linguistic diversity in a pro-client way such as by hiring loan officers that speak the local languages of the clients and can explain the official documents in those languages. The provider may also offer recordings of an explanation of the loan terms or Key Facts Document in various local languages and post those recordings in places accessible to the clients e.g., on TV screens in the branches or through the provider's App etc. Sometimes, local written languages may be complex, compared to the usual way it is spoken. The internal audit team should ensure with its loan officers or with some clients that the way the contract is written is simple, even in local language.

The provider should have clear and specified procedures for treating low educated clients or clients with difficulties to understand (e.g. migrants) and employees should receive a training on how to communicate contract terms and conditions with all client segments. It should use the simplest language possible to convey the product information to the clients by considering their low levels of literacy and financial literacy. Clients should always have an option to receive oral product explanations in case they are illiterate, such as a hotline, a customer representative at the branch, their loan officer, or a video recording.

### Detail 4.B.1.4.4

The information made available to the public should be useful for client decision-making. Advertisements should not be misleading, but accurately present product terms and conditions.

### **Scoring guidance**

## Detail 4.B.1.4.1

- Score 'yes', if the provider offers basic product information that is (1) clear and sufficient (covering all aspects listed in 4.B.1.1 and 4.B.1.2), accurate, and up-to-date, and (2) delivered through multiple channels (at branch and agent locations and/or digitally) to support informed decision-making by clients before they sign contracts.
- Score 'partially', if the first requirement is not fully met or only one communication channel is used. For instance, product information is insufficient not covering all aspects in 4.B.1.1 and 4.B.1.2 or product information is not clear or product information is not updated regularly.
- Score 'no', if the first requirement is largely not met (e.g. product information is neither sufficient nor accurate or clear) or product information is contradictory on different communication channels.



#### Detail 4.B.1.4.2

- Score 'yes', if the provider discloses clearly either APR or EIR in its Key Facts Document and/or the loan contract for all loan products.
- Score 'partially', if APR or EIR is not disclosed for all loan products in the contract or Key Facts Document.
- Score 'no', if APR or EIR is not disclosed in any loan contract or Key Facts Document.

#### Detail 4.B.1.4.3

- Score 'yes', if the provider has integrated in its communication (1) simple language for all communication, contracts, and Key Facts Documents, (2) local languages, when applicable, and (3) oral language, when required.
- Score 'partially', if the second or third requirement is missing or the three requirements are only partly met. For instance, contracts and/or Key Facts Documents are in complex language difficult to understand for clients.
- Score 'no', if the first requirement is largely missed.

#### Detail 4.B.1.4.4

- Score 'yes', if none of the marketing materials has proven to be misleading or deceptive for clients.
- Score 'partially', if few marketing materials can be found to confuse clients.
- Score 'no', if some marketing materials can be found to deceive or mislead clients.

#### **Sources of information**

- Branch/field observations: observe/listen loan disbursement meetings; review any
  welcome kit materials that may be provided to clients in the moment of
  disbursement; visit agents or POS, if applicable. Additionally, listen to how branch
  staff and loan officers talk to clients and answer their questions to ensure that the
  oral communications also meet these criteria.
- Interviews with field staff on how most clients receive their product information and check all the places to verify that in fact it is publicly available, in an appropriate language, and sufficiently complete and up-to-date to be useful.
- Interview with random sample of clients.
- All publicly available product descriptions: brochures, flyers, banners in the branches, website of the provider, accounts on social media.
- Review of product application form, contract, the main product brochures, the Key Facts Document, the mobile app, the website, etc.
- The procedures for treating illiterate clients and the training that employees receive in this regard.
- Training materials (refer to 5.C.2.2.3) that describe how field staff should disclose product information to clients, any policy on transparency that may be included in the credit manual or another manual, potentially a documented process for communicating pertinent information to clients.
- If the provider uses digital communication channels (e.g. website or App), request information on what percentage of the clients have access to those digital channels.

## **Evidence to provide**

- What type of information is provided and when is it provided, and if the information provided meets the criteria of being clear, sufficient, accurate and timely.
- Demonstration that price information is publicly available and accessible to clients, and up-to-date.
- Description of which pricing information is included and in which documents.
- A description of the channels of communication that the clients can use to receive an oral explanation about the products on offer.

## Resources for indicator 4.B.1.4.

- Uganda regulatory Key Facts document
- Egyptian regulatory Key Facts document
- Key Facts Document Workshop and Example



4.B.1.5 If the provider uses agents, it verifies that they provide to clients sufficient documentation of their fees, terms of service, and cancellation conditions.

## Indicator in SPI5 Full | CP Full - Advanced CP

When agents are the only representatives of the provider to interact with the clients, and especially if the agents conduct sales for the provider's products, the agents must provide the clients with the same level of product information and transparency they would receive from the provider itself. Customer Service or Internal Audit should have a process to monitor periodically the quality of the services provided by its agents.

## Scoring guidance

- Score 'N/A', if the provider does <u>not</u> use any agents.
- Score 'yes', if the provider (1) has a documentation shared with the agents to inform clients that is sufficient, clear, complete, and offered at the right time and (2) internal audit or customer services monitors regularly the agents' compliance with this practice.
- Score is 'partially', if the provider is not meeting one of the two requirements or is meeting both requirements only partly. For instance, monitoring of the agents is irregular or ad hoc.
- Score 'no', if both requirements are not or hardly met.

#### **Sources of information**

- Any policy documents or contracts that govern the relationship between the provider and its agents and describes the transparency practices and information sharing expectations that the provider has with regards to how the agents interact with its clients.
- Agent monitoring process by the provider.
- Field observations of agents' interactions with clients.
- Interviews with monitoring staff that visit agents and ensure they are complying with the provider's expectations.

## **Evidence to provide**

- Reference the sections of the contracts or policy that describe the provider's expectations regarding the agents' disclosure of information to the clients.
- Describe the system of monitoring that the provider has in place to ensure compliance with good practice among its agents.

## 4.B.1.6 If the provider offers savings, documentation includes the following:

- x. Fees, including closure fees.
- xi. Interest rate and how amounts will be calculated.
- xii. Minimum and maximum balance requirements.
- xiii. Whether deposits are governmentally insured.

## Indicator in SPI5 Full | CP Commit | CP Full - Entry CP

Transparency is also important for savings and deposits, including compulsory deposits and guarantee deposits held by the provider as part of the guarantee for the client's loan product. The client has the right to know about the terms and conditions of the savings account and any fees or interest associated with the use of the account, e.g.: closure, withdrawal, below minimum balance, inactive account fees etc.



If the provider partners with any agent, the agent should offer the same documentation listed above. The provider should have a monitoring process in place to ensure that the agents comply with the level of disclosure described here.

How amounts are calculated refers to what basis is used for the interest rate calculation, such as daily balance or average balance over a given period, etc. In some countries, there is a regulatory requirement for providers to insure their deposits; in the event of a crisis, or of the provider's bankruptcy, clients would still recover their deposits, usually up to a certain amount.

In the case of credit & savings cooperatives, transparency of the elected board members and the managers (often serving on an elected and rotating basis and working on a voluntary basis) towards the members correlates positively with the level of governance as outlined in Dimension 2. Members do often have savings, but also "share capital" which could be withdrawn similar to savings under specific emergency conditions faced by the member and her/his household concerned.

## **Scoring guidance**

- Score 'NA', if the provider does not offer savings or deposits.
- Score 'yes', if the provider discloses all four above-listed pieces of information, where applicable, related to its savings or deposit or current accounts.
- Score 'partially', if the provider discloses only three of the four above pieces of information or some information is missing for some savings products, where applicable.
- Score 'no', if the provider discloses not more than just two of the four above pieces of information.

#### **Sources of information**

- Saving contracts, Savings Key Facts Documents, saving products brochures and descriptions.
- Client interviews to verify their understanding of their savings terms and conditions.
- Interviews with the concerned staff, e.g., agents, field staff, savings product manager etc.

## **Evidence to provide**

- Reference of the documents provided to clients.
- Description of which information is included and how it is disclosed to the clients.

4.B.1.7 Si l'institution propose des services de paiements, elle donne les informations suivantes aux clients qui initient ou reçoivent des transferts d'argent, ou utilisent d'autres services de paiement :

- i. Amount paid by sender, in sender's currency.
- ii. Estimated exchange rate.
- iii. Amount to be received in the destination currency.
- iv. Fees.
- v. Instructions for collecting payment.
- vi. Cancellation conditions.
- vii. Instructions for resolving errors.
- viii. Transaction confirmation.
- ix. Taxes
- x. Linked products (if any).

### Indicator in SPI5 Full | CP Full - Progress CP

## **Definitions**

Payment transactions can include bill payments and airtime top-up to mobile phone providers.



A bill payment is a money transfer to pay a bill. It can be scheduled on a predetermined date to pay for recurring bills.

An airtime top up is a payment made by a company to send a mobile recharge to a recipient's pre-paid mobile phone call plan.

Linked products refer to any products that automatically come with the loan, such as credit life insurance premium, compulsory savings. If a compulsory savings is required to access a loan, this is considered a linked product and the terms and conditions must be specified in the contract (interest rate, accessibility of savings, whether the savings can be used in case of default).

The provider must clearly communicate all the ten above-listed type of information regarding payments services and transactions. The client should be fully aware of the amounts, fees, and instructions for transactions, whether receiving money, cancelling or confirming transactions, and whether there are conditions or limitations related to payment services.

Exchange rates are critical information for clients, as the differences between the amount sent and received can create confusion for clients using international transfers. Accordingly, the exchange rate at the time of transfer should be clearly indicated in the documents the clients receive upon sending and/or collecting the money. If the provider partners with any third party, the agent should follow the same rules listed above. The provider should have a monitoring process in place to ensure that the payment agents and third parties comply with the level of disclosure described here.

#### **Scoring guidance**

- Score 'N/A', if the provider does <u>not</u> offer payments or money transfer services.
- Score 'yes', if the provider disclosures clearly all the ten above-listed types of information.
- Score 'partially', if at the minimum the first five of the ten above-listed types of information are disclosed clearly.
- Score 'no', if not all of the first five types of information are disclosed or if the information is not clearly disclosed so that clients face challenges in comprehension.

#### **Sources of information**

- Interviews with (1) staff who design the payment services, (2) agents that handle the payments, and (3) any staff that manage the relationship between the provider and the agents.
- Signs, posters, receipts, brochures, and any documentation given to clients or being visible in the agent or branch where payment transactions are carried out that contains any of the ten above-listed types of information.
- Interviews with clients who have used payment services, if possible.

#### **Evidence to provide**

Summaries of information from relevant interviews and documentation.

4.B.1.8 If the provider offers insurance, it gives clients the following information at the time of enrollment:

- xi. A certificate of coverage which states, at minimum, the premium, amount and term of coverage, who are the beneficiaries, which events are covered, any major exclusions, and when and how to file a claim.
- xii. An explanation of the documentation required to prove damage, if applicable.
- xiii. Terms related to cancellation and prepayment, if applicable.

Indicator in SPI5 Full | CP Commit | CP Full - Entry CP



This indicator is applicable to both voluntary (or micro) and compulsory (mostly group or meso level) insurance. Group policies taken out by the provider in an agent-partnership agreement with an underwriter are bundled on a financial product, like loans (credit life or credit life plus are the by far most common ones), savings or money transfer. Group insurance coverage apply to entire client segments: e.g. all active borrowers with a loan amount below 2000 USD for credit life (plus) or all agricultural loans below 1500 USD for agricultural input losses caused by flood and drought. Group insurance tend to be far more cost-efficient than micro insurance and are often the only affordable type of insurance for low-income clients.

The provider must ensure that clients understand fully their insurance terms and conditions at the time of enrolment, especially as insurance is a new product for many low-income clients. Insurance contracts may cause confusion due to the terminology, hence the provider is required to communicate all terms and conditions in simple language that clients can understand. For insurance bundled on a loan (or savings account), this information must be included in the related loan contract.

Features of the insurance product that should be shared with the clients include:

- A Key Facts Document or certificate of coverage that includes the following information: (1) what are the events that are covered, (2) who is covered (such as, in addition to the client, his next of kin), (3) what assets and objects does the insurance plan cover, up to what amount, over what period of time, (4) whether there is any waiting period, etc.
- The premium cost for the client, including all fees and taxes. In the case of a micro insurance products, the client has to pay the underwriter. In the case of an insurance group policy of the provider, the provider charges the client for the insurance coverage which is bundled on a loan or savings product.
- List of excluded events (such as war actions, political turmoil or specific natural disasters; in the case of a life insurance, the most common excluded events are death by suicide or by a not disclosed terminal illness)
- How to file a claim: whom to contact, period of time to file a claim, channels, where to find the claim form, documents required according to the claim type, how to follow up and how and in which timeframe the payout can be expected.
- Beneficiaries (if there are beneficiaries beside the client) and what benefit would they receive.
- Cancellation terms and conditions (penalties, fees, pro rata calculation, if applicable), what happens if the loan falls in default, etc.

#### **Scoring guidance**

- Score 'NA', if the provider does <u>not</u> offer insurance services.
- Score 'yes', if the provider discloses clearly all three above-listed types of information.
- Score 'partially', if at least the first type of information or most of the three types of information is disclosed clearly.
- Score 'no', if most of the three types of information is not disclosed or the information is not clearly disclosed so that clients face challenges in comprehension.

#### **Sources of information**

- Certificate of coverage or insurance contracts or other financial product contracts (on which group insurance are bundled) and the corresponding Key Facts Documents.
- Documents given to clients upon enrolment, review client files.
- Interviews with field staff, insurance agents (if applicable), insurance product manager.
- Interviews with clients, if possible.

## **Evidence to provide**

Reference to the insurance documents given to clients and key items shared with clients.



#### **Resources for indicator 4.B.1.8**

• <u>Smart Microinsurance-An Overview for Microfinance Institutions on Incorporating</u> Client Protection Practices into Microinsurance

4.B.1.9 If the provider offers insurance, it provides beneficiaries with timely information during the claims process.

4.B.1.9.1 The provider notifies the beneficiary within 30 days of making a decision about the claim.

4.B.1.9.2 When the claim decision results in a settlement, the provider notifies the beneficiary within 30 days of the settlement. If the claim is denied, the provider notifies the beneficiary of the reason and gives an opportunity for appeal.

## Indicator in SPI5 Full | CP Full

This indicator refers to the cases where the provider is either managing most of the insurance process (from sales, product explanations, client communication, premium collection up to the claims process) with the clients on a commission basis on behalf of an insurance company (referred to as agent-partnership model) or offering directly a credit life coverage (often referred to a social benefit fund) when there are non-enabling regulatory provisions for agent-partnership model. This indicator does not apply when the provider is just referring clients to an insurance company without any involvement in the insurance process.

This indicator is particularly important when the client is not the beneficiary (mostly a family member of the client) and the beneficiary may not know that the client had an insurance policy. For example, if the client dies, his/her spouse may not know s/he is covered under a credit life plus product. The provider should have a process in place to provide information to the beneficiary.

It is critical that when the client submits a claim, she/he receives regular updates on the status of the claim or, at a minimum, each time the claim progresses to the next step in the claim settlement process. The claim's status can be:

- New
- Open
- In process
- Further documents / info needed
- Processed, including the compensation amount awarded, how and when it can be expected
- Rejected, including the reason for rejection, and any appeals process that may be available

Clients have the right to know the result of their claim in a timely fashion and to appeal the insurance company's decision regarding their claims. Time frame should be listed in the insurance contract.

- 1. In case of settlement (being a payment that concludes a financial obligation): the provider should notify the claimant within 30 days with clear information on the compensation awarded, basis of the calculation, and how to collect the money.
- 2. In case of rejection: the provider should notify the claimant within 30 days with clear information about the reason of rejection; it should provide the client with an opportunity to appeal as well as channels that can be used to submit the appeal.

The provider should put this policy into practice and monitor its implementation. However, the provider should push the underwriter to decide on life insurance claims much faster, as clients often need the insurance pay-out immediately to cover funeral expenses. Depending on the business relationship, they could agree that the provider decides on claims settlement while the underwriter carries out regularly audits of a random sample of claims settled to control whether the provider complies with the terms and conditions of claims settlement.



## **Scoring guidance**

#### Detail 4.B.1.9.1

- Score 'yes', if the provider has an effective system in place to notify all clients and/or beneficiaries within 30 days of making a decision about the claim.
- Score 'partially', if there is any case where a client and/or beneficiary was notified only after 30 or more days of making a decision about the claim or if the provider does not have an effective system in place to notify clients and beneficiaries in time.
- Score 'no', if many clients and/or beneficiaries were notified only after 30 or more days of making a decision about the claim.

#### Detail 4.B.1.9.2

- Score 'yes', if the provider (1) notifies systematically all clients and/or beneficiaries within 30 days of the settlement and 2) offers an opportunity for all clients and/or beneficiaries to provide additional documentation or appeal the claim rejection.
- Score 'partially', if the above two requirements are only partly met. For instance, the provider does not notify the clients and/or beneficiaries for all insurance products within 30 days or does not offer systematically to all clients and/or beneficiaries the opportunity to submit further documentation and/or appeal the claim rejection.
- Score 'no', if the above two requirements are largely not met.

#### **Sources of information**

- Insurance policy with the timeframe to settle a claim.
- Interview with field staff, and with insurance agents, if applicable.
- Interview with the product manager for insurance.
- Interviews with clients that have had to file a claim, if possible.
- Insurance claims process tracking system and the latest report on claims.
- Insurance documents and related Key Facts Documents given to clients.

#### **Evidence to provide**

- An explanation of the claims process and how the provider tracks claims and informs clients about the steps in the review process.
- List the channels that are available for clients to submit information and those used to provide clients with information.
- Explain what happens when a claim is rejected.
- From the report on claims, what is the average time to process and settle a claim.

# 4.B.2 The provider communicates with clients at appropriate times and through appropriate channels.

Providers may provide full and complete product information to clients, but communicate it in a way that is difficult for clients to understand (e.g., complex legal wording, disclosing information in writing to illiterate clients). The way sales and product staff explain things to clients makes all the difference in whether clients can absorb the information and use it to make important decisions about their finances.

Clients should have time to review product information, to compare options, and to ask questions before making a decision. In order to do so, they need relevant product information at least 24 hours prior to signing a contract, opening an account, or making a payment. In practice, this means providing product documentation that clients can take home and review before the sale and prior to signing. The client must also have an opportunity to decline the product without being made to feel that they are already expected to sign the contract. The provider must inform clients before making changes to the terms and conditions specified in their contracts: for example, if the interest rate paid on savings changes or before their insurance policy expires, so that they are aware and have the opportunity to renew the policy and prevent a gap in coverage.



Furthermore, the provider must put in place a system for providing clients with accurate account information on demand. For some providers, an on-demand mechanism is delivered through online and/or mobile banking, which gives clients anytime access to their account information. Low-tech options include answering customer inquiries over the phone and inperson. Field and branch staff should have immediate access to up-to-date account information whenever they are interacting with the client. They should provide clients receipts—paper or digital (based on client capability and context) for all transactions. For loans with a group guarantee or a guarantor and group savings accounts, they should provide each member in the group or guarantor with total balance of the account at least quarterly.

## Resources for essential practice 4.B.2

• Svasti Transparent collections practices training document

4.B.2.1 The provider gives clients the opportunity to review the terms and conditions of products.

4.B.2.1.1 The provider offers a channel for clients to ask questions and receive additional information prior to signing contracts.

4.B.2.1.2 The provider gives clients notice and the opportunity to opt out before automatically renewing a voluntary product.

Clients need time to review product information, to compare options, and to ask questions so that they can make informed decisions. Clients should receive product documentation that they can take home to review and consult with a trusted person (e.g., spouse) before signing the contract. Twenty-four hours is a good rule of thumb for providing the client sufficient time to review the terms and conditions and ask clarifying questions before signing a contract. The provider should not pressure clients to commit to a product in less than 24 hours. Clients may choose to make quick decisions if they feel well informed. Additionally, the clients should not be made to feel guilty or ashamed if they change their mind or choose not to commit to the product.

To make informed decisions, clients need:

- Sufficient time so they are not rushed
- Channels and means to ask questions
- Simple language they can understand

The channel for clients to ask questions can be a phone line to speak with the staff or a digital channel (such as a chatbot). The provider should offer multiple channels for clients to choose from: a website form, in-App messaging, a customer service representative at the branch, and a hotline or call center. The provider might offer leaflets or online Q&A information to cover most of the expected questions from clients, but this does not replace the clients right to ask direct questions to staff.

In case of product renewal, the provider should deliver advance notification, and give the opportunity to opt-out. A process should describe the period used for advance notification, the channels used, what is the timeframe given to the client to opt-out. Ideally the client should receive this notice at least two weeks before the renewal would take effect (and a remainder a week before), so that they can make a considered decision about whether or not to renew.

## Scoring guidance

## Detail 4.B.2.1.1

• Score 'yes', if the provider offers to all clients (1) all the contractual documentation upfront they are going to sign, (2) the explanations of the product terms and conditions in simple language that clients need for informed decisions (as related to



- previous indicators on transparency), (3) at least 24h to review the product/service offer, and (4) at least one channel for questions (the more channels the better).
- Score 'partially', if the provider does not meet fully the above four requirements. For instance, clients do not receive the complete contractual documentation upfront or the explanations of the product terms and conditions are in complicated language difficult to understand for by some clients or clients are given less than 24 hours to review the product/service offer.
- Score 'no', if product terms and conditions are not understood by many clients or clients are not given any time to review the product/service offer or clients have no channel to access for questions.

#### Detail 4.B.2.1.2

- Score 'N/A', if the provider does <u>not</u> renew any voluntary product (deposits, insurance, debit cards, etc.) automatically.
- Score 'yes', if (1) there is clear evidence that clients have an opportunity to opt-out and (2) clients receive notice at least 2 weeks before.
- Score 'partially', if one of the two requirements are not met.
- Score 'no', if both requirements are not met.

#### **Sources of information**

- Transparency checklist, any checklist that field staff use to ensure they fully inform clients.
- Leaflets or contracts or Key Facts Documents or other materials given to the clients to explain the product they are considering.
- Branch/field observations:
  - o Attend the process from sales to signing, to determine if the client has sufficient time and clear complete materials to review before signing.
  - Verify that clients are given the necessary time and information to understand and consider their options before they sign the contract.
  - Verify that they know how to get their questions answered before they signed the contracts, and they knew the channels that they could have used to ask question.
- Renewal policy and procedure for each voluntary product.

## **Evidence to provide**

- Description of what type of documents are shared with clients.
- Description of the communication channels used by clients to ask questions.
- In the case of automatic renewals, relevant documentation (policies and procedures) and how the provider ensures client information and opportunity to opt-out.
- Summary of relevant results from the random sample interviews with branch/field staff and clients.

4.B.2.2 The provider gives clients a completed, signed copy of the contract and makes the contract accessible anytime in an online account or in physical form.

## 🔎 Indicator in ALINUS | SPI5 Entry | SPI5 Full | CP Commit | CP Full – Entry CP

As soon as a contract for a financial product is finalized, the client should be provided with a copy of the fully executed contract. This contract can be a physical or digital copy (depending on the context and the client's preference), but it must be complete, with no blank space and signed by both the provider and the client.

In the case of digital loans, the provider saves the Key Facts Document and the loan agreement in a client account that the client can easily access anytime. This may be on a client's device or in hard copy, but internet links alone are not sufficient.

## **Scoring guidance**



- Score 'yes' upon verification that (1) clients actually receive or know how to access their final complete contracts with no blank fields and signed by both parties and (2) in terms of being available at any time, the contracts can be given in physical form or it can be provided in digital form and stored in the clients' accounts online, which clients could access through the mobile App, if this access is simple and understood by the client.
- Score 'partially', if the provider meets only one of the two requirements.
- Score 'no', if the provider does not meet both requirements.

#### **Sources of information**

- Transparency checklist, any checklist that field staff use to ensure they provide everything to clients.
- All documents provided to clients.
- Financial product policy & procedure manuals.
- Interviews with concerned staff' (trainers and loan officers).
- Interviews with clients (to verify if they received their complete contracts).
- Review of random sample client contracts.

#### **Evidence to provide**

Results from the document checks and from the interviews with clients and staff.

4.B.2.3 The provider gives clients clear and accurate account balance information in the following ways:

4.B.2.3.1 Providing access to their up-to-date loan or savings balance upon request. 4.B.2.3.2 Sending automatic messages to clients whenever there is an automatic deduction from the client account.

4.B.2.3.3 Providing receipts, on paper or electronically, for every transaction

P Indicator in ALINUS | SPI5 Entry | SPI5 Full | CP Commit | CP Full Detail 4.B.2.3.1: SPI5 Entry | SPI5 Full | CP Full − Progress CP Detail 4.B.2.3.2: SPI5 Entry | SPI5 Full | CP Full − Advanced CP Detail 4.B.2.3.3: ALINUS | SPI5 Entry | SPI5 Full | CP Commit | CP Full − Entry CP

Clients have the right to understand their financial position in real time so they can best plan their financial transactions. The three details describe the ways in which the provider needs to share information with its clients or make it available to them upon request in either physical or digital form, depending on the provider's capabilities and the clients' preferences and capacities. All these elements should be provided with no additional fee for clients. If the provider considers it to be costly, then it should be integrated in the overall pricing strategy of products.

Clients should know the channels and means through which they can access their accounts balances / details. The main determinants here are:

- 1. Accessibility: the provider should offer multiple channels through which clients can receive information so clients can pick one that is convenient and accessible for them.
- 2. Accuracy: Up-to-date and accurate account information.
- 3. Timely information: clients should be notified about any transaction on their accounts, especially in the event of automatic deductions so they can plan their other transactions accordingly.
- 4. Documentation: providing clients with confirmations of transactions, whether through paper or electronic receipts is necessary.

#### Scoring guidance

This applies to both loans and savings products, and includes also payment services for 4.B.2.3.3.



#### Detail 4.B.2.3.1

- Score 'yes', if the provider has an effective system in place that offers all clients access to their up-to-date loan and savings balances upon request via multiple channels.
- Score 'partially', if the provider's system to offer access to up-to-date loan and savings balances is not functioning very well or if client can access one channel only.
- Score 'no', if the provider has no system in place to provide up-to-date loan and savings balances.

#### Detail 4.B.2.3.2

- Score 'N/A', if the provider does not make automatic deductions from client accounts.
- Score 'yes', if the provider sends automatic messages to all clients whose accounts were deducted automatically.
- Score 'partially', if not all clients receive automatic messages about automatic deductions from their loan and savings accounts.
- Score 'no', if the provider does not send automatic messages to clients upon automatic deductions from their loan and savings accounts.

#### Detail 4.B.2.3.3

- Score 'yes', if the provider offers all clients receipts on paper or digitally for every transaction.
- Score 'partially', if the provider offers receipts not for all types of transactions or not to all clients.
- Score 'no', if the provider does not offer receipts for the transactions of clients.

## **Sources of information**

- Accounts management policy & procedures.
- Branch/field observations and interviews with clients and branch/field staff to verify that this happens in practice.
- Review of the mobile App, if applicable.

#### **Evidence to provide**

- Description of how the provider communicates up-to-date account balance information with clients.
- Description of the information available to clients and when the information is available by which channel.
- Results from the interviews with clients and branch/field staff.

#### Resources for indicator 4.B.2.3

• Gatsby Microfinance LTD. Provides Transparent Loan Information

4.B.2.4 If loan repayments are automatically debited from a client account, the provider sends clients a loan repayment reminder at least one day before loan repayments are due.

## Indicator in SPI5 Full | CP Full - Entry CP

The repayment reminder is important so that the client can plan his transactions accordingly.

If the provider uses a third party to send SMSs to clients, the time frame for reminders and notifications should take that into account in case it delays delivery of the messages. The provider is required to verify the efficiency and the accuracy of the systems it uses to ensure that delivery of the notifications happens with enough lead time for the clients to take action and avoid any penalties. This also applies if the provider uses bank transfers based on agreements with clients and banks in which the clients have accounts.



## **Scoring guidance**

- Score 'N/A", if the provider does <u>not</u> apply automatic deductions for loan repayments by debiting client accounts.
- Score 'yes', if the (1) provider and/or its agent notifies all the clients of each automatic debit transaction (2) not later than 24 hours before loan repayments are due.
- Score 'partially', if one of the two requirements are not met. For instance, not all clients receive a notification or client receive a notification within less than 24 hours of the automatic account debiting.
- Score 'no', if the provider does not notify clients about automatic deductions for loan repayments.

#### **Sources of information**

- Communication process /procedures (pay attention to the time frame conditions).
- Channels used to notify clients about upcoming payments and/or deductions on their accounts.
- Interviews with staff who handle payments, IT, and client reminders.
- Interviews with client whose accounts have been debited to ensure that they are notified at least 24 hours before the due date.
- Contracts with third parties, if applicable.

## **Evidence to provide**

- Reference to the part of the contract that covers this point in case of third-party agreement.
- Results from observation, review of documents, and interviews with staff and clients.

# Standard 4C. The provider enforces fair and respectful treatment of clients.

Providers and their agents must treat their clients fairly and respectfully. They will not discriminate. Providers will ensure adequate safeguards to detect and correct corruption as well as aggressive or abusive treatment by their employees and agents, particularly during the loan sales and debt collection processes.

#### **Resources for standard 4C**

- Trato responsable a los clientes Ejerciendo la no discriminación
- Capacitación sobre Derechos y Responsabilidades del cliente

This standard has 3 essential practices:

- Essential practice 4.C.1: The provider's code of conduct requires fair and respectful treatment of clients.
- Essential practice 4.C.2: The provider does not use aggressive sales techniques.
- Essential practice 4.C.3: The provider protects clients' rights to respectful treatment during the loan collection process.

## 4.C.1 The provider's code of conduct requires fair and respectful treatment of clients.

## **Code of Conduct**

An institutional Code of Conduct (or Code of Ethics) helps employees practice fair and respectful treatment of clients by defining clear standards of professional conduct that they must uphold. It should spell out expected behavior as well as the sanctions for violations of the Code. A written Code does not guarantee ethical conduct, but it is a first step toward formalizing an ethical organizational culture.



The Code should apply to all board members, managers, staff, and third-party providers (e.g., agents, debt collectors), to ensure that clients are protected when interacting with anyone working on behalf of the provider. All should sign it to formalize their agreement to abide by the ethical expectations described in the Code and receive training on it

The provider needs to train its agents, if they are not yet trained well by the third-party providers concerned on comparable Codes.

Training on the Code should use "real life" examples that highlight situations in which compliance with the Code may be difficult (e.g., when dealing with disrespectful clients; when asked by another staff member to commit minor fraud). For example, Sahayata Micro Finance Pvt. Ltd (India) uses "Customers' Rights and Responsibilities Illustrations"—a series of simple pictures and texts that demonstrate five client rights and five client responsibilities, allowing trainees to discuss each scenario. Trainees are asked to read the card and decide which customer right is supported or violated by the behavior described. The cards are used to stimulate discussion among small groups of trainees and to test understanding of ethical behavior.

#### **Non-discrimination**

Few providers have a complete non-discrimination policy that protects all the types of clients. Most do not expressly want to deny clients' rights, but they are unaware of how institutional policies and staff behavior affect certain clients or they know they need to have a non-discrimination policy, but certain protected categories are sensitive given the region's religion or cultural norms and therefore have been left out, e.g., homosexuality. Providers should put in place a non-discrimination policy to make clear the its expectations and to standardize behavior across all employees.

Discrimination is different from targeting clients for inclusion in a program (e.g., loans to women, savings accounts for youth). Targeting generally corrects an existing problem of exclusion, whereas discrimination involves treating a client or potential client differently and less favorably based on personal characteristics or affiliations. Terms and conditions for individuals should only differ based on: 1) risk-based analysis (e.g., rural farmers in frequently-flooded areas might be deemed too risky, or loans might be less expensive for repeat clients with stellar repayment histories); 2) target markets defined in the mission statement (e.g., "our mission is to serve youth in urban areas"); or 3) accommodations based on special needs (e.g., a person with limited mobility repays monthly instead of weekly, given her difficulty getting to the branch). Such differentiation should be applied consistently and transparently.

#### Resources

- Smart Campaign Compliance Criteria for Code of Conduct
- Outline For a Code of Conduct

4.C.1.1 The provider's code of conduct states the organizational values, standards of professional conduct, and treatment of clients that it expects of all employees, and defines the sanctions to apply in case of a breach.

Indicator in ESG Risk | ALINUS | SPI5 Entry | SPI5 Full | CP Commit | CP Full - Progress CP

Both, employees and clients must understand the determinants of professional behavior and what can be allowed and what is not allowed in the work environment, especially in client relationship management. The Code of Conduct/Ethics (or any similar document) is considered the basis for this, as it is a document that should be approved by the Board of Directors and must be circulated to all employees. Board members, managers, employees, and notably new staff, must be trained on how best to comply with the Code. The Code or another policy must spell out the sanction for violations reflecting the zero tolerance



regarding any breach, considering the severity/level of the violation when determining the sanction. It serves as a warning to employees to prevent them from bad behavior.

#### Scoring guidance

- Score 'yes', if (1) there is a written document approved by the Board that formalizes clearly (2) the provider's expectations regarding ethical behavior and (3) the sanctions for breaches of these ethical standards, (4) managers and staff understand well the expected ethical behavior and the sanctions for breaches, and (5) the sanctions for breaches are enforced consistently.
- Score 'partially', if the five requirements are not fully met. For instance, there is no written document or the staff understand the expected ethical behavior only poorly or the sanctions for breaches are poorly enforced.
- Score 'no', if the provider has not defined (formally or informally) its expectations regarding ethical behavior and the sanctions for breaches of these ethical standards.

#### **Sources of information**

- Code of Conduct: the document may have different names, such as Organization Charter, Book of Rules, Code of Ethics, Code of Conduct etc.
- Sanctions policy for breaches of the ethical standards.

### **Evidence to provide**

List the name of the document(s) that contains the 1) expectations of staff behavior and 2) the sanctions for violations of these expectations and summarize what they are.

#### **Resources for indicator 4.C.1.1**

Smart Campaign Smart Note on Compartamos

## 4.C.1.2 The provider's policies prohibit the following:

4.C.1.2.1 Corruption, theft, kickbacks, fraud

4.C.1.2.2 Client intimidation: using abusive language, using physical force, limiting physical freedom, sexual harassment, shouting at the client, entering the client's home uninvited, publicly humiliating the client, using threats.

4.C.1.2.3 Discrimination against all internationally recognized Protected Categories. [Note: Protected Categories are as follows: People over 40 years old; Sex; Race/ethnicity/national extraction/social origin /caste; Religion; Health status, including HIV status; Disability; Sexual orientation; Political affiliation/opinion; Civil/marital status; Participation in a trade union.]

## Indicator in ESG Risk | ALINUS | SPI5 Entry | SPI5 Full | CP Commit | CP Full All details: Entry CP

Only by having an explicit policy in place can the provider ensure adherence by staff to these expectations, dissemination during trainings, and eventually control by Internal Audit.

As a complement to setting ethical standards of behavior with clients, the provider should have a client non-discrimination policy that prohibits discrimination on the basis of "Protected Categories" as defined by the International Labour Organization which include in particular ethnicity, gender, age, disability, political affiliation, sexual orientation, caste, and religion. However, some of these categories are not protected by law in some countries. For example, "caste" is only applicable in South Asia and does not need to be included outside that region.

In particular, unacceptable behaviors such as client intimidation should be clearly listed in an official document, to set clear expectations from staff, to be able to communicate them to clients (see indicator 4.C.1.3), and for Operations to have a reference for control and for Internal Audit to audit compliance.



## **Scoring guidance**

#### Detail 4.C.1.2.1

- Score 'yes', if (1) the provider has one or several written and clear policies (preferably approved by the board) that prohibit(s) corruption, theft, kickbacks, and fraud and outline(s) sanctions for each type and level of violation, (2) all employees are trained and aware of the policies, (3) compliance with the policies is checked and audited regularly, and (4) the sanctions are effectively enforced.
- Score 'partially', if the above four requirements are not fully met. For instance, the
  policies are rather vague without defining clearly the actions prohibited and the
  corresponding sanctions or the employees are not fully aware of the policies or
  Internal Audit does not carry out compliance audits or the sanctions are not
  consistently enforced.
- Score 'no', if the above four requirements are largely not met. For instance, lack of written policies and/or employees are largely not aware of it and/or compliance is not checked/audited and/or sanctions are not enforced.

#### Detail 4.C.1.2.2

- Score 'yes', if (1) the provider has one or several written and clear policies (preferably approved by the board) that prohibit(s) client intimidation (like listed in the above detail) and outline(s) sanctions for breaches, (2) all employees are trained and aware of the policies, (3) compliance with the policies is checked and audited regularly, and (4) the sanctions are effectively enforced.
- Score 'partially', if the above four requirements are not fully met. For instance, the
  policies are rather vague without defining clearly client intimidation and the
  corresponding sanctions or the employees are not fully aware of the policies or
  Internal Audit does not carry out compliance audits or the sanctions are not
  consistently enforced.
- Score 'no', if the above four requirements are largely not met. For instance, lack of written policies and/or employees are largely not aware of it and/or compliance is not checked/audited and/or sanctions are not enforced.

#### Detail 4.C.1.2.3

- Score 'yes', if the provider (1) has a written and clear Client Non-Discrimination policy that spells out all of the 'Protected Categories' (listed in the above detail), (2) has trained all employees on it, (3) controls and audits regularly compliance with this policy, (4) includes sanctions for breaches.
- Score 'partially', if the above four requirements are not fully met. For instance, the policy is rather vague without defining clearly the 'Protected Categories' or the employees are not fully aware of the policy or compliance with the policy is not controlled and audited regularly.
- Score 'no', if the above four requirements are largely not met. For instance, lack of a written policy and/or employees are largely not aware of it and/or compliance is not checked/audited.

#### **Sources of information**

- Code of Conduct, HR policy, Client Non-Discrimination policy, loan collections policy, etc.
- The document that contains the list of unacceptable behaviors in client relationship.
- Check with Human Resources to verify if staff sign a document acknowledging that they have read, understood and agree to abide by these policies.
- Employee files with confirmation that they have read and will abide by these policies.

## **Evidence to provide**

- Description / list of the unacceptable (and acceptable) staff behaviors towards clients.
- The page number and name of the various documents where these lists are found.
- The sections of the Code of Conduct / Collections policy / Loan Policy manual that cover corruption, intimidation, and discrimination.



#### **Resources for indicator 4.C.1.2**

- Aski Sanctions Code of Conduct Violations
- Examples of Discriminatory Policies and Staff Behaviors

4.C.1.3 The provider informs clients, verbally or in writing, about the prohibited behaviors found in the code of conduct.

## Indicator in SPI5 Full | CP Full

Having a Code of Conduct alone is not enough to make the values "come alive." The field staff need to be trained and monitored whether they comply with it. Field staff must be trained to inform clients consistently about the expected and unacceptable staff behaviors. Clients should understand of what staff behavior to expect and what is prohibited, so that in case they feel a staff is overstepping the boundaries, they clearly know they don't have to suffer it and that they should report it to the provider.

## **Scoring guidance**

- Score 'yes', if (1) the written Code of Conduct spells out clearly expected and unacceptable staff behavior towards clients, (2) staff are well trained on and aware of it, and (3) all clients are verbally or in writing well informed about it. Preferably, clients are informed through both channels and staff is trained on how to explain it consistently to clients.
- Score 'partially', if the above three requirements are not fully met. For instance, the Code of Conduct spells out expected but not unacceptable staff behavior or the staff is not well aware of it or the clients are not well informed or only some clients were informed.
- Score 'no', if the above three requirements are largely not met. For instance, lack of a written Code of Conduct and/or employees are largely not aware of it and/or clients are not informed of it.

## **Sources of information**

- Any public material (e.g. branch posters or brochures) that explains client rights and expected and unacceptable staff behavior.
- Transparency checklist, any checklist that field staff use to ensure they fully inform clients
- Staff orientation materials that discuss ethical/appropriate staff behavior and guidance for how to inform clients about the expected staff behavior.
- Customer satisfaction / exit survey's results.
- Complaints' reports.
- Branch/field observations: how is this information conveyed to clients.
- Interview with clients to verify whether they received this information.

### **Evidence to provide**

- References to the documents, oral explanations, pamphlets of customer rights and responsibilities.
- Results from interviews with staff and clients.

#### **Resources for indicator 4.C.1.3**

• Tujijenge Displays a Customer Service Charter

4.C.1.4 If the provider partners with third parties, it reviews the the third party's code of conduct prior to signing a contract to check for commitment to fair and respectful treatment of clients.



## Indicator in SPI5 Full | CP Full

The goal of this indicator is to ensure that any external service providers are held to the same standards for fair and respectful treatment of clients as the provider. Third-party providers can be debt collectors, agent networks, MNOs, insurance companies, and other financial institutions such as commercial, development and microfinance banks, postal offices, etc.

Partnering with third parties or other service providers requires taking the necessary precautions to ensure that they share the provider's commitment to client protection. The provider is directly responsible for verifying that the partners apply all necessary practices in terms of fair and respectful treatment of clients: the third-party provider is required to have a Code of Conduct - or any similar document - that governs the business conduct towards clients or their adherence to the provider's Code of Conduct can be written into the contract that governs the relationship between the provider and the third-party provider.

This might require developing specific contractual terms for the partnership that cover client protection requirements. In some cases, providers can impose their own business conduct/behavior and make it an integral part of the agreements and make additional efforts to train the third-party's staff on expected behavior towards clients. The two key questions are: (1) what is the policy/procedure that is in place for acquiring partners and third-party providers? and (2) how do providers confirm that all necessary steps have been taken so that the third-party providers comply with client protection?

In addition, it is the provider's responsibility to monitor its external provider's behavior towards its clients, including handling client complaints related to the services and treatment they receive from the third-party providers (refer to 4.E.3.3). The provider should review the Code of Conduct of third parties for commitment to respectful treatment of clients before they sign a contract.

#### **Scoring guidance**

- Score 'N/A', if the provider does <u>not</u> use third-party providers in any of its processes.
- Score 'yes', if (1) the commitment to all expected rules for fair and respectful treatment of clients is part of the agreements between the provider and its third-party providers, (2) the staff of the third-party providers is well trained on how to treat clients fairly and respectfully, and (3) the provider monitors regularly the client treatment of its third-party providers.
- Score 'partially', if the above three requirements are not fully met. For instance, the agreements between the provider and its third-party providers do not cover all expected rules for fair and respectful treatment of clients or the staff of the third-party providers are not adequately trained on how to treat clients fairly and respectfully or the provider does not monitor regularly the client treatment of the staff of its third-party providers.
- Score 'no', if the agreements between the provider and its third-party providers fail to cover the expected rules for fair and respectful treatment of clients and/or the staff of the third-party providers are not trained on how to treat clients fairly and respectfully and/or the provider does not monitor the client treatment of the staff of its third-party providers.

## **Sources of information**

- All Contracts with third party providers.
- Procurement / partnerships policies and procedures.
- Interviews with managers of the relationships with the third-party providers.
- Interviews with clients in relations with third-party providers, if possible.

## **Evidence to provide**

- All contracts between the financial provider and its third-party providers.
- If available, quotes from the third-party providers' Code of Conduct referring to fair treatment of clients.
- Results from interviews with client and staff of third-party providers, if possible.
- Results from internal monitoring systems.



• Results from client satisfaction and exit studies.

#### **Resources for indicator 4.C.1.4**

- <u>Tujijenge Displays a Customer Service Charter</u>
- Aski Sanctions Code of Conduct Violations
- Examples of Discriminatory Policies and Staff Behaviors

## 4.C.2 The provider does not use aggressive sales techniques.

Aggressive sales techniques can be particularly damaging for low-income clients and those with limited financial capability, as they may be more likely to buy products due to sales pressure rather than because the product is a good "fit." Aggressive sales can mean larger outreach and bigger portfolio, but it can also lead to higher rates of default and lower customer satisfaction when client's end up with products they don't need and/or do not understand. In recruiting new clients, the provider must never resort to deceptive or aggressive practices because it will not lead to healthy growth in the medium or long term.

Examples of aggressive sales include:

- Putting pressure on a client to take a product she/he does not need/want like: calling every day, visiting the client's home or business very frequently, following them in the street, etc.
- Telling clients that there is a time limit on a specific offer ("you must sign today, because the price will go up tomorrow").
- Adding a side-product, bundled with a product the client has chosen, without informing the client (e.g.: adding an insurance without telling the client).
- Continuing to pursue a client who has clearly declined a product.
- Discouraging or preventing clients from consulting with a trusted person or from reading product information thoroughly (e.g.: the contract, etc.).
- Intimidating or threatening the client ("if you don't purchase life insurance, you are going to look like you don't care about your family").

Providers should define aggressive sales and put in place safeguards to prevent it such as monitoring and auditing staff compliance with expected behaviors by interviewing clients to ensure they were treated in keeping with the provider's values and policies. The provider needs to ensure that it sets reasonable growth targets and uses incentives schemes that do not trigger aggressive sales. Providers should conduct market studies before setting growth targets, hence, sales should be within the acceptable growth targets and any sales outside the pre-set threshold, causes the provider to investigate.

4.C.2.1 The provider has internal controls to monitor whether employees or agents are engaging in aggressive sales.

## Indicator in SPI5 Full | CP Full

This indicator's goal is to ensure that clients are not pressured into buying products they do not need/want and/or do not understand simply because the field staff wants to meet his/her targets for sales or number of new clients. The first step in preventing aggressive sales is for the provider to define what "aggressive sales" means in their culture and context.

As a first layer of control, the Operations department should have means to control such behavior. Internal Audit or Risk department should also intervene when any indicators fall outside a set range. For example, higher than average amount disbursed could trigger visits to the loan officer's newest clients to ensure sales were consensual.

## **Scoring guidance**



- Score 'yes', if (1) the provider has defined what "aggressive sales" means and which clear indicators signal a risk of aggressive selling, (2) has effectively trained all branch/field staff on acceptable and non-acceptable sales techniques, and (3) is monitoring and auditing regularly the sales practices of the branch/field staff to identify any instances of aggressive sales based on the defined indicators.
- Score 'partially', if the three above requirements are not fully met. For instance, no clear indicators are defined that signal a risk of "aggressive sales" or branch/field staff are not fully aware of acceptable and non-acceptable sales techniques or just limited corresponding monitoring and auditing.
- Score 'no', if no indicators are defined that signal a risk of "aggressive sales" and/or branch/field staff are largely not aware of acceptable and non-acceptable sales techniques and/or no corresponding monitoring and auditing.

#### **Sources of information**

- Document that contains the definition and the indicators that are used to monitor "aggressive sales".
- Interviews with branch/field staff on how sales are conducted, how difficult their sales targets are to reach, what are their commercial "tricks" to sell.
- Growth targets, incentives' schemes and their related productivity ranges.
- Sales prohibited behaviors.
- Contents, methodology, and frequency of sales training.
- Audit checklist.
- Interviews with clients.

## **Evidence to provide**

- Provide the indicators that are used, and if any, the document where "aggressive sales" is defined.
- Description of the monitoring mechanism, how often it is conducted, by whom.
- Instances of "aggressive sales" identified.
- Results from interviews.

## 4.C.2.2 The provider's incentive structure does not promote aggressive sales.

4.C.2.2.1 When front-line employees' salaries are comprised of a fixed and a variable portion, the fixed portion must represent at least 50% of total salary.

4.C.2.2.2 The provider monitors front-line employees' productivity ratios and investigates those that are above a predetermined threshold.

## Indicator in ALINUS | SPI5 Entry | SPI5 Full | CP Commit | CP Full All details: Entry CP

An incentive or bonus structure that encourages unrealistically high productivity can lead to "aggressive sales". Pro-growth metrics take various forms including new clients, growth in number of loans, growth in size of portfolio, etc. Detail 4.C.2.2.1 ensures that employees are not dependent on incentives to secure enough income for basic survival, which could otherwise lead them to "aggressive sales" practices. This detail means that, at any point of time, incentives should account for a maximum of 50% of total salary and the fixed salary must be at least 50% (the higher the fixed share of total salary the better).

For loans, the incentives' structure should consider both sales and portfolio quality and preferably also the level of compliance with client protection practices. Portfolio quality should be at least as heavily weighted as growth, with growth represented by all the progrowth variables used to calculate incentives. This ensures that sales staff will be careful as to disbursing loans that clients need and can repay.

Productivity ratios include at least (i) number and volume of disbursements per loan officer, (ii) number of active loans per loan officer, (iii) average loan size disbursed and outstanding,



and any other relevant criteria. High performance may be due to an efficient loan officer, but it also could indicate over-selling to reach targets.

#### Scoring guidance

## Detail 4.C.2.2.1

- Score 'N/A', if the provides offer fixed salaries to branch/field staff and not a flexible incentives-based salary component.
- Score 'yes', if the fixed salary of branch/field staff (1) is at least 50% of the total monthly salary at all times and also (2) represents at least a minimum living wage.
- Score 'partially', if the first requirement is not met temporarily due to exceptional circumstances, like a new branch opening.
- Score 'no', if the amount of bonus/incentive/variable salary actually paid to branch/field staff exceeds the fixed salary on a permanent basis and/or the fixed salary is below the minimum living wage.

## Detail 4.C.2.2.2

- Score 'yes', if the provider (1) has defined internal red flags for potential "aggressive sales" with clear indicators to determine if additional investigation is required, (2) monitors and audits branch/field staff productivity ratios on a monthly basis, and (3) has actually investigated and actions taken in case a red flag appeared.
- Score 'partially', if the above three requirements are not fully met. For instance, no clear indicators for potential "aggressive sales" to trigger additional investigation or lax monitoring and auditing of branch/field staff productivity ratios or late/ineffective actions taken in case a red flag appeared.
- Score 'no', if there are no indicators for potential "aggressive sales" to trigger additional investigation and/or no monitoring and auditing of branch/field staff productivity ratios and/or no actions taken in case a red flag appeared.

#### **Sources of information**

- Incentives and staff performance evaluation policies and procedures.
- Productivity ratios in the past year: number and volume of disbursements per loan officer, (ii) number of active loans per loan officer, (iii) average loan size disbursed and outstanding, and any other relevant criteria.
- Conduct an in-depth analysis of at least 12 months field staff payroll to verify these percentages. Payments to field staff with breakdown of fixed salary and incentives and calculation of percentage of fixed salary / total salary.
- Monthly branch reports on branch/field staff productivity ratios.

## **Evidence to provide**

- Description of the incentive schemes for branch/field staff.
- Results of the productivity and payroll analysis.
- Description of the red flags and monitoring process, how often and by whom.

# 4.C.3 The provider protects clients' rights to respectful treatment during the loan collection process.

It may be a challenge to convince some of the field employees to treat clients with fairness and respect during collections if this is perceived as weakness, complacency or a contradictory message to clients, or when they have the fear that there will lose options to get clients repay their loans. The provider must protect clients' rights particularly during the challenging loan collection process by specifying clearly the ethical standards expected of employees during this phase of the credit process (including staff from third-party providers, if collections are outsourced).

## Specify acceptable and unacceptable behavior



The Loan Policy & procedures manual(s) or a stand-alone loan collections manual should explain in-depth of what is acceptable and unacceptable behavior during collections and the steps to follow in the case of default, including the timeline (i.e., after how many days which specific action must be taken and after another x days what the following actions are). In addition to spelling out loan collection processes and identifying expected and prohibited treatment of clients, staff should receive training on both the policies and expectations as well as skills such as negotiating techniques, understanding clients, managing tensions, and reaching amicable agreements.

## Put collateral policies in place

Delinquent clients have the right to fair and respectful treatment. The collateral seizing policy should specify when and under what conditions seizing collateral is appropriate. It should require that staff exhaust other options before moving on to collateral seizure and that they follow local laws (e.g., obtaining a court order). The policy should also prohibit staff from forcing clients to sell their own collateral to pay off their debt, as well as the practice of clients selling collateral to staff, agents, or anyone affiliated with the provider.

If the value of the seized collateral exceeds what the client owes (the outstanding principal + accrued interest up to 180 days + any penalty fees and legal costs), the difference must be returned to the client. Finally, if it is the provider's practice to keep collateral at branch offices, it must be kept in a locked room or secure area, and the location should be noted in the client's contract.

It is important to make clients aware of collateral seizure processes before they take a loan. Doing so not only increases transparency for the client, but also creates greater accountability among staff, who will be aware that clients know their rights. The staff should allow the client to attempt to remedy the default. This policy applies to group and individual loans. In all client default scenarios, staff should not take any significant actions against the client (for example, collateral seizure) before taking the time to understand why the client has defaulted and discussing solutions for repayment. If seizure becomes absolutely necessary, it must be preceded by informing the client.

If using third-party agents to help in loan collections, the provider is ultimately responsible for the behavior of the agents' staff who should be held to the same standards of conduct as the own staff. The provider should verify that the staff of the third-party provider(s) receive training on fair and respectful recovery practices. In addition, Internal Audit should verify a sample of clients delegated to third-party agents to ensure that collection practices in these cases were in compliance with the provider's policy.

## Put in place rescheduling and write-off policies

The loan collections policy should include guidelines for rescheduling or writing off loans. The policy should specify that rescheduling and write-offs should only happen on an exceptional basis, and not as a routine reaction to delinquency. List cases of specific examples of client distress that would call for rescheduling or refinancing (e.g., pandemics, major hospitalization, natural disasters, political turmoil, etc.) and those that would call for write off. As a further protection against over-indebtedness and abuse, assess client willingness to repay as part of the loan recovery process and require that rescheduling/write-offs are authorized by a higher ranked employee than the one proposing the rescheduling, refinancing, or write-off.

## Resources

- SWADHAAR FINSERVE PVT. LTD, Code Includes Collections Procedures
- Política da SWADHAAR dobre cobrança de pagamentos devidos por clientes
- FINCOMUN introduces a "Collections with Dignity" Policy



## 4.C.3.1 The provider's collections policy includes the following:

4.C.3.1.1 A list of appropriate and inappropriate debt collections practices, including collateral seizing practices.

4.C.3.1.2 A schedule for the collections process that allows time for the debt collector to determine the reasons for a client's default and for the client to find solutions.

4.C.3.1.3 The provider informs the client prior to seizure of collateral, allowing the client to attempt to remedy the default.

4.C.3.1.4 A prohibition on sales of the clients' collateral to the provider, the staff of the provider, to their relatives, or to third parties involved in the seizing process.

#### Detail 4.C.3.1.1

The policy must define acceptable and unacceptable collection practices to clearly guide collection staff as well as the sanctions that will apply in case of a breach. It must prohibit the practice of forcing clients to sell its assets to repay their loans. The collateral seizure process should also be formalized so that clients are protected from staff overstepping their role and authorizations.

#### Detail 4.C.3.1.2

Understanding the reasons for the client's defaults allow the provider to determine if it has contributed to the default (e.g. too much credit was given, incorrect loan capacity analysis, etc.) and whether the client is willing, but not capable, to repay. This knowledge allows the provider to determine an appropriate response to the client's unique situation.

#### Detail 4.C.3.1.3

The clients' collateral may be of great importance to their livelihood or wellbeing or income generating ability. The client must be given the opportunity to remedy the late payments prior to the seizing of the collateral with appropriate and advanced information. This fair treatment of the client will build loyalty and good will for the provider among the client, his/her family, and friends.

#### Detail 4.C.3.1.4

The provider should have a section of its Code of Conduct, in their employment contract, or in another policy that the staff signs about the importance of avoiding conflicts of interest. One of the types of conflict of interest that should be specified as prohibited is the sale of collateral to the staff or their friends and family in order for the clients to repay the provider.

## Scoring guidance

Score 'yes', if a policy approved by the board (1) includes all elements listed above for each detail in clear language, (2) is understood fully by all staff concerned, and (3) is complied with by all staff involved in the loan collection process.

## Detail 4.C.3.1.1

- Score 'yes', if (1) a policy approved by the board lists appropriate and inappropriate debt collection practices, including the prohibition of forcing clients to sell assets, (2) all debt collection staff understand well the appropriate and inappropriate debt collection practices, and (3) comply fully with this policy.
- Score 'partially', if the three requirements are not met fully. For instance, the policy is not covering all relevant appropriate and inappropriate debt collection practices or not all debt collection staff understand them well or limited policy compliance.
- Score 'no', if there is no formal policy on appropriate and inappropriate debt collection practices exists and/or most debt collection staff hardly understand appropriate and inappropriate debt collection practices.

#### Detail 4.C.3.1.2



- Score 'yes', if (1) a policy specifies the timeline and the step-by-step process to take for clients in default, including allowing sufficient time for the staff's efforts to understand the reasons for the client's default and guidance to identify when clients are willing but unable to repay and what solutions should be proposed to these cases, (2) all debt collection staff understand well this policy, and (3) comply fully with this policy.
- Score 'partially', if the three requirements are not met fully. For instance, the policy does not cover all required aspects or is not specific enough or not all debt collection staff understand this policy well or only partially comply with it.
- Score 'no', if there is no formal policy on the debt collection process and/or most debt collection staff hardly understand the debt collection process.

## Detail 4.C.3.1.3

- Score 'N/A', if the provider does not take any physical loan collateral.
- Score 'yes', if (1) a policy stipulates that the client must be informed prior to the seizure of collateral to allow her/him to attempt to remedy the default, (2) all debt collection staff understand well this policy, and (3) comply fully with this policy.
- Score 'partially', if the three requirements are not met fully. For instance, the policy is not specific enough or not all debt collection staff understand this policy well or only partially comply with it.
- Score 'no', if there is no formal policy on the seizure of collateral and/or most debt collection staff hardly understand the process of seizing collateral.

#### Detail 4.C.3.1.4

- Score 'N/A', if the provider does not take any physical loan collateral.
- Score 'yes', if (1) a policy prohibits the sale of collateral of the client or her/his guarantor(s) to the provider's staff, agents, or family, (2) all debt collection staff understand well this policy, and (3) comply fully with this policy.
- Score 'partially', if the three requirements are not met fully. For instance, the policy is not specific enough or not all debt collection staff understand this policy well or only partially comply with it.
- Score 'no', if there is no such formal policy and/or most debt collection staff hardly understand that they cannot sell the client's collateral to themselves or friends.

#### **Sources of information**

- The Loan Policy & procedures manual(s), the collections manual, the Code of Conduct, a documented process for collateral seizure, etc. Any of these documents or others is acceptable as long as it meets all the criteria of the scoring guidance.
- Verify with clients and field staff that this is implemented in practice.

#### Evidence to provide

The name and page number of the policy or manual or other document where these debt collection practices are formalized and the verification of the application of the policies through observation and interviews with staff and clients.

#### **Resources for indicator 4.C.3.1**

- SMART Note Collections with Dignity at FinComún
- SMART Note Cobranza Con Dignidad En Fincomún
- SMART Note Cobrança com dignidade no FinComún

4.C.3.2 The provider restructures or writes off loans on an exceptional basis, based on a list of cases of specific distress.

Indicator in ALINUS | SPI5 Entry | SPI5 Full | CP Commit | CP Full - Entry CP



Loan restructuring and write off should not be an easy way out for poor repayment capacity analysis, but it should be offered to clients who are experiencing unexpected debt stress. The provider should have a policy or at least a formal process that defines:

- A list of cases of specific distress under which clients can be granted rescheduling or refinancing or under which loans can exceptionally be written off (e.g., natural disasters, major hospitalization, political turmoil, etc.).
- When these methods of last resort can be applied.
- The eligibility conditions for granting loan restructuring, refinancing, and write-off.

The provider should always consider loan restructuring prior to seizing assets. In addition, loan officers must be aware of the possibility of offering loan restructuring to clients and provide those who meet the eligibility conditions with the information on how to apply. To avoid abusive use of restructuring by loan officers, the procedure should include the need for approval by someone higher up than the loan officer who conducts the restructuring process.

## Scoring guidance

- Make sure the scoring is consistent with the ones for **3.B.3.1** and **4.A.2.1.2.**
- Score 'yes', if (1) a written document precisely lays out the cases of eligibility and conditions to be fulfilled for loan restructuring and write-off one of these conditions is the approval by a supervisor, (2) loan officers are well trained on when and how to propose restructuring and write-off, and (3) regular monitoring and auditing of loan restructuring and write-off.
- Score 'partially', if the three requirements are not met fully. For instance, the cases of eligibility and conditions for loan restructuring and write off are not specific enough or not all loan officers understand this policy well or only partially comply with it.
- Score 'no', if there is no restructuring policy because the provider 'never reschedules'
  and/or written document on the conditions for loan restructuring and write off and/or
  loan officers do largely not understand this policy and/or if the provider takes legal
  actions against clients who have the will but not the ability to repay, without exploring
  the possibility of restructuring.

#### **Sources of information**

- The Loan Policy & Procedures manual(s), collections procedure, write off policy, rescheduling policy.
- Interviews with Head of credit and branch staff to gauge if practice differs from policy.
- Review of the reports tracking restructured and written off loans.
- Sample files from restructured loans.
- Samples files from write off lists.

#### **Evidence to provide**

Provide the name of the document ruling loan restructuring and write-offs and describe the process and conditions. Provide examples of cases leading to restructuring and writing off loans.

#### **Resources for indicator 4.C.3.2**

• Sample Rescheduling Policy

# Standard 4D. The provider secures client data and informs clients about their data rights.

The privacy of individual client data is respected in accordance with the laws of individual jurisdictions as well as these international standards. Client data will only be used for the purposes specified at the time the information is collected from the client, or as permitted by law. Data security is a key component of confidentiality, especially in the digital age. The



provider takes the necessary steps to ensure that client data is secure, including teaching staff and clients about the importance of data security and how to keep their information private.

This standard has 2 essential practices:

- Essential practice 4.D.1: The provider maintains the security and confidentiality of client data.
- Essential practice 4.D.2: The provider informs clients about data privacy and data rights.

## 4.D.1 The provider maintains the security and confidentiality of client data.

Providers have a responsibility to protect the privacy and confidentiality of the personal and financial information of their clients. Misuse of data such as client photographs, account numbers, and personal identification documents can have devastating effects on clients. If working with third-party providers that have access to client data—for example, insurance providers, payments agents, marketing firms—they should specify that they will maintain the security and confidentiality of client data. Monitor whether third-party contractors are honoring their commitment to data confidentiality, for example by inquiring about the security of their systems, interviewing clients about their experiences regarding data security (e.g., "Did the agent ask you to sign this privacy agreement?"), and testing the agent's process through mystery shopping.

A process to safeguard data from misuse by former employees must be established like terminating the employee's login credentials promptly at their departure, collecting all work equipment (laptop, building keys, etc.), wiping (erasing the information from) the employee's personal devices (e.g., mobile phone) of company data, and other security precautions.

IT systems are also vulnerable to misuse calling for security measures to protect against unauthorized access to data—including passwords, access hierarchy, firewalls, and adequate software infrastructure. Change IT passwords periodically and structure access to data according to the position of the staff member accessing the data and their role. Additionally, back up IT systems daily, with at least one back-up stored securely off-site.

FUBODE (Bolivia) has a specific room assigned within each branch to store clients' physical documents. Each of these rooms has smoke detectors, professional cameras, motion sensors, and fire-resistant filing cabinets to store clients' physical documents. The room restricts access to only one staff member per branch. Additionally, the FSP invested an average of US \$3,500 per branch to install in each branch surveillance cameras and a panic button for each cashier as well as an alarm system monitored by a third-party central office.

Information systems should ensure the security and privacy of client data by (1) restricting employees from taking home client files or copies of the databases, (2) keeping records of the names of staff who request and/or are granted permission to access client files outside of normal conditions (e.g., after working hours), (3) keeping hard-copy client files in a secure place, with controlled access. For example, FinDev's (Azerbaijan) policy on data security states: "Loan contracts and copies of all other official documents regarding the client's loan file are kept in iron cases in the room of finance manager. Other documents are kept in locked bookcases under supervision of respective loan officer."

Plan for how to keep data safe in case of unplanned network downtime or emergency. A business continuity plan that covers several of the most likely scenarios—such as a security breach, network overload and slow down, or a natural disaster that shuts down power and connectivity—will help keep information safe during unexpected events when data could become vulnerable. Policies and procedures as well as IT systems such as firewalls and passwords help build the system necessary to ensure the safety of the clients' data.



Finally, all product contracts should include a privacy clause that specifies how data will be used and protected. This clause should be included in plain language and prominently displayed in the contract—for example, not hidden in small print. it should also be included in the Key Facts Document. For savings products, it should be clear who has access to the client's account; for credit products, clients should know whether their information will be shared with a credit bureau, or others, such as insurance companies or collections agents.

4.D.1.1 The provider has data security and confidentiality policies that cover the gathering, use, distribution, storage, and retention of client information.

## Indicator in SPI5 Full | CP Full

Regardless of national regulation, providers should have a written privacy policy and procedures that govern the gathering, cleaning, processing, use, distribution, and storage of client information. The policy should explain how the privacy and confidentiality of client data is ensured. It should specify the sanctions or penalties that will apply to any staff - also those who leave the organization - that violate the privacy policy—for example by misusing or misappropriating client data, leaking information, or exposing client data to third parties without client consent.

## Scoring guidance

- Scores 'yes', if the provider (1) has a written complete privacy policy (or formal documents) on how to ensure the confidentiality, security, and accuracy of clients' personal, transactional, and financial information covering the gathering, use, distribution, storage and retention of client information, (2) the staff understands well the privacy policy, and (3) the privacy policy is well enforced.
- Score 'partially', if the three requirements are not met fully. For instance, the written privacy policy is incomplete or the staff does not well understand it.
- Score 'no', if the provider has no written privacy policy (staff signing a confidentiality agreement upon hiring alone is no substitute!) and/or the staff is not aware of a privacy policy.

#### **Sources of information**

- Review of privacy policies and processes that may be all in one document, or spread out in different operational manuals.
- Interviews with IT department.
- Check with field officers.

#### **Evidence to provide**

Specify the documents and page numbers where the policy addresses each of the components mentioned in the scoring guidance. Complete with feedback from interviews and potential breach in data confidentiality.

#### **Resources for indicator 4.D.1.1**

- SKS and Equitas examples
- SKS (India) Protects Client Data
- 4.D.1.2 The provider maintains physical and electronic files in a secure system.
  - 4.D.1.2.1 System access is restricted to only the data and functions that correspond to an employee's role ("least privilege" principle).
  - 4.D.1.2.2 The provider controls employee use of files outside the office and the provider keeps records of the names of employees who request/are granted access to client files.
  - 4.D.1.2.3 The provider defines a clear process to safeguard client data when employees leave the organization.



## 

This indicator measures whether the provider and its staff keep client data in a secure system in line with the particular client data security practices required by the privacy policy. In particular, that safeguards are in place to prevent the theft and misuse of client data or identity by current and former staff, other clients, and external actors. The provider should also be protected against security breach, fraudulent access to its systems. Data security is critical to operational success and a positive reputation. Physical and digital data security are of equal importance and both must be planned for, implemented, and monitored to ensure client data is kept secure from misuse or exposure from internal and external actors.

## **Scoring guidance**

## Detail 4.D.1.2.1

- Score 'yes', if (1) system access to client data is restricted effectively according to staff role and hierarchy and (2) the client data system access is monitored regularly.
- Score 'partially', if the two requirements are not met fully. For instance, system access to client data is not consistently restricted to staff role and hierarchy or it is not monitored regularly.
- Score 'no', if system access to client data is not restricted to both staff role and hierarchy.

#### Detail 4.D.1.2.2

- Score 'yes', if the provider (1) controls effectively the use of files by staff outside the office, (2) keeps records of the names of staff who request/are granted access to client files, and (3) monitors regularly these two data use control systems.
- Score 'partially', if the three requirements are not met fully. For instance, the log book for files taken out of the office is not consistently applied by all staff or the application of the log book is not monitored regularly.
- Score 'no', if the provider lacks one or both control systems of client data use by staff.

## Detail 4.D.1.2.3

- Score 'yes', if the provider (1) has a clear effective process to safeguard client data from terminated or departing staff and (2) monitors regularly this process.
- Score 'partially', if the two requirements are not met fully. For instance, the process to safeguard client data from leaving staff is not effectively implemented (e.g. not timely on the very day of departure) or it is not monitored regularly.
- Score 'no', if the provider has no system to safeguard client data from leaving staff.

#### **Sources of information**

- Branch observation of how employees access physical and electronic client files.
- Interview with the IT Director or MIS manager.
- Document listing the MIS profiles and their corresponding levels of access (authority matrix).
- Any document ruling the circulation and safeguarding of physical client files.
- HR and IT process at employee departure/ termination of contract.

## **Evidence to provide**

- Specify what types of systems are in place to ensure client data security.
- Description of the monitoring process of logs to electronic systems, to client files and to safes.
- Describe the process at the departure of an employee.
- List documents and pages for each of the three details above.

## Resources for indicator 4.D.1.2



### Smart Campaign's Smart Note on Caja Morelia

#### Field Example

#### Equitas Protects Client Data

Equitas (India) was the first MFI in India to have a core banking solution, TEMENOS-T24. This product is an extension of T24 Banking software, developed specifically for microfinance and the community banking sector. Client information is highly secured and well protected in TEMENOS, with defined user access and passwords. All back-office employees are trained in the usage of this system. Branch staff do not have access to client data, except what is necessary to handle collections through the collection sheets. Equitas has a distinct client filing system and safe storage of the client information files. Soft copies of client files are stored in the software while hard copies of client files and loan documents are coded, stacked, and kept secured at a data warehouse in Chennai. Equitas invests regularly in IT audit and maintenance to review client security.

4.D.1.3 The provider conducts a risk assessment to identify the data-related risks to clients. Minimum frequency: annual.

## Indicator in SPI5 Full | CP Full

The indicator measures whether client risks related to data security are identified and managed proactively to ensure that all necessary security and privacy controls are in use and updated at least annually. The risk assessment should identify any weaknesses in information security and privacy controls. If operations are significantly digitized then it should be done more often than once a year. A data risk assessment is also necessary when introducing a new product or feature, or after a data breach, to document lessons learned and improve controls and reduce the likelihood of a similar breach in the future. If the provider has not qualified staff (risk management department or audit) for data risk assessments, it must contract external specialists.

## **Scoring guidance**

- Score 'yes', if the provider has conducted a (1) qualified regular client data risk assessment during the past 12 months, but preferably during the past 6 months when operations are significantly digitalized, and (2) qualified specific client data risk assessment following a data breach or the introduction of a new product or feature.
- Score 'partially', if one of the two requirements are not met fully. For instance, the data risk assessment(s) is(are) not fully qualified or the last regular client data risk assessment has been conducted within the past 12 to 18 months only.
- Score 'no', if the provider does not carry out regular client data risk assessments every 18 months or its client data risk assessment(s) are of poor quality.

## **Sources of information**

- Interviews with Risk Management department or Internal Audit department.
- Annual plan for risk / audit / IT.
- Data security policy or privacy policy.
- Data risk assessment reports.

### **Evidence to provide**

- Description of who conducts the data risk assessment and how often.
- Summary of the results of the most recent data risk assessment.
- Page from the Risk department or Internal Audit department annual plan that requires the risk assessment.



4.D.1.4 If the provider works with third parties that have access to client data, the provider's agreements specify that third parties will maintain the security and confidentiality of client data.

## Indicator in SPI5 Full | CP Full - Advanced CP

Third parties must be held to the same standards of preserving security and privacy of client data. Any third party that gets access to clients' information—credit bureau, agent network, insurance company, collection agencies, mobile operators etc.—must also keep client data secure and confidential. NDA (non-disclosure agreement) should be signed or should be part of the full agreement/contract with third parties. The non-disclosure agreement must cover expectations related to security and confidentiality of the clients' data.

In the specific case of a credit bureau, the confidentiality needs to be addressed within the framework of what credit bureau are authorized to disclose. In any case, security of client data remains an important element to cover.

## **Scoring guidance**

- Score 'N/A', if the provider does not use any third parties.
- Score 'yes', if the provider (1) has agreements with third parties that cover the security and confidentiality of client data (or has corresponding non-disclosure agreements) and (2) monitors regularly compliance with client data security and confidentiality by the third parties and (3) no breach has been observed during the past year.
- Score 'partially', if the first two requirements are not met fully. For instance, the agreements (or non-disclosure agreements) with third parties do not cover all the data security and confidentiality standards of the provider or compliance by all third parties is not monitored regularly.
- Score 'no', if the provider's agreements with third parties lacks its data security and confidentiality standards and there are no such non-disclosure agreements.

#### **Sources of information**

- Review agreements with each third party.
- Procurement policy/procedures.
- Interviews with clients, if possible.

#### **Evidence to provide**

- List all the third parties that may have access to client data and verify whether there is a privacy clause or NDA.
- Provide a sample of the language in these agreements with third parties.

# 4.D.2 The provider informs clients about data privacy and data rights.

Providers should be careful stewards of clients' personal and financial information to build trust with clients and a reputation as a responsible actor in the sector. Especially with the rise of digitalization, the protection of the security and confidentiality of client data becomes a much more extensive and intensive undertaking. Digital channels make control of the clients' data more difficult because the provider can no longer rely on the safekeeping of the physical files to be enough to ensure its safety. In some markets this has been an issue for a decade while in other markets digitalization has only proliferated since the Covid-19 pandemic. However, no matter where the provider is in its journey toward digitalization, it is important to take staff and clients along on that journey by providing sufficient digital education so that both staff and clients have the necessary tools and knowledge to keep their personal and financial information safe.



Starting at the time of application, the provider should obtain client consent before sharing personal information with any external audience, including credit bureaus, family members, guarantors, insurance agents, collections companies, and marketing material (e.g., annual reports, website), or other public content. This encourages a relationship of trust and respect. For instance, the provider requires clients to name one beneficiary for their life insurance policy so as to safeguard the clients' account from all other people who have not been named as the beneficiary.

When talking to clients, emphasize the clients' own responsibilities for keeping data private, such as storing records in a secure location and not sharing personal identification numbers (PINs). Finamérica (Colombia) publishes a brochure for clients with tips for information security, including the following: avoiding bank employee impersonators, avoiding robbery, keeping debit cards secure, protecting personal information, and how to contact the bank if a security problem is detected.

#### **Resources for 4.D.2**

- Sample Consent Form for Sharing Client Data
- How Unauthorized Data Sharing Can Hurt Your Institution

4.D.2.1 The provider explains to clients how it will use client data, with whom it will share the data, and how third parties will use the data. The provider receives clients' consent before using or sharing their data.

## ▶ Indicator in ALINUS | SPI5 Entry | SPI5 Full | CP Commit | CP Full - Entry CP

This indicator measures whether the provider has sought an environment of informed consent with its clients on the collection, use, and sharing of the client's personal data. The sales process should include a clear explanation of how client data will be used or shared. If third parties such as the credit bureau, or an insurance company receive any piece of client information, clients need to be aware who will receive what information, and for what specific purpose these third parties use the data.

#### Examples of data sharing:

- Reporting client data to credit bureaus.
- Using client data for marketing, (client personal/individual data, stories and picture, quotes, satisfaction survey results....).
- Selling client data to third parties.
- Delegating collections of delinquent loans to specialized collection agency.
- Using client geo-location data.
- Using client personal data to inform loan decision (apps that look into your social networks, your contacts, your pictures...).

## **Scoring guidance**

- Score 'yes', if the provider has an effective process in place to clearly inform all clients about (1) how it will use their data and (2) with whom and for what purpose it will share their data (3) PRIOR to the client's signing of the contract/consent document and (4) monitor regularly the effectiveness of this process.
- Score 'partially', if the four requirements are not met fully. For instance, the provider provides this information in full, but AFTER the client signs the contract, or the provider only informs the client to consult the credit bureau without mentioning that her/his own loan information and status will be shared.
- Score 'no', if the provider fails to explain systematically to clients how and with whom it will use their data.

#### **Sources of information**

• A template contract and/or a sample client loan application.



- Listening to the sales pitch, contract signing, and disbursement to hear how staff address the issue of data privacy and consent.
- Client interviews to gage their understanding of the use and/or sharing of their data.

## **Evidence to provide**

Note when the data sharing is explained, and how, and how well clients understand the use and sharing of their data.

## 4.D.2.2 Information about data use and consent is easy for clients to understand.

4.D.2.2.1 When requesting consent from clients to use their data, the provider explains in simple, local language, either in writing or orally, how it will use the data.

4.D.2.2.2 The provider trains clients on the importance of protecting their personal information including Personal Identification Numbers (PINs), savings account balances and information on repayment problems.

4.D.2.2.3 The provider gives clients the right to withdraw their permission to use data and explains any consequences of withdrawal.

## **▶** Indicator in SPI5 Full | CP Full Details 4.D.2.2.1 and 4.D.2.2.3: Advanced CP

In addition to having secure internal systems for keeping client data safe, the provider must be completely transparent with clients about how (and by whom) their personal information will be used, and must get their consent before using or sharing their data. In the case of credit bureau consent, the provider has to explain both: (i) consultation of the client's credit history and (ii) reporting the client's credit information to the credit bureau. The client must give her/his consent at time of application since the credit bureau check will be done before signing the loan contract. The provider must also allow clients to retrieve and delete their data from the systems (right to oblivion), especially when a client opts out of a service. This is specifically important with digital financial service providers who may have access to external and private data from the client's device.

Especially in cases where clients' have low levels of literacy it is important to provide a clear and systematic explanation and confirm through Q&A that the clients understand the information imparted.

## **Scoring guidance**

#### Detail 4.D.2.2.1

- Score 'yes', if the provider has an effective process in place to (1) explain in simple, local language, either verbally or in writing, to all clients about how their data will be used when requesting their formal consent to use their data and (2) monitor regularly the effectiveness of this process. Note: Internet links to disclosure statements are not sufficient.
- Score 'partially', if the two requirements are not met fully. For instance, not all clients are well informed about their data use (like group loan borrowers who missed the initial group meeting) or not enough effort is given to explain the data use to clients with low formal literacy levels or no regular monitoring on whether all client segments do understand the use of their data.
- Score 'no', if the provider fails to meet the first or both requirements. For instance, a significant number of clients do not understand how their data is used and/or the provider informs clients only by internet links to disclosure statements.

## Detail 4.D.2.2.2

• Score 'yes', if the provider has an effective process in place to (1) train all clients on the importance of protecting their personal information and on how to protect it, incl. Personal Identification Numbers (PINs), savings account balances and information on repayment problems, and (2) monitor regularly the effectiveness of this process.



- Score 'partially', if the two requirements are not met fully. For instance, not all clients protect well their personal information or not enough effort is given to explain on how to protect their personal information to clients with low formal literacy levels or no regular monitoring on whether all client segments do understand on how to protect their personal information.
- Score 'no', if the provider fails to meet the first or both requirements. For instance, a significant number of clients do not understand on how to protect their personal information and/or clients are neither systematically informed about the importance of protecting their personal information nor on how to protect it.

## Detail 4.D.2.2.3

- Score 'yes', if the provider has an effective process in place to (1) inform clients of their right to withdraw their permission to use their data, (2) explain any consequences of withdrawal, and (3) monitor regularly the effectiveness of this process. The right to withdraw access to data and what consequences come with withdrawal of data access should be included in the contract, or provided on any publicly available material, so that the clients can refer to it later.
- Score 'partially', if the three requirements are not met fully. For instance, the provider informs clients only orally about their right and the consequences of withdrawing their permission to use their data or some clients have not been informed for whatever reasons about their right and the consequences of withdrawing their permission to use their data.
- Score 'no', if the provider fails to meet the first two or all three requirements. For instance, a significant number of clients are neither aware of their right to withdraw their permission to use their data nor of the consequences of the withdrawal.

#### **Sources of information**

- Contract template; loan application form; consent form (credit bureau, insurance, digital information accessed on the mobile, etc.).
- Review of a few client files.
- Interviews with clients and field staff.
- listening to the sales pitch and signing stages of the credit process.
- Check if this topic is covered in the training offered at group meetings or during the disbursement of individual loans.

## **Evidence to provide**

- Describe how each of these topics are addressed, by whom, in what format, and at what moment of the sales and signature process.
- Results from interviews.

4.D.2.3 The provider notifies clients of their right to review and correct their personal and financial data.

## Indicator in SPI5 Full | CP Full

Client data is personal and ultimately belongs to the client. The provider must have an effective system for updating clients' data and informing them about their right to review/update their data and educate them on the importance of maintaining accurate information.

#### **Scoring guidance**

• Score 'yes', if the provider has an effective process in place to (1) inform all clients about their right to correct and update their personal and financial data, (2) facilitate clients in correcting their data in convenient and effective ways, and (3) monitor regularly the effectiveness of this process.



- Score 'partially', if the three requirements are not met fully. For instance, not all clients are informed about their right to correct and update their personal and financial data or clients face technical challenging in correcting their data.
- Score 'no', if one of the first two or both requirements are not met. For instance, most clients are not aware of their right to correct their personal and financial data and/or most clients fail in correcting their data.

#### Sources of information

- Observation of staff communication with clients.
- Policy / process for updating/verifying clients' data.
- Interviews with customer service, MIS or database management etc.
- Interviews with clients.

## **Evidence to provide**

- Description of data processing and review system.
- Description of campaigns to update client data.
- Results from interviews.

# Standard 4E. The provider receives and resolves client complaints.

Open lines of communication between the provider and its clients are essential to building trust, resolving issues, and improving products over time. Providers should have multiple channels by which their clients can reach them to report a complaint. However, it is vital that managers and staff recognize that clients call or write for a variety of reasons aside from complaints e.g., with questions, to request additional products, to make suggestions, to request assistance, etc. A Complaints Handling Mechanism constitutes various convenient and affordable channels of communication to connect the provider to its clients for the benefit of both the clients and the provider. Staff should not see it negatively as a convenient way for clients to complain about staff.

This standard has 3 essential practices:

- Essential practice 4.E.1: The provider has a complaints mechanism that is easily accessible to clients and adapted to their needs.
- Essential practice 4.E.2: The provider resolves complaints efficiently.
- Essential practice 4.E.3: The provider uses information from complaints to manage operations and improve product and service quality.

# 4.E.1 The provider has a complaints mechanism that is easily accessible to clients and adapted to their needs.

Providers must have a Complaints Handling Mechanism that allows clients to raise issues, make complaints, and ask questions. An effective mechanism allows for a timely response to clients, and it enables providers to address both individual and systematic problems. It empowers clients to deal with questions and problems, making it more likely that they will be informed, confident consumers. It also gives providers the opportunity to resolve questions and complaints before they interfere with client loyalty and retention. Many issues are fairly simple to resolve—for example, questions about insurance benefits or complaints about a non-responsive ATM—and are not worth losing clients. Responsiveness of the providers also makes it less likely that dissatisfied clients hurt their reputation in the market.

Whatever mechanism(s) chosen, providers must put in place a specific complaints policy that includes the following elements:



- Resolution procedures: Define how to manage and resolve complaints, including what types of complaints can be handled by the person receiving the complaint (loan officer, branch manager), and what types should be referred to designated complaints personnel or management.
- Reporting system: The system should ensure that employees register all complaints—for example, by using a numbered register or tracking in a database that allows to follow the case through to resolution, and to analyze complaints in aggregate.
- Communication with agents: If clients have complaints about a third-party provider or agent (e.g., external collections agency, insurance company, digital POS), clients should be able to complain directly to the third party OR to you. Ask the external provider for access to client complaints made by clients. Clients see third-party providers and agents as an extension of their providers, so it is important to know about client complaints against the third-party providers. If third-party providers will not share an aggregated monthly list of the complaints against them, then the providers should train their clients to complain about the agents directly to them.
- Defined timelines: quick responses to client complaints, ideally within 24 or 48 hours for most complaints and questions and within no more than a month of submission for serious/complicated cases. Resolution time should be based on the severity of the complaint. Many issues can be resolved on the same day they are raised. These issues include the "frequent questions/complaints" that all employees are authorized to handle. Others will require follow-up and investigation, such as accusations against an employee or problems using a product or service. Create a timeline for complaints resolution, including realistic but responsive timeframes for dealing with these different types of issues.

The Complaints Handling Mechanism refers to the process of recording a complaint in a database, recording the steps taken toward resolution, and documenting the final resolution. This process must facilitate analyzing the database of complaints to assist the provider in identifying trends and provider-wide issues. This process should be as automatic as possible. For example, each complaint is recorded in an internal database and is automatically assigned a reference number. Additional database entries are recorded when that complaint is "in process" (e.g., being reviewed by an Ethics Committee), and when it is resolved. The database should allow providers to easily aggregate complaints from all different channels and analyze them by type (e.g., loan questions, employee misconduct, problems with infrastructure), location, and other relevant factors. Ideally, the database will also generate reports on complaints trends – these should be shared with management and the board on a regular basis.

## Inform clients on their right to complain

Inform clients of their right to complain and explain to them how to use the complaints mechanism(s). Provide a verbal explanation during the product application process—for example, at the time of the application interview, orientation sessions, and/or disbursement. At the same time, prominently display written information on how to submit a complaint in branch offices (posters, brochures) and/or in product documentation. For example, Equitas (India) prints on each client passbook phone numbers for the following people/agencies: Equitas' CEO's office, Equitas' internal ombudsman, and the national regulator.

Make sure clients know how to bypass a particular staff member, especially their loan officer, to make a complaint—particularly if the complaint is related to that person. Also, inform clients about complaints mechanisms available outside of their providers, for example national networks, local ombudsman, or a self-regulatory organization such as a consumer protection organization.

The Complaints Handling Mechanism should make it possible for staff to inform clients when a complaint is resolved, and to stay in touch along the way if the resolution process requires client involvement or is taking a longer time. Clients should also be able to follow up on their complaint, if they have a question during the resolution process.

Research Indicates that Clients are not Informed on Complaints Mechanisms



## **Train employees**

Provide training to employees on how the complaints mechanism(s) works. The training should cover how the complaints mechanism(s) works, the role of complaints staff, how to appropriately manage complaints until they are resolved, and how to refer them to the appropriate person for investigation and resolution. While all employees should memorize the customer service hotline number, for example, many other aspects of the training should be position-specific, as complaints handling responsibilities vary dramatically across the organization. For example, loan officers may be responsible for informing clients about the mechanism during orientation, referring clients to it during the loan cycle, and reminding clients about it during group meetings. The training (and the staff book of rules) should be very clear on the importance of using the mechanism(s) correctly, and it should specify sanctions for staff that will fail to report a complaint.

Verify that third parties (e.g., agent network managers) train their own representatives on how the complaints mechanism(s) works, the role of complaints handling staff, how to appropriately manage complaints until they are resolved, and how to refer them to the appropriate person for further investigation and final resolution.

#### Resources

- Example Staff Responsibilities for Complaints Resolution
- Yehu Microfinance Surveys Clients on Which Mechanisms to Create

4.E.1.1 Clients have a way to submit complaints to persons other than their loan officer/product officer and that person's supervisor.

## Indicator in ESG Risk | ALINUS | SPI5 Entry | SPI5 Full | CP Commit | CP Full - Entry CP

The Complaints Handling Mechanism should allow clients to circumvent the person who is managing their product. For example, a borrower should be able to bypass loan staff and complain to a customer service representative, and a client sending payments should not have to complain to the sending agent, but rather have the option of calling a help line. Such mechanism protects clients from retaliation, burial or mishandling of the complaint. Most clients would rather suffer in silence than risk losing access to their financial products and services.

## Scoring guidance

- Score 'yes', if the provider (1) offers at least one convenient channel by which clients can submit complaints that allows them to circumvent their primary point of contact (e.g. their loan officer) and (2) monitors regularly the effectiveness of such channel(s) of the Complaints Handling Mechanism.
- Score 'partially', if the two requirements are not met fully. For instance, only few clients use this channel or any other channel of the Complaints Handling Mechanism or the channel is not functioning well (e.g. hot line number is mostly busy) or the complaint response time is longer than indicated.
- Score 'no', if clients can only submit complaints to their primary point of contact.

#### **Sources of information**

- Complaints handling policy complaints channels.
- Interview with the complaints or customer service manager.
- Interview with clients.

#### **Evidence to provide**

Description of all the channels by which clients can submit their complaints without going through their direct contact in the provider.



4.E.1.2 The provider has at least two complaints channels that are free of charge and accessible to clients.

## Indicator in SPI5 Entry | SPI5 Full | CP Full - Entry CP

The Complaints Handling Mechanism(s) should be adapted to clients' needs and preferences, and it should be easily accessible for the majority of clients. Usually, this requires both a cost-free number that clients can call, as well as in-person customer service representatives. Complaints & Suggestion boxes are insufficient as illiterate clients cannot write suggestions/complaints, making a complaint in writing presents the added burden of travel to the branch, confidentiality is often limited, and these boxes were often only checked on a monthly basis. Providers should also offer other channels such as a complaints hotline, and make regular visits to client centers or businesses, or call some clients to inquire about any problems they may be experiencing. The channels must be convenient, accessible for illiterate clients, and allow the providers to respond in a timely way.

## **Scoring guidance**

- Score 'yes', if the provider (1) offers at least two different channels by which clients can submit complaints (2) which are for the clients free-of-cost and easy to use and (3), if applicable, at least one of those channels needs to be accessible to illiterate clients.
- Score 'partially', if the three requirements are not met For instance, only few clients use these channels or one of two channels is challenging to use (e.g. poor internet access).
- Score 'no', if one and/or both of the first two requirements are not met. For instance, clients have just one channel and/or no two channels are free-of-costs for clients.

#### **Sources of information**

- Complaints reports.
- Interviews with the head of complaints.
- Interviews with customer service representatives/manager.
- Complaints handling policy or matrix.
- Interview with clients.

## **Evidence to provide**

Description of all the active complaints channels that clients access and any costs associated with any of those channels.

## 4.E.1.3 The provider informs clients how to submit a complaint.

4.E.1.3.1 The provider displays information on how to submit a complaint in branch offices, at agent locations, in product documentation, and in all digital channels it uses to provide services to clients.

4.E.1.3.2 At the time when clients are applying to use a product, the provider informs clients on how to submit a complaint both to itself and to any third party partner.

Indicator in ALINUS | SPI5 Entry | SPI5 Full | CP Commit | CP Full Detail 4.E.1.3.1: Entry CP

Detail 4.E.1.3.1: SPI5 Entry | SPI5 Full CP Full - Advanced CP

The Complaint Handling Mechanism is only efficient, if clients know about it and are encouraged to use it. The details of this indicator explain the basics of how to inform clients about their right to file complaints, and how to do so. Providers can provide this information in a variety of ways that include in writing through loan contracts, a Key Facts Document, a brochure, via TVs and posters at the branches, social media, posters at agents' locations, the website, digital channels such as the provider's App, and orally during the product application and client orientation processes.



This includes how clients submit a complaint not only to their provider, but, if available, also to a self-regulatory organization or public sector ombudsman. Provider must inform clients about how to submit a complaint against third parties as well. This process should include at least 2-3 moments in the customer journey when the client receives this information so that they can internalize it. One of those moments must be the product application process.

If providers have branch offices, agent locations and/or digital channels, then they must include information on how to submit complaints at each of these locations.

#### **Scoring guidance**

#### Detail 4.E.1.3.1

- Score 'yes', if the provider has a systematic process and visible means in place to (1) share information with all clients at all locations for transactions (each branch office, agent location, and digital channel) about their right to complain and how to submit a complaint differentiated by channel and (2) monitor regularly the effectiveness of this process.
- Score 'partially', if the two requirements are not met fully. For instance, visible means are not available in all locations or not all clients have access to the visible means (e.g. group borrowers missing their initial group meeting) or explanations on how to submit a complaint do not exist for all channels.
- Score 'no', if the first requirement is not met. For instance, there are no or some visible means at a few branch offices and not at agent locations and/or there are no or not comprehensible explanations on how to submit a complaint.

#### Detail 4.E.1.3.2

- Score 'yes', if the provider has a systematic process in place to (1) inform all clients on how to submit a complaint about their provider or its third-party (differentiated by channel) at the time when clients are applying for a product and (2) monitor regularly the effectiveness of this process.
- Score 'partially', if the two requirements are not met fully. For instance, not all clients are sufficiently informed on how to submit a complaint or clients receive explanations on how to submit a complaint for some channels only thereby reducing their choice among channels.
- Score 'no', if the first requirement is not met. For instance, most clients are not systematically informed on how to submit a complaint when applying for a product.

#### **Sources of information**

- Any documentation given to clients that contains the customer complaints channels.
- Interviews with clients to verify that they know how to make a complaint.
- Interview with field staff to talk about the channels, when clients receive information about how to make complaints, and to understand the perspective from the field on the most used channels and most frequent complaints.
- Observation in the branches to see how the complaints mechanism(s) is displayed to clients.

#### **Evidence to provide**

- Description of the written and oral communication channels used to share this information.
- Transparency checklist, any checklist that field staff use to ensure they fully inform clients.
- Description of how the provider educates the clients about complaints submission, including title and page number of a policy or documented process if applicable.
- Checklist of information to be communicated to the client, including informing the clients about complaints mechanism(s).



4.E.1.4 If the complaint mechanism initially handles complaints through automated means, the provider makes a channel with live, human interaction available to clients.

#### Indicator in SPI5 Full | CP Full

Human interaction is critical for many reasons:

- Many clients do not trust the effectiveness of automated systems yet and prefer to communicate directly with an employee.
- Some clients feel more confident that their complaints will be taken seriously if they are expressed to a human being.
- The opportunity to listen to clients and understand the details of the situation can help the provider understand its clients' needs and challenges.
- Clients may not be aware of how to use automated systems.
- In case clients do not choose the right options, the provider needs to interact directly with the clients to ensure they can submit their complaint properly.

#### **Scoring guidance**

- Score 'N/A', if complaints are not handled through automated means.
- Score 'yes', if the provider offers a complaints channel with live, human interaction apart from its (initially) automated channel which is easily accessible and free-of-charge for clients.
- Score 'partially', if the requirement is not met fully. For instance, few clients use the live channel as it is inconvenient and costly for them.
- Score 'no', if the provider does not offer a complaints channel with live, human interaction.

#### **Sources of information**

- Complaints handling policy and mechanisms.
- Review and testing of how the automated complaints channel works.
- Interviews with customer service and complaints handling staff.
- Interviews with clients.

#### **Evidence to provide**

- Description of the Complaints Handling Mechanism(s) and channels and confirmation that human interaction is possible.
- Results from interviews.

#### 4.E.2 The provider resolves complaints efficiently.

While complaints often focus on dissatisfaction—about not being approved for a loan, for example—the Complaints Handling Mechanism(s) may uncover more serious issues like employee fraud, mistreatment of clients, or other unethical behavior. It is critical that providers are able to correct mistakes, rectify omissions, and address activities that may be harmful to clients. In addition to responding to individual client issues, providers should be able to aggregate, analyze, and report on client complaints information. The designated complaints personnel should evaluate overall trends to identify any systemic problems that go beyond individual grievances. Chronic or repeating issues may call for changes to operations, products, and/or training in order to provide better service and rectify those areas that are frequent subjects of complaint. For example, recurring complaints about long lines in the branch may highlight the need to change the branch layout, open a new teller window, or provide digital channels. Regular complaints about being denied a loan in a particular branch may indicate the need to review how the field staff in that branch are conducting loan analysis or client targeting.



Management should review complaints data on a regular basis. Complaints reports should describe the number of client complaints received in a time period and over time, the mechanisms used to receive complaints (e.g., 60 percent of complaints received through hotline and 40 percent in the branch), and the issues raised by clients (e.g., interest rate complaints, confusion on savings product terms). Look for potential operational and product-related issues that are systemic and/or consistent over time, and discuss possible improvements to operations and products that would resolve those issues and reduce the number of similar complaints in the future.

Complaints data is a valuable form of market research. Providers should certainly employ other methods of market research to inform product design and delivery, as questions/complaints are biased toward clients with grievances against their provider. However, frequent client questions can reveal operational issues such as gaps in field staff knowledge, and complaints can spur product design ideas such as a grace period for loyal clients or a new home improvement loan. Such information, when analyzed and discussed by management, can also help providers narrow the focus of additional market research.

Finally, verify the effectiveness of the Complaints Handling Mechanism(s) on an ongoing basis. Internal Audit or some other controls team should conduct periodic checks to assess how many complaints are being registered—in order to test whether clients are using the system actively—and what actions were taken to resolve complaints. It is helpful to investigate a sample of complaints, which would include follow-up with clients, to monitor not only whether the issue was resolved, and how quickly, but also whether the client was informed of the outcome and satisfied with the result.

#### Resources

- Example Complaint Trends and Operational or Product Improvements to Address Complaints
- Using Client Feedback to Improve Communication
- Example Complaints Analysis Report
- Advertise "Questions and Complaints"
- Tameer Bank Creates a Complaints Mechanism
- Monitoring Individual Repayment in Group Guarantee Mechanism

4.E.2.1 The provider's complaints policy identifies levels of severity and requires that severe complaints are escalated immediately to senior management.

#### Indicator in SPI5 Entry | SPI5 Full | CP Full – Advanced CP

It is critical to effective and strategic complaints handling to have types of complaints categorized by levels of severity, so that anyone who may receive a complaint directly from a client can escalate certain urgent topics directly to senior management or the Ethics Committee. For example, any instances of data breach, fraud, abuse etc. need to be taken very seriously and acted on rapidly.

- Score "yes", if the provider has a formal document or a policy for the management of client complaints that includes (1) an escalation policy ranking the types of complaints by severity and defining the person responsible to handle that complaint and (2) a process for escalating urgent/severe complaints to senior management, Internal Audit and/or an Ethics Committee who can resolve these more sensitive cases. (3) The provider monitors regularly the effectiveness of both the escalation policy and its process.
- Score 'partially', if the three requirements are not met fully. For instance, the ranking of complaints is incomplete or the escalation process is not clearly defined.
- Score 'no', if the client complaints are not ranked by severity and/or no process is in place to escalate urgent/severe complaints to senior management.



#### **Sources of information**

- The complaints handling policy, with an escalation matrix.
- Escalation policy, matrix (list of categories and responsible person).
- Interviews with Complaints Handling Manager and field staff.

#### **Evidence to provide**

The title and page number of the complaints handling policy that describes how complaints are (1) categorized by severity and (2) escalated as needed, and summary/examples on how it is applied in the field.

4.E.2.2 The provider's complaints mechanism ensures that all formal complaints are registered in a secure system that reaches the complaints handling staff and/or management.

#### Indicator in SPI5 Entry | SPI5 Full | CP Full - Advanced CP

It is critical for providers to have a complaints mechanism that captures each and every incoming feedback from clients, and ensures no complaint can be hidden or buried. Without such a system it is extremely difficult, if not impossible, to ensure that all complaints are collected, tracked to completion, and analyzed for trends and action items that emerge from the data. It will also allow to consolidate and analyze the complaints they receive from all different channels. This applies only when clients use one of the existing formal channels, rather than when they use informal channels.

#### Scoring guidance

- Score 'yes', if the provider (1) has a systematic process in place to enter client feedback from all channels into a database for registry and tracking, (2) a complaints handling staff reviews these complaints daily and provides solutions or escalates the case as appropriate, and (3) the effective functioning of this complaints database and handling process is monitored regularly.
- Score 'partially', if the three requirements are not met fully. For instance, client feedback is registered and tracked just from the hot line and web-based channels, but not from the branch level or the complaints handling process is sometimes interrupted due to staff non availability.
- Score 'no', if a central database to register and track all complaints does not exist and/or a complaints handling process is not in place.

#### **Sources of information**

- Interviews with staff and managers responsible for complaints handling, data entry, data analysis, etc.
- Branch observations.

#### **Evidence to provide**

Description of the process and system/software that the provider uses to collect and document its complaints, summary of observations, examples of the flow of information on complaints.

#### 4.E.2.3 The provider resolves client complaints quickly.

4.E.2.3.1 The provider sends to clients a confirmation of receipt of their complaints and a notification when the complaint has been resolved.

4.E.2.3.2 If a provider receives complaints via call centers or chat, it monitors the average wait time.

4.E.2.3.3 The provider resolves at least 90% of complaints within one month. If the resolution takes longer than one month, the provider notifies the client of the reason for the delay.



### Indicator in SPI5 Full | CP Full Detail 4.E.2.3.3: Advanced CP

The one-month delay is the high ceiling and takes into account complaints that can potentially require in-depth investigations. In the digital age it is important for providers to resolve their clients' complaints quickly – usually within 24-48 hours to demonstrate that the provider is modern and responsive to its clients' needs.

#### **Scoring guidance**

#### Detail 4.E.2.3.1

- Score 'yes', if the provider has a systematic process in place of sending all clients (1) a confirmation receipt whenever they submit a complaint and (2) a notification when their complaint has been resolved. (3) The provider monitors regularly the effectiveness of its clients' notification system.
- Score 'partially', if the three requirements are not met fully. For instance, not all clients receive complaint receipts and/or resolution notifications or frequent technical problems with the automated client communication system(s).
- Score 'no', if the provider has no system in place of sending complaint receipts and resolution notifications to clients.

#### Detail 4.E.2.3.2

- Score 'N/A', if the provider has neither a call center nor a chat room for client complaints.
- Score 'yes', if the provider (1) has a systematic process in place of monitoring the average wait time before clients' calls or chats are answered and (2) monitors regularly the average wait time.
- Score 'partially', if the two requirements are not met fully. For instance, frequent technical problems with the automated wait time measurement.
- Score 'no', if the provider does not monitor the average wait time before clients' calls or chats are answered.

#### Detail 4.E.2.3.3

- Score 'yes', if the provider (1) has a systematic process in place of tracking the time used to resolve complaints, (2) resolves at least 90% of complaints within one month, (3) notifies clients of the reason for delay, if the complaint resolution takes longer than one month, and (4) monitors regularly the average complaints resolution time.
- Score 'partially', if the second or third requirement is not met. For instance, non-achievement of the target to resolve at least 90% of complaints within one month or not all clients are notified when the resolution of their complaints takes longer.
- Score 'no', if the provider has no process in place of tracking the time used to resolve complaints.

#### **Sources of information**

- Complaints handling reports that specify the average length of time for complaints to be resolved, number of complaints that take longer than a month to resolve, average wait times for customers etc.
- Complaints handling policy or documented process that outlines when customer's receive notification from the provider during the handling of their complaint.
- Reports on data and trends related to complaints handling and resolution.

#### **Evidence to provide**

- List when the client received notification from the provider during the complaints handling process.
- Note the average wait times for clients to receive attention in person and online.
- Note the average time to resolve a complaint and how many/what percentages are classified as complicated, as well as the average time needed to resolve the complicated cases.



4.E.2.4 Complaints handling staff have access to relevant client data, including transaction details and notes from previous complaint conversations.

#### Indicator in SPI5 Full | CP Full

In order for complaints handling staff to be effective and efficient in their jobs, they need to have access to the relevant information about the clients who are calling to complain and their history of interactions with the provider. This is most easily done by providing access to the client management system, that allows the staff to view the clients' information and the notes that other staff may have made in regard to the clients' behavior or case details.

This indicator is especially relevant when complaints management is outsourced.

#### **Scoring guidance**

- Score 'yes', if the complaints handling staff can access client data, including (1) transaction details and 2) any notes from previous calls with the provider.
- Score 'partially', if the complaints handling staff has access only to the transaction details or notes from previous calls.
- Score 'no', if the complaints handling staff has neither access to the transaction details nor to notes from previous calls and/or the provider has no complaints handling staff.

#### **Sources of information**

- Review the screens that customer service representatives see when they are talking to a client, or entering a complaint.
- Interviews with the complaints handling staff and manager.
- Review the complaints handling policy or processes to see if it describes these things.

#### **Evidence to provide**

Describe the types of data that the staff has access to when they are handling a complaint from a client.

### 4.E.3 The provider uses information from complaints to manage operations and improve product and service quality.

Excellence in customer complaints handling requires a three step process that involves 1) collecting customer complaints from a variety of channels that are accessible and affordable for clients, 2) resolving these complaints in a timely fashion and in accordance with their severity and 3) aggregating and analyzing the customer complaints data on a regular basis to use this information to inform strategic and operational decisions that improve the customer experience and reduce the frequency of customer complaints about those topics in the future. Analyzing customer complaints data converts client's questions and problems into business intelligence for the provider and allows it to improve client satisfaction and retention while improving customer service and product offerings.

4.E.3.1 The complaints system creates a report for management and customer care staff. Minimum frequency: monthly.

#### Indicator in SPI5 Full | CP Full

In order to aggregate and analyze the complaints data, the provider should have a database that generates reports on summarizing complaints data collected by category, severity, time period, branch, etc.



#### **Scoring guidance**

- Score 'yes', the provider has a systematic process in place (1) that generates at least monthly reports on the break-down of complaints data (by category, severity, time period, branch, etc.) and (2) to be analyzed by the complaints handling manager for attention to senior management.
- Score 'partially', if the two requirements are not fully met. For instance, the reports produce a limited break-down of complaints categories or the complaints handling manager analyses the reports quarterly only.
- Score 'no', if one or both of the two requirements are not met. For instance, no reports on complaints data are generated and/or no analysis of complaints data takes place.

#### **Sources of information**

Complaints reports and interviews with the complaints handling manager.

#### **Evidence to provide**

Summarize the type of information included in those reports and the frequency with which reports are generate, with whom those reports are shared and if management reviews them.

#### Resources for indicator 4.E.3.1

• A sample of a good complaints report

4.E.3.2 Management reviews complaints reports and key performance indicators (e.g., average time to resolve, percent resolved) and takes corrective action to resolve systematic problems leading to complaints. Minimum frequency: annually.

#### Indicator in SPI5 Entry | SPI5 Full | CP Full

Management must review the aggregated and analyzed clients' complaints data and discuss at senior management level what organizational changes need to be taken to reduce customer complaints, improve their satisfaction, and respond to their requests. This may include improving client wait times, resolving the sources of client complaints, creating new products based on client feedback, or reinforcing staff training on a topic that generated numerous client questions etc.

For more reference, check out <u>2.B.2 Management makes strategic and operational decisions</u> based on social and financial data.

#### Scoring guidance

- Score 'yes', if (1) senior management team reviews the complaints reports at least annually and (2) has taken corresponding action in the last 12 months to improve operations.
- Score 'partially', if senior management has last reviewed the complaints reports or has taken any corresponding action during the past 12 to 24 months.
- Score 'no', if senior management has not reviewed the complaints reports and/or not taken any corresponding action within the past 24 months.

#### **Sources of information**

- The two last aggregate and analyzed complaints reports that show trends in complaints over time.
- Interview with complaints handling manager.
- Interviews with senior management reviewing the complaint reports.

#### **Evidence to provide**



- Describe the type of complaints reports reviewed and the frequency with which management reviews these reports.
- List the KPIs that are included in the complaints reports.
- Describe any actions that senior management has authorized and/or taken in the past two years that were taken in response to the data in the complaints reports.

4.E.3.3 If the provider partners with third parties, the provider helps its clients to resolve complaints they have with those third parties.

#### Indicator in SPI5 Full | CP Full

Any bad experiences clients have with third-party providers chosen by the provider reflect poorly on the provider. Therefore, the provider must ensure that its clients receive the same quality of care and respect from its third-party providers (e.g. agents) as it is offering to its clients. This requires that any client complaints about third-party providers reach the provider so that corrective action can be taken. Clients should be trained either to (1) report complaints about third-party providers directly to the provider or (2) understand how to use their complaints handling channels. In this latter scenario, the provider should request its third-party providers to share a summary of the complaints submitted by its clients on a regular basis.

#### **Scoring guidance**

- Score 'N/A', if the provider does not use any third-party providers.
- Score 'yes', if the provider has a systematic process in place to (1) inform its clients on how to submit complaints about their experience with the third-party providers and (2) assist them to resolve any complaints against third-party providers. (3) The provider monitors regularly the effectiveness of this process.
- Score 'partially', if the three requirements are not met fully. For instance, not all clients are informed or the provider fails to resolve some complaints.
- Score 'no', if the provider does not inform most clients on how to submit complaints against third-party providers and/or fails in most cases to resolve their complaints.

#### **Sources of information**

- Complaints handling policy.
- Interviews with complaints handling staff and manager.
- Interviews with the staff who is the relationship manager for third-party providers.
- Interview with the third-party provider's agents, if applicable.

#### **Evidence to provide**

- Title and page number of the part of the complaints handling policy that describes how clients should submit complaints about the third-party providers.
- Summary of the interviews.



# Dimension 5. Responsible Human Resource Development

Qualified and committed human resources - employees, but also agents - are the greatest asset for achieving the social goals, if they are valued by their employer or mandator, understand well their roles and responsibilities, and listened to their ideas about organizational improvements. Responsible treatment of employees (and also agents) is critical for providers to achieve their social, environmental, and financial goals. Employees have rights, and employees that are well-treated are more likely to treat clients responsibly.

Dimension 5, which Cerise+SPTF co-developed with the International Labor Organization and the e-MFP Human Resources Action Group, has three standards:

- Standard 5A The provider creates a safe and equitable work environment.
- Standard 5B The provider's Human Resources Development system is designed to attract and maintain a qualified and motivated workforce.
- Standard 5C The provider's Human Resources Development system supports its social strategy.

#### **Resources for Dimension 5**

- FUNDESER Strengthens HR policies
- Grameen Foundation's Human Capital Management (HCM) Assessment tool

## Standard 5A. The provider creates a safe and equitable work environment.

Creating a supportive, safe and equitable working environment requires providers to have the policies and procedures in place to guarantee a non-discriminatory and safe place to work, to remunerates staff appropriately, and to address their grievances. It complies or exceeds the national laws including on forced labor and child labor.

This standard has 3 essential practices:

- Essential Practice 5.A.1: A written Human Resources policy is available to all employees that explains and protects their rights.
- Essential Practice 5.A.2: Employee compensation is equitable and adequate.
- Essential Practice 5.A.3: The provider has a safety and health management system.

#### **Resources for Standard 5A**

- SPM Essentials #5: Listening to Employees as a Business Strategy
- Total Rewards Module Grameen Foundation Human Capital Hub

### 5.A.1 A written Human Resources policy is available to all employees that explains and protects their rights.

In order to serve clients well, employees must work in an environment that supports and protects their rights and makes them feel valued. A well-developed HR policy provides the foundation for such an environment. It should be easily accessible to all employees, which means that each employee should know that the policy exists, what the contents include, and where to find the entire policy (e.g., on a shared computer drive). Providers should propose to each employee with an abridged version of the HR policy, highlighting the policies that affect employees most significantly and inform employees on policy changes in a timely way. Providers should decide on the format freely in line with their employee's preferences.

#### **Developing the HR policy**



Providers should involve employees at different levels in the process for developing and/or reviewing the HR policy to enhance its quality and appropriateness and build staff awareness and commitment. Good practice is to form an employee committee that periodically discusses how to improve implementation of the policy. To meet this standard, providers should have a formal mechanism for consulting with employee representatives on HR decisions and policy development and to allow them to have direct access to executive managers.

#### Making employees aware of the HR policy and helping them understand it

The HR policy should be part of induction for new employees. All new employees should be aware of the policy and know to whom they can address any questions or concerns. Experience has shown that employees often do not retain much of the HR information shared during induction trainings, because the material is too technical or too overwhelming to be absorbed at one time. It is thus recommended to break down the policy into digestible pieces, use various delivery methods (group discussions and videos, for example), and test employee knowledge at various intervals. Some providers discuss one part of the HR policy (e.g., how to report harassment in the workplace) as part of periodic employee meetings at branches and headquarters.

#### Field examples

• FINCA Protects Staff with HR Policies

5.A.1.1 The provider's Human Resource policy explains employees' rights and responsibilities related to the following:

5.A.1.1.1 Work rules and disciplinary procedures

5.A.1.1.2 Grievance resolution

5.A.1.1.3 Collective bargaining agreements and freedom of association

5.A.1.1.4 Whistleblower safeguards

5.A.1.1.5 Anti-harassment safeguards

5.A.1.1.6 Conditions for dismissal and exit formalities

#### Indicator in ESG Risk | ALINUS | SPI5 Entry | SPI5 Full

Providers should formalize working conditions and communicate on them transparently to employees. A written HR policy - compliant with national labor law - must include key elements related to working rules, conditions, and staff protection. It must be easily accessible to all employees: each employee should know that the policy exists, what its covers, and where to find the entire policy. Its effective dissemination to each employee is a basic indicator of operational management in human resources.

#### **Scoring guidance**

For each detail:

- Score 'yes', if:
  - 1. the provider complies fully with the rights and responsibilities for all employees related to the detail concerned,
  - 2. the formal HR policy describes clearly the employees' rights and responsibilities related to the detail concerned that are
  - 3. understood well by the employees
- Score 'partially', if (1) the provider complies largely with the rights and responsibilities for all employees related to the detail concerned with no major risks identified, but they are not included in the formal HR policy and/or not well understood by the employees. In other words: if the first requirement is mostly met, but not the second and/or third.
- Score 'no', if (1) the provider does largely not comply with the rights and responsibilities for all employees related to the detail concerned with major risks identified, regardless of whether the second and third requirements are met.



#### **Sources of information**

- HR Policy & Procedures Manual
- Interview of HR manager
- Interviews of employees at branch and head office level

#### **Evidence to provide**

- Explain where the HR policy is available and give the chapter or page where the six indicator details are covered. Include how and when the policy was distributed to staff (e.g., last year by email or each revised version is posted to the intranet, etc.).
- If the employees' rights are not explicitly mentioned in the HR policy, an assessment of potential risk(s) (for the employees, but also for clients) of non-compliance with these rights is required.

#### Examples are:

- For 5.A.1.1: rules left to the subjective appreciation of a manager, disproportionate sanctions, no opportunity to defend itself in case of sanction.
- <u>For 5.A.1.1.2</u>: lack of annual performance appraisal with manager. Also check compliance with 5.B.2.2 (if there is a grievance mechanism in place) whether there is a risk of non-compliance with these rights?
- <u>For 5.A.1.1.3</u>: the provider must, at least, respect the country's law regarding these rights; if the law is not applicable to the provider, assess whether its commitment to respect this right is credible regarding its size and processes.
- <u>For 5.A.1.1.4</u>: Definition: a whistleblower is someone who discloses a policy violation or wrongdoing that s/he has observed; check whether there is a risk of non-compliance, no independent channel to report to, procedures and channels that do not ensure the confidentiality of the identity of the reporting person, absence of impartial person or department for following up the reports.
- <u>For 5.A.1.1.5</u>: women field staff with male supervisor, work in isolation at the branch level, culture in the region/country
- For 5.A.1.1.6: non-respect of local right of notice, cases of abusive dismissals

#### Field examples / Guidance for implementation

Guidance for USSEPM-ALIGNED HR

#### **Resources for indicator 5.A.1.1**

- MicroLoan Foundation Whistleblower Policy
- Creditaccess Grameen Whistleblower Policy

#### 5.A.1.2 The provider meets or exceeds local regulations in the following areas:

5.A.1.2.1 Competitive wages

5.A.1.2.2 Transparent salary scale

5.A.1.2.3 Benefits/social protection

5.A.1.2.4 Limits on working hours and overtime hours

5.A.1.2.5 Overtime pay and paid leave

5.A.1.2.6 Maternity/paternity leave

#### 

The HR policy/ HR rules should include key elements related to wages and benefits, as an indication of the efforts to provide decent work conditions. Provider must ensure to be at least in compliance with national labor regulations and should exceed them, if these are considered as too light.

<u>5.A.1.2.3</u> Benefits/social protection: government benefits, accident and/or health insurance, live insurance, contributions to pensions/ retirement schemes. Fair treatment of employees



come with reasonable benefits and social protection to ensure safe and motivating working conditions.

<u>5.A.1.2.4</u> Limits on working hours and overtime hours: Transparency and clear rules on working hours and compensation of overtime hours allow for fair working conditions, avoiding risks of tensions, un-due fatigue for the employees.

<u>5.A.1.2.5</u> Overtime pay and paid leave: Employees deserve clear rules for rest to ensure smooth working, personal life balance, long term commitment.

<u>5.A.1.2.6</u> Maternity/paternity leave: Maternity leave allows for rest before the arrival of a child. Maternity and paternity leave allow for the employees to have time to prepare and accompany the arrival of a child.

#### **Scoring guidance**

For each detail

- Score 'yes', if:
  - 1. the detail concerned meets or exceeds national labor regulations,
  - 2. is fully complied with by the provider for all employees,
  - 3. is described clearly in the formal HR policy, and
  - 4. is understood well by the employees.
- Score 'partially', if:
  - 1. the detail concerned meets at least national labor regulations and
  - 2. is largely complied with by the provider for all employees but is not included in the formal HR policy and/or not well understood by the employees. In other words: if the first two requirements are mostly met, but not the third and/or the fourth.

#### <u>Detail 5.A.1.2.2</u>: examples for the second requirement:

If employees get only access to the salary scale for their own level or if the provider has a transparent salary scale, but not based on market rates

- Score 'no', if
  - 1. the detail concerned does not meet national labor regulations and/or
  - 2. is largely not complied with by the provider for all employees regardless of whether the third and fourth requirements are met.

#### **Sources of information**

- Interviews with Operations manager and front-line staff
- Branch/field observations and interview of clients
- Description of fees in product factsheets or product policy & procedures manuals or product brochures

#### **Evidence to provide**

- <u>Professional judgement is required whether</u> the provider should exceed national labor regulations regarding any of the six details if regulation is too limited or incomplete.
- For 5.A.1.2.1 Competitive wages: Describe how salaries are fixed and revised and whether they are market-oriented compared to the provider's peers.
- <u>For 5.A.1.2.2</u> Transparent salary scale: The salary scale is best defined internally by the wage range per job position and benchmarked to the provider's peers. Employees should have access to the full salary scale (i.e. all the ranges of salary) regardless of their level of compensation.
- For 5.A.1.2.3 Benefits/social protection: Describe all benefits for employees (e.g., government benefits, voluntary [not defined by law] accident and/or health insurance, contributions to pensions/ retirement schemes) and to whom these benefits apply (e.g., full-time employees, part-time employees). Describe all conditions employees must meet to access these benefits and conditions to use the provider's financial services (e.g., loans, transfer services).



- <u>For 5.A.1.2.4</u> Limits on working hours and overtime hours: Describe employee rights to reasonable working hours, including rights to overtime pay; the rate for overtime-pay; how employees will be compensated for work on holidays; number of expected work hours per week; and to whom these apply.
- For 5.A.1.2.5 Overtime pay and paid leave: Describe the rules, where they are defined and how they are applied.
- <u>For 5.A.1.2.6</u> Maternity/paternity leave: Describe the lengths and conditions to access maternity/paternity leave.

#### Field examples / Guidance for implementation

- Guidelines For USSEPM-ALIGNED Compensation and Benefits Policies
- FINCA Protects Staff with HR Policies

5.A.1.3 The provider's non-discrimination policy towards employees covers all internationally recognized Protected Categories.

#### Indicator in ESG Risk | ALINUS | SPI5 Entry | SPI5 Full

[Note: Protected Categories are as follows: People over 40 years old; Sex; Race/ethnicity/national extraction/social origin/caste; Religion; Health status, including HIV status; Disability; Sexual orientation; Political affiliation/opinion; Civil/marital status; Participation in a trade union.]

Responsible providers must offer equal access to jobs, promotion and trainings is key to being a responsible organization. They should have a 'non-discrimination policy' which describes employee's rights to fair and equal treatment regardless of the employee's (1) age, (2) sex, (3) race/ethnicity/national extraction/social origin/caste, (4) religion, (5) health status, including HIV status, (6) disability, (7) sexual orientation; (8) political affiliation/opinion, (9) civil/marital status, and (10) participation in a trade union.

#### **Scoring guidance**

- Score 'yes', if:
  - 1. there is no single case of an employee being discriminated regarding any of the ten internationally recognized 'Protected Categories' over the past year,
  - 2. the provider has a systematic process in place to comply with its 'non-discrimination policy' that is (a) formulated clearly with all ten 'Protected Categories' in the HR policy/ internal rules/ code of conduct, and (b) verified regularly by HR control and at least annual HR compliance audits, and
  - 3. understood well by the employees.
- Score 'partially', if one of the three requirements is not met fully. For instance, (i) there is no single case of an employee being discriminated regarding any of the at least seven 'Protected Categories' according to the provider's 'non-discrimination policy' over the past year <a href="mailto:and/or">and/or</a> (ii) the latter comprises at least seven (incl. gender, race/ethnic/social origin, religion, civil status) out of the ten 'Protected Categories' <a href="mailto:and/or">and/or</a> (iii) the 'non-discrimination policy' is not or not clearly formulated in the HR policy/ internal rules/ code of conduct <a href="mailto:and/or">and/or</a> (iv) some employees are not aware of it. The score is also 'partially', if the first requirement is met fully, but the second and/or third requirement is largely not met.
- Score 'no', if there is one or more cases of employees being discriminated regarding any of the at least seven 'Protected Categories' covered by the provider's 'non-discrimination policy' over the past year or the provider has no 'non-discrimination policy' or it has no process in place to comply with its 'non-discrimination policy'.

#### **Sources of information**

- HR Policy & Procedures Manual, code of conduct/code of ethics.
- HR compliance audit reports, social audits or ratings, any HR assessments during the past year.



• Interviews with HR manager and employees at branches.

#### **Evidence to provide**

- Specify the chapter or page of the HR policy/code of conduct/internal rules where the information on non-discrimination is provided. Describe employees' rights to fair and equal treatment regardless of the categories by providing examples on how it is managed (or not) for some key categories.
- National labor laws and regulations regarding the non-discrimination of employees.

In some countries, discrimination linked to sexual orientation is not integrated into the law and will undoubtedly not be integrated by the provider. The indicator can be noted "partially" or no if the auditor wants to emphasize the rules at the international level, or it can be noted "yes" (if all other requirements apply) but specifying in the comments that this is not in line with international requirements.

#### **Resources for indicator 5.A.1.3**

- Fundación Paraguaya Nondiscrimination Policy
- Política de no discriminación Fundación Paraguaya

5.A.1.4 The provider analyzes employee data by gender and job position to check that men and women are equally represented at different levels of the organization.

#### Indicator in SPI5 Entry | SPI5 Full

To ensure equal representation of men and women, providers need to analyze job position by gender to understand representation at the different positions (field staff, back office, middle management, senior management) and whether gender discrepancies exist at the different organizational levels. Where such discrepancies exist, providers should address the problem openly with employees and adjust recruitment/ promotions accordingly.

#### **Scoring guidance**

- Score 'yes', if the provider
  - 1. has a systemic process in place to collect and analyze regularly gender disaggregated employment data for discussion at senior management or board level at least annually and
  - 2. makes adjustments, as needed.
- Score 'partially', if the two requirements are not met fully. For instance, (i) gender disaggregated employment data are regularly collected and analyzed, but senior management or the board did not discuss them within the past 12 months or (ii) the provider made only insufficient adjustments to correct 'unbalanced' gender employment ratios over the past year.
- Score 'no', if one or both requirements are largely not met. For instance, (i) there is no process in place to collect and analyze regularly gender disaggregated employment data and/or (ii) neither senior management nor the board took gender disaggregated employment data on their agenda over the past 12 months and/or (iii) no adjustments made to correct 'unbalanced' gender employment ratios over the past year.

#### **Sources of information**

- Targets for gender-balanced positions and organizational levels set by senior management or the board, if available.
- Minutes of meetings of the board and senior management.
- Interviews with the HR managerAny HR reports on gender-balanced positions, if available.
- HR compliance audit reports during the past year.

#### Resources for indicator 5.A.1.4



• <u>MicroLoan Foundation Gender-Disaggregated Report on Employees by Position</u>

5.A.1.5 The provider operates in accordance with national law on forced labor and minimum age for employment, but in no case employs workers under 14 years old. If national law does not address forced labor, the provider complies with international law.

#### Indicator in ESG Risk | ALINUS | SPI5 Entry | SPI5 Full

In compliance with international standards for 'decent work conditions', providers should not (1) employ any person against his or her will, (2) employ any person under the minimum age for work established by national law, but not under 14 years in any case and (3) do business with enterprises that benefit from forced labor or child labor. These are fundamental elements to complying with international good practice. Providers should follow international law when national law fails to address these issues.

#### Scoring guidance

- · Score 'yes', if
  - 1. there has been no single case of non-compliance with the above-listed 'decent work conditions' over the past year and
  - 2. the provider has a systematic process in place to ensure compliance with the above-listed 'decent work conditions' that comprises (a) the formalization of the 'decent work conditions' in its HR policy, (b) their strict application at the recruitment process, and (c) their verification by HR control and at least annual HR compliance audits.
- Score 'partially', if there has been no single case of non-compliance with the above-listed 'decent work conditions' over the past year, but the second requirement is only partly met. For instance, (i) the HR policy does not spell out clearly the 'decent work conditions' and/or (ii) insufficient attention is given to the 'decent work conditions' at the recruitment process and/or (iii) no HR compliance audit for the past year.
- Score 'no', if one or both requirements are largely not met. For instance, (i) there have been one or more cases of non-compliance with the above-listed 'decent work conditions' over the past year or (ii) the provider has no process in place to ensure compliance with the 'decent work conditions'.

#### **Sources of information**

- HR Policy & Procedures Manual, code of conduct/code of ethics
- Interviews with HR manager and executive management

#### **Evidence to provide**

- National labor regulations on the above-listed 'decent work conditions'.
- Chapter or page of the HR policy that refers to the above-listed 'decent work conditions'.
- HR reports on recruitment processes.
- HR compliance audit reports during the past year.

#### **Resources for indicator 5.A.1.5**

• Guidance on Protection of Vulnerable Groups

#### 5.A.2 Employee compensation is equitable and adequate.

Fair compensation is the foundation for respectful treatment of employees and can ensure loyal and committed employees. Providers should pay employees at a rate that is at least the national or local sector minimum wage, in line with market conditions, and adapted to job position whatever the gender of the employees.



5.A.2.1 The provider pays salaries based on market rates and never below the sectoral minimum wage.

#### Indicator in ESG Risk | ALINUS | SPI5 Entry | SPI5 Full

Providers should pay employees' salaries that are sufficient to provide minimally satisfactory living conditions in the location where they live. Salaries should be based on market rates and at least comply with the national sector minimum wage.

#### **Scoring guidance**

- · Score 'yes', if
  - 1. no employee has been paid below the sectoral minimum wage over the past year and
  - 2. the provider has a systemic process in place to ensure that all employees are paid salaries based on market rates and never below the sectoral minimum wage
  - 3. that is monitored for compliance at least annually.
- Score 'partially', if the first requirement is met fully, but not the second and third. For instance, (i) some employees are paid below market rates (but not below sectoral minimum wage) over the past year or (ii) the provider has no regular process in place or (iii) compliance has not been monitored during the past 12 months.
- Score 'no', if one or more employees have been paid below the sectoral minimum wage over the past year and/or the salaries of many employees are below market rates and/or the provider has no process in place to ensure that all employees are paid salaries based on market rates and never below the sectoral minimum wage.

#### **Sources of information**

- HR Policy & Procedures Manual, internal salary scale per type of position.
- Interviews with HR manager and some employees.
- National sector minimum wage, if available.
- Salary scales of the main competitors.

#### **Evidence to provide**

- Specify how the provider sets and revises salaries per position and the related salary scales
- Check for sectoral/national minimum wage and compare with the lowest salaries paid by the provider.

5.A.2.2 Front-line employees' base pay (before incentives) is at least a living wage.

#### Indicator in SPI5 Full

Staff must receive a living wage as a base salary. Incentives such as bonus pay should never replace a living wage as base salary for staff as a key responsible HR practice. This should prevent staff from feeling pressured into unethical behaviors to meet their basic living standards.

**Definition**: A living wage is sufficient to provide minimally satisfactory living conditions in the location where the employee lives. This means that, based on the basic pay (excluding bonus pay), an employee can afford safe housing, sufficient food, clothing, and transportation necessary to perform their workplace and personal duties.



- Score 'yes', if
  - 1. all front-line employees have base salaries that meet a living wage over the past year and
  - 2. the provider has a systemic process in place to ensure that the base salaries of all front-line employees reach at the minimum a living wage that
  - 3. monitors compliance at least annually.
- Score 'partially', if the three requirements are not met fully. For instance, (i) the base salaries of one or a few front-line employees do not meet a living wage over the past 12 months or (ii) the provider has no regular process in place or (iii) no monitoring of compliance during the past year.
- Score 'no', if the first and/or second requirement is largely not met. For instance, (i) the base salaries of many front-line employees do not meet a living wage over the past 12 months or (ii) there is no process in place to ensure that the base salaries of all front-line employees reach as a minimum a living wage.

#### **Sources of information**

- HR Policy & Procedures Manual, internal salary scale per type of position, including the staff incentive systems. Interviews with HR manager and some employees.
- Any available information of 'living wage' in the country and notably for the cities/towns where branches are located.

#### **Evidence to provide**

- Specify how the provider sets and revises salaries and incentives for front-line employees.
- Check the share of incentives/fixed wages for the front-line employees who get the lowest salaries and compare them with the 'living wage' of the branch locations concerned.

#### Field examples / Guidance for implementation

Paying a Living Wage

5.A.2.3 The provider analyzes salary data to check that men and women receive equal pay for equal work and have equal opportunities for pay increase/promotion.

#### Indicator in ESG Risk | ALINUS | SPI5 Entry | SPI5 Full

Providers should ensure equal pay for women and men by evaluating regularly whether salary discrepancies exist for all positions at each level and in all organizational units/departments. Where equal pay discrepancies exist, they should address the problem openly with employees and adjust salaries accordingly.

- Score 'yes', if
  - 1. there is no case of a gender pay gap during the past year and
  - 2. the provider has a systemic process in place to collect and analyze regularly gender-disaggregated data on salaries & incentives and career opportunities for all positions and in all units/departments for discussion at senior management or board level at least annually, and
  - 3. makes sufficient adjustments timely, as needed.
- Score 'partially', if the three requirements are not met fully. For instance, (i) one or a few cases of gender pay gaps and unequal career opportunities over the past year or (ii) gender disaggregated salary & incentive and career opportunity data are regularly collected and analyzed, but senior management or the board did not discuss them over the past 12 months or (iii) the provider made only insufficient adjustments to correct gender pay gaps and unequal career opportunities over the past year.



Score 'no', if one or more of the three requirements are largely not met. For instance,
 (i) significant cases of unequal gender pay and career opportunities over the past year
 and/or (ii) there is no process in place to collect and analyze regularly gender disaggregated data on salaries & incentives and career opportunities and/or (iii) the
 provider made no adjustments to correct significant gender pay gaps and unequal
 career opportunities over the past year.

#### **Sources of information**

- HR Policy & Procedures Manual.
- HR reports
- Minutes of meetings of the board and senior management.
- Interviews with HR manager and employees.
- Sector information on gender pay gaps, if available.

#### **Evidence to provide**

- Describe the type of gender-disaggregated data on salaries & incentives and career opportunities that is analyzed at which time intervals.
- Share, if available, the gender pay gap calculation and the methodology for assessing gender-disaggregated career opportunities.

#### **Resources for indicator 5.A.2.3**

• How to Analyze Your Gender Pay Gap: An Employer's Guide

#### 5.A.3 The provider has a safety and health management system.

Providers should assess at least annually the health and safety risks both in the office and in the field that employees face while performing their job functions. A workplace risk assessment by different employee characteristics, including gender and disability, is a key tool for improving occupational safety and health conditions at work. It plays an important role in protecting workers and businesses, as well as complying with the laws in many countries.

The key to risk assessments is not to overcomplicate the process. In many organizations, the risks are well known, and the necessary control measures are easy to apply. A risk assessment can be done by anyone in the organization—employees in charge do not have to be safety and health experts. Providers are advised to form a joint management-employee safety committee to ensure that there are representatives from all types of employees (males/females, field workers/office staff, employees with special needs, etc.) to help everyone focus on the risks at least annually that really matter in the workplace – the ones with the potential to cause real harm. It should identify the hazard and the required control measures:

- a hazard is anything that may cause harm, such as electricity, an open drawer, demanding and stressful work, a motorbike, etc.;
- the risk is the chance, high or low, that somebody could be harmed by these and other hazards, together with an indication of how serious the harm could be.
- 1. The International Labor Organization (ILO) recommends a five-step process for conducting a risk assessment:
- 2. Identify the hazards. What are the workplace risks that could cause harm? To consider other hazards to assess, you may want to:
  - consult other examples of risk assessment tools (see resources at the end of this section):
  - o walk around the offices and note items that might pose a risk;
  - o talk to supervisors, staff, drivers, and contractors on their concerns and opinions about health and safety issues in the workplace;
  - o and consult reports documenting past workplace accidents.
- 3. For each hazard, identify who might be harmed/ affected and how.



- 4. Note the existing controls in place to manage hazards, or what needs to be done to control the risk.
- 5. Note who is responsible for putting the suggested risk control measures into practice, and by what date.
- 6. Share the completed risk assessment with staff (if your institution is too big to share with all staff, share at least with senior management and middle managers).

Providers should provide employees with training to mitigate each of the risks free of charge and available to all employees. In addition to training, providers should provide employees with free-of-charge equipment to mitigate health and safety risks. It should be equally distributed to male and female employees and take into account gender differences (e.g., protective gear in women's sizing). Examples include helmets and other safety gear for motorbike drivers and soap for employee washrooms.

HR Policy & Procedures manuals should cover:

- 1. following up on any incidents of on-the-job accidents, injuries, or diseases;
- 2. procedures for documenting an incident, reporting it to relevant people and committees (e.g., board committee on employee issues, health institutions), investigating the reasons for the incident, and following up with any corrective measures.

Providers should have a line-item in their annual budget and staff time for supporting the risk prevention and handling activities. This sends a strong signal to employees that their employer their well-being.

#### Example of incident procedure in action

A loan officer sustains injuries when his motorbike slips off the road, due to worn treads on the bike tires. The HR manager advises the employee to seek medical attention (if needed, which is covered by workplace insurance) documents the accident, and then submits the case with the recommendation of inspecting all motorbike tires on a quarterly/bi-annally basis with prompt replacement of worn tires to her/his supervisor.

Providers should also compensate employees who miss work as a result of work-related injuries. If such compensation is not regulated by the national labor laws, they should develop a clear policy on the number of days that are paid when employees are on medical leave due to work-induced health problems. Such compensation might be included in an employee medical insurance product. The policy should state the maximum number of paid days off for medical leave. Also, this policy should state what happens if the employee finishes the maximum number of days and is still declared not able to work again due to the injuries (long-term disability).

5.A.3.1 The provider assesses the health and safety risks faced by its employees and audits its existing safety measures. Minimum frequency: annually.

#### Indicator in ESG Risk | ALINUS | SPI5 Entry | SPI5 Full

A workplace risk assessment is one of the key tools for improving occupational safety and health conditions at work. It plays an important role in protecting workers and businesses, as well as complying with the labor laws in many countries. It helps everyone focus on the risks that really matter in the workplace – the ones with the potential to cause real harm. A risk assessment should be performed at least annually and should identify the hazard and the required control measures.

#### **Scoring guidance**

• Score 'yes', if the provider has a systematic process in place to assess at least annually the health and safety risks



- 1. both in the office and in the field,
- 2. differentiated by gender, disability and other employees' characteristics,
- 3. in a participatory process that includes female and male employees with office and field work functions
- 4. with an audit of the existing safety measures that is
- 5. summarized in a written annual report for the board, all employees, and other stakeholders and
- 6. the full process be documented in the HR Policy & Procedures manual or another HR document.
- Score 'partially', if one or two of the six requirements are largely not met or most requirements are met only partly. For instance, (i) the assessment is done only every two years or (ii) it is not complete on hazards or control measures to be analyzed or (iii) it is done top-down by the HR manager without consulting different employees or (iv) the report is not widely disseminated or (v) there is no written documentation of this process.
- Score 'no', if no such process is in place with three or more of the six requirements largely missing.

#### **Sources of information**

- HR Policy & Procedures Manual.
- Last two health and safety risk reports.
- Interviews with HR manager, different employees (women and men with office and field functions), and CEO/deputy CEO.
- Relevant parts of the national labor law and regulations.

#### **Evidence to provide**

- Specify last risk assessment and/or give examples of health and safety risk reports.
- Describe the health and safety risk mitigation actions taken over the past 12 months, including the staff training and the health and safety equipment.

#### **Resources for indicator 5.A.3.1**

- Canadian Centre for Occupation Health and Safety website lists types of hazards
- INRS provides a <u>list in French</u>
- INSHT provides a <u>list in Spanish</u>
- Example Health and Safety Risks & Training Topics
- A sample template for health and safey risk assessments
- A 5 STEP GUIDE for employers, workers and their representatives on conducting workplace risk assessments

5.A.3.2 The provider documents and reports to management all occupational accidents, injuries, and illnesses. The results are disaggregated by gender and by position: Minimum frequency: annually.

#### Indicator in SPI5 Full

In addition to conducting employees' health and safety risk assessment, providers should investigate and document any accidents, injuries or diseases related to work and analyze results by gender. This tracking is important, but few providers do it unless the national labor regulations require it. It is important to record and analyze these findings by gender and position to understand if some category of employees is disproportionately affected. The focus should be on ensuring safety at work and how providers take steps to create a safe work environment for all employees.

- Score 'yes', if the provider
  - 1. documents all work accidents/injuries/illnesses



- 2. disaggregated by gender and position and
- 3. reports it to senior management at least annually.
- Score 'partially', if the three requirements are not met fully. For instance, (i) an incomplete documentation of work accidents/injuries/illnesses or (ii) work accidents/injuries/illnesses are not disaggregated by gender or position or (iii) the report is done just within two years.
- Score 'no', if the three requirements are largely not met. For instance, (i) most work accidents/injuries/illnesses are not documented and/or (ii) not disaggregated by gender and position and/or (iii) not reported to senior management.

#### **Sources of information**

- HR Policy & Procedures Manual.
- Last two health and safety risk reports.
- Interviews with HR manager, different employees (women and men with office and field functions), and CEO/deputy CEO.
- Relevant parts of the national labor law and regulations.

#### **Evidence to provide**

- Last two HR reports on work-related accidents, injuries and illnesses.
- Describe how the HR reports are disaggregated by gender and position.

#### 5.A.3.3 The provider takes necessary measures to mitigate hazards.

5.A.3.3.1 The provider offers health and safety equipment, training and adapted physical accommodations.

5.A.3.3.2 The provider has an emergency/disaster response plan and trains management and employees on how to follow the plan. Minimum training frequency: annually.

5.A.3.3.3 The provider compensates employees who miss work due to work-related injuries.

### Indicator in ALINUS | SPI5 Entry | SPI5 Full Detail 5.A.3.3.3: SPI5 Full

Health and safety risk assessments should result in actions to mitigate risks identified and ensure a safe workplace for employees. Actions to prevent risks should be free of charge for the employees to ensure full protection for all.

#### **Scoring guidance**

#### Detail 5.A.3.3.1

- Score 'yes', if the provider
  - 1. offers all necessary health & safety equipment free-of-charge to all employees,
  - 2. trains at least annually all employees in the proper use of their health & safety equipment,
  - 3. adapts physical accommodations, as needed, to safeguard the employees' health and safety, and
  - 4. the large majority of employees uses effectively their health & safety equipment.
- Score 'partially', if a significant number of employees do not use effectively their health & safety equipment or the first three requirements are not met fully. For instance, (i) not all necessary health & safety equipment is offered to all employees or (ii) training in the proper use of the health & safety equipment is offered only once in two years or not to all employees or (iii) physical accommodations are not sufficiently adapted to safeguard the employees' health and safety.
- Score 'no', if most employees do not use effectively their health & safety equipment and/or do not have the most basic equipment and/or most requirements are largely not met. For instance, (i) the health & safety equipment for the employees is



insufficient and/or in poor condition and/or (ii) most employees are not trained in the use of health & safety equipment and/or (iii) physical accommodations are not adapted to safeguard the employees' health and safety.

#### Detail 5.A.3.3.2

- Score 'yes', if the provider
  - 1. has an updated written emergency/disaster response plan for all its offices,
  - 2. trains management and employees at least annually on how to follow it, and
  - 3. the large majority of employees understands it well.
- Score 'partially', if the three requirements are not met fully. For instance, (i) there is just a written generic emergency/disaster response plan, but not adjusted to each office or (ii) training on the emergency/disaster response plan is offered only once in two years or not to all employees or (iii) a significant number of the employees do not understand it well.
- Score 'no', if one of the three requirements are largely not met. For instance, (i) most employees do not understand the emergency/disaster response plan and/or (ii) there is no written emergency/disaster response plan and/or (iii) no training on the emergency/disaster response plan within the past two years.

#### Detail 5.A.3.3.3 (in SPI5 Full only)

- Score 'yes', if the provider
  - 1. compensates all employees who miss work due to work-related injuries (even if there are no such national labor regulations) and
  - 2. at a minimum as stipulated by national labor law and regulations and
  - 3. the large majority of the employees are aware of it.
- Score 'partially', if the three requirements are not met fully. For instance, (i) there is just a written generic emergency/disaster response plan but not adjusted to each office or (ii) training on the emergency/disaster response plan is offered only once in two years or not to all employees or (iii) a significant number of the employees do not understand on how to follow it.
- Score 'no', if one of the three requirements are largely not met. For instance, (i) most employees do not understand the emergency/disaster response plan and/or (ii) there is no written emergency/disaster response plan and/or (iii) no training on the emergency/disaster response within the past two years.

#### **Sources of information**

- HR Policy & Procedures Manual.
- Last two health and safety risk reports.
- Interviews with HR manager, different employees (women and men with office and field functions), and CEO/deputy CEO.
- Relevant parts of the national labor law and regulations.

#### **Evidence to provide**

- List the related actions taken to prevent/reduce health and safety risks for employees.
- Describe the trainings (frequency and methodology) for employees to prevent/mitigate major health and safety risks.
- Outline the latest emergency/disaster response plan and whether and how it is adapted to each office.
- Explain how and for how long the provider compensates employees who miss work due to work-related injuries.

#### **Resources for indicator 5.A.3.3**

- Example Health and Safety Risks & Training Topics
- Health and Safety Guidance for 5.A.3.3.1 and 5.A.3.3.2



# Standard 5B. The provider's Human Resource Development system is designed to attract and maintain a qualified and motivated workforce

In order to do excellent work, staff need clarity on their remit, training to achieve this successfully, and a fair and transparent system for evaluating and incentivizing their performance. A staff-focused organization takes regular steps to understand whether staff are satisfied in their work, why they chose to leave your employment, and act when red flags arise in the course of this routine monitoring. It will also have a system to consult, to receive and respond to employee complaints and grievances.

#### **Resources for Standard 5B**

- Examples of Employee Positions and Related SPM Duties
- Grameen Foundation's Recruitment and Selection Toolkit

This standard has 2 essential practices:

- Essential Practice 5.B.1: The provider gives employees complete employment documentation and training to understand their job requirements.
- Essential Practice 5.B.2: The provider gives employees formal opportunities to communicate with management.

# 5.B.1 The provider gives employees complete employment documentation and training to understand their job requirements.

#### Provide all employees with an employment contract

In addition to all employees understanding their rights and responsibilities supported by a clear HR policy (refer to Standard 5A), providers should also provide each employee with a written (signed) employment contract and a written job description of his/her workplace duties. The job description should be reviewed with the employee at the time of hiring and whenever s/he changes positions to ensure clarity on his/her roles and responsibilities and to enable fair performance evaluations.

The employment contract (signed on or before the first day of work) should specify the employee's:

- **Earnings (salary and/or wages)**: Remuneration, in cash and in kind, that is to pay employees both for time worked and time not worked, such as annual vacation and other paid leave.
- **Benefits (social protection)**: The measures (e.g., health insurance, pensions) designed to protect employees (sickness, maternity, employment injury, unemployment, retirement, etc.).
- Employment conditions:
  - The terms of the worker's employment, such as working time, minimum wages, whether there is a probationary period before the person becomes a permanent employee, and the location where the employee will work;
  - Job description/scope of work: The job title and responsibilities, including reporting line (see below);
  - Work rules and possible sanctions: List of actions and activities that are prohibited and investigations that can be conducted for cases of reported misconduct (e.g., violations of the Code of Conduct; theft; harassment of a colleague); the different levels of disciplinary procedures that employees may face; and employee rights related to appealing disciplinary action;



• **Performance evaluation and incentives**: The performance metrics that the institution will use to evaluate the employee's performance and an explanation of the incentive/reward system (see guidance for <u>5C3</u>).

Job descriptions should outline the nature of the work to be performed, key responsibilities and duties, and the competencies required. They need to be reviewed regularly to ensure their relevance as job functions are changing over time triggered by market and organizational changes, new technologies or also planned new SPM initiatives. Changing job functions may result in adapted key responsibilities and duties and call for new types of competencies required for the postholders. (see <a href="Examples of Employee Positions and Related SPM Duties for SPM-related job responsibilities">Examples of Employee Positions and Related SPM Duties for SPM-related job responsibilities</a>). Elements of a Job Description provides additional detail on which components to include in your employees' job descriptions.

In addition to a clear job description, each employee should understand the evaluation criteria that his/her manager will use to assess job performance. For example, FINCA (Azerbaijan) evaluates each new employee at three, six, and 12 months, and then semi-annually thereafter. The employee's supervisor completes a form that lists the criteria against which the employee will be evaluated. The employee is then asked to sign their agreement to this statement: "I have reviewed the performance requirements listed in this form and agree that they are the standards by which I will be evaluated during the next performance period." In this way, employees are clear on what the organization expects of them, and how they can achieve good performance.

#### Provide job-specific training

Providers should equip each employee to perform his/her job functions successfully. This includes at least two types of training:

- Orientation training: Training at the beginning of employment and whenever the employee changes positions within the institution. Employee orientation should include at least the following topics: the provider's mission, social goals, and Code of Conduct; the employee's job duties, including social performance related duties; and the conditions of employment. Follow this training with on-the-job training and mentorship so that new employees master skills not easily taught in a classroom setting. Such initial training for staff is also beneficial to clients, because they can be negatively affected by under-trained staff.
- Ongoing skills development: Facilitate professional development opportunities that respond to employees' needs, as identified during regular performance reviews, as well as the provider's priorities. As goals and products change over time, consider what new skills employees need (e.g., data collection, customer service, product sales). Additionally, when promoting employees to a higher level of responsibility or managerial authority, consider the need for job-specific training that prepares them for the new position as well as leadership and/ or management training to improve the employee's ability to guide, supervise, and motivate others.

Pay particular attention to providing training opportunities for employees without bias. Check that training is equally available for all types of employees, regardless of gender, level (management/staff), location (HQ/branches), and other relevant employee characteristics. Ensure that any training opportunity is accessible/inclusive to employees with disabilities, including through the provision of reasonable accommodations.

#### **Resources for 5.B.1**

SPM Essentials Webinar #5: Listening to Employees as a Business Strategy



### 5.B.1.1 The provider communicates to employees their individual employment terms:

5.B.1.1.1 Base salary and opportunities for any other type of compensation (overtime, incentive pay)

5.B.1.1.2 Job description/scope of work

5.B.1.1.3 Performance evaluation process

### Indicator in ESG Risk | ALINUS | SPI5 Entry | SPI5 Full Detail 5.B.1.1.3: SPI5 Full

Employees should understand their individual rights and responsibilities. The provider should provide a written employment contract indicating the salary level, but also a description of their benefits and employment conditions. The performance evaluation process should be transparent to get employees committed and in line with the provider's strategy. It should be combined with a career planning process and the identification of corresponding training opportunities (refer to 5.B.1.3).

#### **Scoring guidance**

#### Detail 5.B.1.1.1

- Score 'yes', if:
  - 1. each employee receives a written and mutually signed employment contract that outlines in clear language and necessary detail the complete salary package with the base salary, all performance-based incentives, all social benefits (like insurance coverages), and overtime pay and
  - 2. most employees understand fully their employment contracts.
- Score 'partially', if the two requirements are met only partly. For instance, (i) the employment contracts are not being mutually signed or (ii) they miss some of the above information that is communicated orally only or (iii) they are in legal language not well understood by many employees.
- Score 'no', if one or both requirements are largely not met. For instance, (i) most/all employees do not receive a written and mutually signed employment contract and/or (ii) employees are not informed by all elements of their salary package in whatever format and/or (iii) most employees do not understand well their salary package.

#### Detail 5.B.1.1.2

- Score 'yes', if:
  - 1. each employee receives an individual, customized written job description that outlines in clear language and necessary detail the nature of the work to be performed, key responsibilities and duties, and the competencies required and
  - 2. most employees understand fully their job description.
- Score 'partially', if the two requirements are met only partly. For instance, (i) the job descriptions miss some of the above information that is communicated orally only or (ii) they are little customized or (iii) they are in vague/unclear language not well understood by many employees.
- Score 'no', if one or both requirements are largely not met. For instance, (i) most/all employees do not receive a written job description, and/or (ii) the job descriptions are not customized and lack key information (like the competencies required), and/or (iii) most employees do not understand well their job description.

#### Detail 5.B.1.1.3 (in SPI5 Full only)

- Score 'yes', if:
  - 1. the provider has a systemic process in place of evaluating at least annually the performance of all employees,
  - 2. each employee receives in writing an explanation of the performance evaluation process with his/her individual evaluation criteria and targets, and
  - 3. most employees understand fully their performance evaluation process.
- Score 'partially', if the three requirements are met only partly. For instance, (i) the performance of most, but not all, employees are evaluated annually or (ii) the



performance evaluation process and/or the evaluation criteria and targets are not clearly communicated to most/all employees or (iii) many employees do not understand well their performance evaluation process.

• Score 'no', if one or more requirements are largely not met. For instance, (i) the provider has no process in place of evaluating at least annually the performance of most/all employees, and/or (ii) the evaluation criteria and targets do not exist or are not communicated to the employees, and/or (iii) most employees do not understand well their performance evaluation process.

#### Sources of information

- HR Policy & Procedures Manual.
- Employment contracts for different staff categories and job descriptions for several positions.
- Description of the performance evaluation process.
- HR reports on the staff salary packages and performance evaluations over the past 12 months.
- Interviews with HR manager and different employees (women and men with office and field functions).
- Relevant parts of the national labor law and regulations.

#### **Evidence to provide**

- Briefly describe key elements from employee files: employment contracts, job descriptions, performance evaluations.
- Specify where what information is when provided to employees.

#### **Resources for indicator 5.B.1.1**

- Examples of Employee Positions and Related GPS Duties
- Elements of a Job Description

5.B.1.2 All new employees receive an orientation and job-specific training.

#### Indicator in SPI5 Full

Inception/orientation trainings allow new employees to assimilate the institutional culture and values, get comfortable in their new position and better understand expectations. Jobspecific trainings allow employees to ensure they can deliver the expected outputs defined in their job description. They should comprise both thematic/technical training, but also onthe-job coaching by senior staff. Apart from inception trainings, providers should offer training at least annually to ensure that staff understand and perform their work efficiently, feel comfortable in their position, are committed to their tasks, and capable of evolving in their job.

- Score 'yes', if the provider has a systemic process in place to offer inception training to all new employees that comprises
  - 1. an institutional orientation on the values, code-of-conduct, social goals, HR policies, client segments, products & services, etc. and
  - 2. job-specific training and coaching to enable them in carrying out their work functions.
- Score 'partially', if the two requirements are met only partly. For instance, (i) the institutional orientation does not cover adequately the above topics or (ii) the contents of job-specific training is quite general and not enough linked to job specificities or (iii) the on-the-job coaching is not functioning well or (iv) the induction training is offered to most, but not all, new employees.
- Score 'no', if one or both requirements are largely not met. For instance, (i) there is no process in place to offer an inception training to most/all new employees, and/or (ii) the job-specific training for new employees does not prepare them sufficiently for



their new job functions, and/or (iii) most new employees lack institutional understanding knowing little to nothing about the values, the code-of-conduct, etc.

#### **Sources of information**

- HR Policy & Procedures Manual.
- Induction training plans and manuals.
- HR reports on induction training sessions and training evaluations during the past 12 months.
- Interviews with HR manager, Training manager, and different new employees (women and men with office and field functions).

#### **Evidence to provide**

- Specify the on-boarding and induction training process of new employees.
- Provide the list and contents of the induction trainings offered during the past 12 months.
- Describe the on-the-job coaching process for new employees.
- Give examples from interviews on how job-specific trainings prepared new employees for their job functions.

#### Resources for indicator 5.B.1.2

MicroLoan Foundation Loan Officer Induction Training Manual 2019

5.B.1.3 The provider makes professional development opportunities available to employees at every level.

#### Indicator in SPI5 Full

Providers should perceive their employees at all levels as their key asset and thus invest into their continuous career development opportunities and related skill development to keep them loyal and committed. They should engage in a joint career planning process as part of their regular performance evaluation process (refer to 5.B.1.1.3). They should advertise job positions internally and value the experience gained by their employees in proposing them new career opportunities.

#### **Scoring guidance**

- Score 'yes', if the provider has a systematic process in place to offer professional development opportunities for employees from every level that includes:
  - 1. annual training opportunities,
  - 2. internal job advertisements, and
  - 3. joint career planning combined with the regular performance evaluation process.
- Score 'partially', if the one of the three requirements is largely not met. For instance, (i) professional development opportunities are offered to employees from some, but not all, levels or (ii) a joint career planning process is only informal and limited to some employees only or (iii) many jobs are also advertised externally.
- Score 'no', if there is no process in place to offer professional development opportunities for employees from every level (as the provider perceives it as too costly) and/or two or all three elements of the requirement are missing.

#### **Source of information**

- HR Policy & Procedures Manual.
- Professional development opportunities with internal and external training courses and workshops over the past 12 months.
- Internal and external job advertisements.
- Interviews with HR manager, Training manager, and different employees (women and men with office and field functions) and at different levels.



#### **Evidence to provide**

- Share examples of professional development opportunities that have been offered for employees of different levels.
- Examples of joint career planning with the identification of training opportunities.

5.B.1.4 Men and women receive equal opportunities for training and skill development.

#### Indicator in SPI5 Entry | SPI5 Full

A gender non-discrimination policy (refer to 5.A.1.3) comprises not only equal pay and career opportunities but also equal opportunity and access to training and skill development (refer to 5.B.1.3). The latter includes at least two types of training:

- 1. ongoing skills training (i.e., training that occurs during the course of the employment (not orientation) that builds skills necessary for their current position and
- 2. skills development training to facilitate employees' professional development opportunities, such as allowing them to respond to the employer's evolving needs by taking on new and/or more senior positions.

#### Scoring guidance

- Score 'yes', if:
  - 1. the provider has a systematic process in place to offer training and skill development opportunities for employees from every level
  - 2. with equal access for women and men.
- Score 'partially', if one of the two requirements is met only partly. For instance, (i) some categories of employees (e.g. tellers) and/or employees at certain (e.g. lowest) levels made up mainly by women are offered no or comparably little training and skill development opportunities or (ii) there is limited unequal access/participation between women and men per type and/or level of position in terms of annual days for trainings and other professional development opportunities.
- Score 'no', if there is significant unequal access for women and men to training and skill development opportunities.

#### **Sources of information**

- HR Policy & Procedures Manual.
- Last annual plan for, and report on, training and skill development, if available.
- Interviews with the HR manager, the Training manager, and different employees (women and men with office and field functions), and at different levels.

#### **Evidence to provide**

- List of internal and external training courses and skill development events offered to the employees over the past 12 months.
- Explain how information is tracked for gender equality in accessing training and skill development opportunities: a roster or report on the number of women vs men attending as a proportion of men and women holding the post, an overall tally that shows what % of women and men employees had a training opportunity in the last year, etc.

5.B.2 The provider gives employees formal opportunities to communicate with management.

#### Consultation on HR decisions and policy development

Providers should make sure Human Resources decisions and policy developments are aligned with employees' needs and constraints. By defining and monitoring a formal mechanism for consulting with employees on HR decisions and policies, the provider can collect employees'



feedback and input to feed the development of such policies and make informed, relevant decisions in matters of HR management. The formal mechanism should also define how employees are represented by elected representatives who have direct access to executive managers and can raise issues.

#### Create a Formal, Confidential Grievance Mechanism

Providers should provide a formal way for employees to voice grievances. This mechanism could be a dedicated phone number, email address, or note box with at least one channel for voicing grievances confidentially. The latter means that the employee identifies him/herself, but is afforded the opportunity to have his/her name disassociated with the complaint during the resolution phase. For example, if an employee complains to an HR representative because his/her supervisor is violating the policy on overtime work, the problem would be investigated without the supervisor knowing the identity of the complaining employee. An effective grievance mechanism for resolving HR problems should comprise a formal process for recording, addressing, and following up on complaints. It tracks the number of complaints submitted as well as the details of their resolution. Targeting "zero complaints" would be a sign that employees do not know about the mechanism or do not feel comfortable using it. Providers should thus aim to respond quickly and fairly to HR problems that arise.

#### **Monitor Employee Satisfaction**

Providers should regularly analyze employee satisfaction by choosing either to conduct time-bound employee satisfaction research (e.g., a two-week review each year) or to collect satisfaction information on a continual basis. Important is to collect satisfaction data on at least a representative sample of employees (covering all types of employees) at least annually by using a formal method, such as interviews, written surveys, and/or focus groups, ask employees to comment on satisfaction with factors such as:

- Employment terms, including contract duration and remuneration
- Workload
- Employee training
- Career advancement opportunities
- Physical resources/infrastructure/equipment
- Communication, participation, and leadership from supervisors
- Communication and teamwork with peers
- Conflict resolution practices
- Human Resources support services

Employees should have the option to respond anonymously to the satisfaction survey. Results should be analyzed and reported by segmenting data by employee characteristics, including gender, level (management/staff), and location (HQ/branch). Reporting should be not only to management, but also to all employees at all levels.

#### **Resources for 5.B.2**

- FINCA Peru Grievance Mechanism
- NRSP in Pakistan Responds to Employee Grievance
- <u>VisionFund and ESAF Monitor Employee Satisfaction and Understand Reasons for Staff Exit</u>
- SPM Essentials #5: Listening to Employees as a Business Strategy
- Encuesta confidencial sobre satisfacción y compromiso laboral Promujer
- Medición del Clima Laboral para IMFs
- Medición del Clima Laboral

5.B.2.1 The provider has a formal mechanism for consulting with employee representatives on HR decisions and policy development. The employee representatives have direct access to executive managers.



#### Indicator in SPI5 Entry | SPI5 Full

Providers should offer their employees the opportunity for feedback on HR decisions and policy development to respect and learn from them which may foster the employees' loyalty and commitment. A formal mechanism is recommended where employee representatives are given direct access to executive managers. The employee representatives should be trusted and preferably elected by all employees rather than be appointed by senior management or automatically determined by position, like the HR manager.

#### Scoring guidance

- Score 'yes', if the provider has a systemic process in place to consult with employee representatives on HR decisions and policy development with:
  - 1. formal and regular consultations on the review of the HR policy
  - 2. between employee representatives and executive managers, and
  - 3. the employee representatives chosen/approved by the employees.
- Score 'partially', if one of the three requirements is largely not met. For instance, (i) the consultation process takes place, but more informally or (ii) is not regular with just one meeting during the past 12 months or (iii) senior management appoints the employee representatives (e.g. the HR manager) with limited consultation with the employees.
- Score 'no', if senior management does not consult with employee representatives on HR decisions and policy development and/or two or all three elements of the requirements are largely not met.

#### **Sources of information**

- HR Policy & Procedures Manual.
- Agenda, minutes and documentation of the meetings with the employee representatives during the last 12 months.
- Interviews with HR manager, the employee representatives, and different employees (women and men with office and field functions) and at different levels.

#### **Evidence to provide**

- Description of the consultation process between senior management and employee representatives on HR decisions and policy development, including the election/appointment of the employee representatives.
- Examples of the consultations on specific HR topics over the past 12 months and how they have influenced the evolution of the HR policy.

#### Field examples / Guidance for implementation

The provider consults employee representatives on matters of employee health and safety, compensation and benefits, working conditions, and issues raised by employees. The provider makes changes to its Human Resource Development system based on input from employee representatives.

#### Ressources pour l'indicateur 5.B.2.1

SPM Essentials Webinar #5: Listening to Employees as a Business Strategy

5.B.2.2 The provider has formal grievance mechanism that allows employees to raise workplace concerns in a confidential manner.

#### Indicator in ESG Risk | ALINUS | SPI5 Entry | SPI5 Full

To ensure that any breach in 'decent work conditions' is quickly identified, employees should have a formal channel to voice grievances, ensuring a confidential treatment of the information shared.



- Score 'yes', if the provider has a systemic process of conducting employee satisfaction surveys in place
  - 1. at least annually
  - 2. with relevant samples covering all categories of employees
  - where the results are analyzed by gender and other categories of employees, and
  - 4. shared with all employees.
- Score 'partially', if one of the four requirements is largely not met. For instance, (i) the last employee satisfaction survey was conducted between 12 to 24 months ago or (ii) the survey sample was too limited or did not well represent the different categories of employees or (iii) the results were analyzed by gender only, but not by other employee categories or (iv) the results were shared with a few employees only.
- Score 'no', if there is no process in place to conduct employee satisfaction surveys or if three of the four requirements are largely not met.

#### **Sources of information**

- HR Policy & Procedures Manual.
- Methodology of the last employee satisfaction survey, including the sampling method.
- Last two employee satisfaction survey reports.
- Interviews with the HR manager, the employee representatives (if existing), and different employees (women and men with office and field functions) and at different levels.

#### **Evidence to provide**

- Description of how the formal grievance mechanism is functioning.
- Explain the channels available to employees to express grievances, and the level of understanding/knowledge about them.

#### Field examples / Guidance for implementation

• Guidance for Grievance Mechanisms

#### **Resources for indicator 5.B.2.2**

• FINCA Peru Grievance Mechanism

5.B.2.3 The provider surveys employees on satisfaction and concerns with employment conditions. Minimum frequency: annually.

#### Indicator in SPI5 Full

The level of employees' satisfaction can be a proxy for "decent work conditions". Monitoring employee satisfaction can help ensure the smooth functioning of a team and sends a message that senior management values employee feedback. Providers should conduct employee satisfaction surveys regularly, at least annually, on at least a representative sample of employees (i.e., the survey should cover all types of employees) and the results should be broken down by gender, office/field functions, seniority/age, etc.

- Score 'yes', if the provider has a systemic process of conducting employee satisfaction surveys in place
  - 1. at least annually
  - 2. with relevant samples covering all categories of employees (3) where the results are analyzed by gender and other categories of employees, and
  - 3. shared with all employees.
- Score 'partially', if one of the four requirements is largely not met. For instance, (i) the last employee satisfaction survey was conducted between 12 to 24 months ago or (ii) the survey sample was too limited or did not well represent the different



categories of employees or (iii) the results were analyzed by gender only, but not by other employee categories or (iv) the results were shared with a few employees only.

• Score 'no', if there is no process in place to conduct employee satisfaction surveys or if three of the four requirements are largely not met.

#### **Sources of information**

- HR Policy & Procedures Manual.
- Methodology of the last employee satisfaction survey, including the sampling method.
- Last two employee satisfaction survey reports.
- Interviews with the HR manager, the employee representatives (if existing), and different employees (women and men with office and field functions) and at different levels

#### **Evidence to provide**

- Specify when the last employee satisfaction survey was conducted and with which sampling method.
- Describe whether the results were analyzed per gender and other key categories of employees and how they were disseminated to the employees.

#### Field examples / Guidance for implementation

- Guidance for Disaggregated Employee Satisfaction Survey and Results-Sharing
- Encuesta confidencial sobre satisfacción y compromiso laboral Promujer
- Medición del Clima Laboral

# Standard 5C. The provider's Human Resource Development system supports its social strategy.

The effective implementation of the social strategy (refer to 1A) requires the full commitment of the board (refer to 2A), senior management (refer to 2B), and all employees, notably the client-facing staff who are directly serving the target clientele. Therefore, providers should instill their values in new employees from the moment they are hired - and even before, during recruitment - and encourage these through regular training and balanced performance incentives.

The HR development system has thus the three fundamental functions in supporting the social strategy:

- 1. recruitment of people who are inclined/motivated to serve the target clientele;
- 2. their regular practical training on how to achieve their social targets and to adopt 'good' client protection practices and avoid 'bad' ones; and
- 3. offering them 'balanced' performance incentives where next to quantitative business targets also the compliance with good client protection practices and the Code of Conduct are rewarded (and the non-compliance sanctioned).

#### This standard has 3 essential practices:

- Essential Practice 5.C.1: During the recruitment and hiring process, the provider assesses each candidate's commitment to achieving the provider's social goals and serving its target clients.
- Essential Practice 5.C.2: The provider trains all employees on its social goals and on client protection.
- Essential Practice 5.C.3: The provider evaluates and incentivizes employees based on social and financial criteria.

#### **Resources for Standard 5C**

• SPM Essentials Webinar #5: Listening to Employees as a Business Strategy



5.C.1 During the recruitment and hiring process, the provider assesses each candidate's commitment to achieving the provider's social goals and serving its target clients.

#### Consider social performance when hiring employees

Providers should prioritize recruitment of employees who fit your culture and values and are aligned with their mission and social goals. This requires identification of personal qualities, relevant work experience and educational background that suggests commitment to the social goals as well as the social performance-related responsibilities for each position (refer to this table with examples of Employee Positions and Related SPM Duties). For example, good field staff candidates might have a strong sense of responsibility for helping vulnerable people, problem solving abilities, good teamwork skills, and integrity. Candidates need to be screened for their ability to carry out their performance-related responsibilities. Relevant experience might include work in communities with similar target clients, customer service responsibilities, travel to rural areas, ability to speak the local language(s), etc. In the case of good candidates for accounting positions, they need to have strong financial literacy, diligence and affinity with numbers, computer skills, and integrity.

For example, VisionFund International (VF) hires local people, since loan officers who come from the clients' own communities are best able to identify, recruit, and work with its target clients. Unlike many providers who place a lot of emphasis on an applicant's formal education, VF has found that higher education is not among the top attributes that make a good loan officer. Instead, they value the following characteristics: numeracy and literacy sufficient to complete the loan assessment and application forms; knowledge and language of the local area; dedication, tenacity, and commitment to microfinance; interpersonal and sales skills; willingness and ability to work in the field; and commitment to VF values. In addition to requiring employees to sign the Code of Conduct (Ethics), providers should develop a "commitment contract" which states that a job candidate will do his/her best to carry out their social goals.

#### Field examples

• <u>VisionFund International recrute des agents de crédit locaux à l'aide d'événements</u> de sensibilisation

5.C.1.1 The provider assesses each candidate's work and personal experience related to the provider's target clients.

#### Indicator in SPI5 Entry | SPI5 Full

Building an institutional culture that is aligned with the social strategy starts with the hiring process. Recruitment procedures should screen candidates who are aligned with the institutional objectives to reach a specific target clientele. The employees, and in particular the front-line staff, should be able to understand the needs and preferences of the target clients, value their inclusion with the products and services proposed, and support their integration as clients.

- Score 'yes', if the provider has a systemic recruitment process in place that
  - 1. encourages candidates from the same region/culture of the target clients to apply,
  - 2. assesses each candidate's work experience and personal qualities related to the target clientele, and
  - 3. the recruitment assessment grid captures specifically test work and personal experience related to target clients.
- Score 'partially', if the three requirements are met only partly. For instance, (i) there is little encouragement for candidates from the same area/culture of the target



clients or (ii) or the assessment criteria for work experience and personal qualities have little relevance to the target clientele (iii) the recruitment gives limited weight to test work and personal experience related to target clients.

• Score 'no', if there is no systemic recruitment process or two of the three requirements are largely not met. For instance, (i) no effort is undertaken to encourage candidates from the same area/culture of the target clients and/or (ii) the assessment process of the candidates is informally or anecdotally and/or (iii) the recruitment does not consider test work and personal experience related to target clients.

#### **Sources of information**

- HR Policy & Procedures Manual.
- Recruitment interview guides and tests.
- Interviews with HR manager, HR staff in charge of recruitment, and different newly recruited employees (women and men with office and field functions).

#### **Evidence to provide**

- Specify the key selection criteria for candidates that are related to the target clientele.
- Elements in the recruitment procedure that assess commitment and capacity to serve the target clients.

#### Field examples / Guidance for implementation

Depending on the provider's social strategy, the provider may seek out candidates with relevant experience in communities with similar target clients, customer service responsibilities, willingness to travel to rural areas, and ability to speak a local language.

5.C.1.2 The provider assesses each candidate's motivation to achieve the provider's social goals.

#### Indicator in SPI5 Full

Building an institutional culture that is aligned with the social strategy starts with the hiring process. Recruitment procedures should screen candidates who fit the institution's culture and values.

#### Scoring guidance

- Score 'yes', if the provider has a systemic recruitment process in place that
  - 1. exposes each candidate to its social strategy and goals,
  - 2. tests each candidate's motivation in achieving the social goals, and
  - 3. the test result forms an important criterion for the selection process.
- Score 'partially', if the three requirements are met only partly. For instance, (i) little information about the social strategy and goals is provided to the candidates or (ii) the testing of the candidates' motivation in achieving the social goals is rather shallow or (iii) the test result is not an important selection criterion.
- Score 'no'; if the provider has no systematic recruitment process that tests each candidate's motivation in achieving the social goals or does largely not meet two or all three requirements.

#### **Sources of information**

- HR Policy & Procedures Manual.
- · Recruitment interview guides and tests.
- Interviews with HR manager, HR staff in charge of recruitment, and different newly recruited employees (women and men with office and field functions).

#### **Evidence to provide**



- Specify the key selection criteria for candidates that are related to their motivation to achieve the social goals.
- Describe how candidates are tested about their motivation to achieve the social goals.

#### Resources for indicator 5.C.1.2

• Examples of Employee Positions and Related GPS Duties

5.C.1.3 The new employee training/probation period for client-facing employees includes an assessment of skills and commitment to serving the provider's target clients.

#### Indicator in SPI5 Full

Building an institutional culture that is aligned with the social strategy is based on the capacity of the client-facing staff to serve well the target clients. Integration procedures and induction training for new client-facing staff should check and strengthen their capacities in:

- 1. understanding well client needs and priorities,
- 2. communicating clearly and respectfully with all clients, and
- 3. be committed to excellent client service whereby complying fully with 'good' client protection practices and the Code of Conduct.

#### **Scoring guidance**

- Score 'yes', if the provider has a systemic inception training process for client-facing employees in place that comprises:
  - 1. on-the-job learning in serving target clients,
  - 2. coaching support from a senior staff or manager, and
  - 3. an assessment of how the new employee is able to serve adequately the target clients.
- Score 'partially', if the three requirements are met only partly. For instance, (i) on-the-job learning is limited as the new recruits must assist senior staff rather than serving directly clients or (ii) senior staff or managers have limited time for coaching the new recruits or (iii) the assessment how the new recruits are able to serve adequately the target clients is mostly informal.
- Score 'no', if there is no inception training process for client-facing employees in place or two of the three requirements are largely not met.

#### Sources of information

- HR Policy & Procedures Manual.
- Inception training guidelines for front-line employees.
- Interviews with HR manager, HR staff in charge of recruitment, and different newly recruited client-facing employees (women and men).

#### **Evidence to provide**

• Specify the elements in the integration procedure that allow to assess commitment and skills of client-facing employees to serve the target clients.

5.C.1.4 All employees sign a document acknowledging that they will abide by the Code of Conduct.

#### Indicator in SPI5 Entry | SPI5 Full | CP Full - Progress CP

Having a Code of Conduct alone is not enough to make the values "come alive". HR policies like recruitment, evaluation and training should reflect the standards laid out in the code.



All employees should know the Code and declare their commitment to align with its rules by signing it.

#### Scoring guidance

- Score 'yes', if the provider has a systemic process in place to ensure that all employees comply with its Code of Conduct by:
  - 1. having formulated it in a clear language that is comprehensible for all employees,
  - 2. offering practical training on how to follow it to all new employees and annual refresher trainings for all employees,
  - 3. requesting all employee to sign it (best when also signing the employment contract), and
  - 4. controlling compliance regularly as part of employee performance evaluations and branch audits.
- Score 'partially', if one or two of the four requirements are met only partly. For instance, (i) the Code is vaguely or incompletely formulated or (ii) training on the Code is not practical enough to guide well the employees on how to comply with it or (iii) not all employees sign the Code or they sign their employment contract only where they declare to abide by the Code or (iv) the employee performance evaluations do not cover explicitly the compliance with the Code.
- Score 'no', if there is no process in place to ensure compliance with the Code or most/all employees do not sign the Code or most employees do not understand well the Code or are not even aware of it.

#### **Sources of information**

- HR Policy & Procedures manual / Code of Conduct
- Sample of employee files
- Interviews with HR manager and different employees (women and men with office and field functions) and at different levels.

#### **Evidence to provide**

- Analyze the Code of Conduct whether it is clearly formulated and complete.
- Check employee files (or employment contract) to verify if staff sign a document acknowledging that they have read, understood and agree to abide by the Code of Conduct.
- Describe the training materials on the Code of Conduct and the frequency of training.

#### Field examples / Guidance for implementation

The code of conduct should include confidentiality / privacy of client data

### 5.C.2 The provider trains all employees on its social goals and on client protection.

#### Train and evaluate employees on social performance and client protection

Responsible providers must ensure that all their employees – and notably all client-facing employees – do not 'harm' any client by complying fully with the client protection standards. The providers with a social strategy must, in addition, ensure that all their employees achieve their social goals and targets so that clients do 'benefit' from using the products and services offered. This requires that the HR development system performs the following three essential functions:

- 1. offer induction and subsequent regular practical training on how to (i) adopt 'good' client protection practices (and avoid 'bad' ones) and (ii) achieve the social goals and targets;
- 2. evaluate all employees' (notably all client-facing employees) (i) compliance with client protection and (ii) achievements of their social targets as part of their regular performance evaluation (jointly with their business/financial targets);



3. reward high levels of (i) client protection compliance and meeting social targets as well as sanction (i) non-compliance with client protection and (ii) non-achievement of social targets (refer to EP 5.C.3).

The above requires the identification of the expected staff behaviors regarding client protection and the specific social performance functions of each employee. The former should be defined in the Client Protection Policy spelling out 'acceptable' and 'non-acceptable' client protection practices and partly in the Code of Conduct. The specific social performance functions per type of position (e.g. loan officer, teller, branch manager, etc.) should be defined in the respective job descriptions. The identified (good and bad) client protection practices and the specific social performance functions together with the social goals form the contents for the practical induction and refresher trainings for all employees on client protection and social performance management. They should be the basis for choosing criteria for the regular performance evaluations of all employees so that employees are evaluated in a 'balanced' way on their compliance with client protection and meeting their social targets next to their business/financial targets. This may be initially challenging, if the employees are accustomed of being evaluated only on business/financial performance targets. It is important that employees have first been trained on the social strategy and their social performance responsibilities.

#### Train Employees to Protect Clients and Avoid Aggressive Sales Techniques

Providers should train their client-facing employees on how to sell products and services without pressuring clients. Aggressive sales techniques can be particularly damaging for low-income clients and those with limited financial capability, as they may be likely to buy products based more on sales pressure than on actual product "fit." Providers should thus clearly define what "aggressive sales" look like in their particular socio-cultural context and how to monitor and sanction employees who practice "aggressive" sales techniques, like:

- Telling clients that there is a time limit on a specific offer ("you must sign today, because the price will go up tomorrow").
- Continuing to pursue a client who has clearly declined a product.
- Discouraging or preventing clients from consulting with a trusted person.
- Discouraging or preventing clients from reading product information, contract, etc.
- Arguing, being hostile, or condescending towards the client.
- Intimidating or threatening the client ("if you don't purchase life insurance, you are going to look like you don't care about your family").
- Requiring all group members to renew a loan, with no option for one of the members to opt out.

Sales techniques should be adapted to clients' education and literacy levels, as well as to local market conditions. For example, clients who have never used an insurance product are vulnerable to aggressive sales, as they may have difficulty determining whether the product fits their needs, or they might believe that premium payments are refunded if claims are not made. Providers must ensure that sales techniques—client recruitment, the sales pitch, and promotional materials—will not mislead clients about the benefits of a product. They must train their client-facing employees on how to:

- 1. talk about the products in a way that clients understand,
- 2. ask the right questions so that they can point individual clients to the most appropriate products,
- 3. sell a product by highlighting how it will be useful for the client instead of badgering him/her into signing a contract, and
- 4. to respect the client's right to refuse a product.

Providers should ensure that their agents or third-party providers (e.g., mobile agents, insurance companies, money transfer companies) comply with good client protection practices, including on the use of "responsible" sales techniques. This starts with the careful selection of agents or third-party providers who respect client protection standards (and thus train their staff on how to comply with them) followed by related contractual obligations of third-party providers to comply with client protection standards and eventually joint staff trainings on client protection and compliance audits.



#### Field examples and Resources

- Sample Loan Officer SPM Evaluation Criteria Table
- Al Majmoua Trains Employees on SPM
- FINCA Microfinance Bank LTD. Evaluates Employees on Customer Care

5.C.2.1 The provider trains all employees on its social goals and how their work contributes to achieving these goals and reinforces this on an ongoing basis.

#### Indicator in SPI5 Full

Training imparts new skills, ensures a shared culture, and promotes commitment to the social strategy. Larger and fast-growing providers or those with high staff turnover (>20%) need more frequent training so that all new employees have a shared understanding of their roles and responsibilities, including their social performance functions and social targets. Refresher trainings on the social goals and targets should be offered to all employees at least annually to ensure that the social performance concepts are reinforced, and new trends, policies, and practices related to social goals are presented and discussed

## **Scoring guidance**

- Score 'yes', if the provider has a systemic social performance training process in place in terms of
  - induction training for all new employees on the provider's social strategy and goals and the employees' specific social performance functions and targets and
  - 2. at least annual refresher trainings for all employees
  - 3. both with a hands-on training methodology focusing on practical case studies and role games so that
  - 4. most/all employees understand well the topics.
- Score 'partially', if one or more of the four requirements are met only partly. For instance, (i) the induction training and the refresher trainings cover insufficiently the employees' specific social performance functions and targets or (ii) the training methodology focuses on lectures with little active involvement of the trainees or (iii) many employees have little understanding on the topics.
- Score 'no', if there is no social performance training process in place and/or two or more of the four requirements are largely not met.

#### **Sources of information**

- HR Policy & Procedures manual / Code of Conduct
- Induction and refresher trainings conducted during the past 12 months and training materials on the social strategy, social goals, and the social performance functions and social targets of staff.
- HR reports on induction and refresher trainings on the above topics and training evaluations during the past 12 months.
- Interviews with HR manager, Training manager, and different employees (women and men with office and field functions) and at different levels.

#### **Evidence to provide**

- Refer to inception and refresher trainings and training evaluations on the above topics during the past 12 months.
- Describe the training methodologies and training materials for trainers and trainees.
- Refer to the level of understanding on the above topics from the sample staff interviews.

#### **Resources for indicator 5.C.2.1**

- Sample Employee GPS Responsibilities Table
- FINCA Microfinance Bank LTD. Evaluates Employees on Customer Care



5.C.2.2 The provider trains employees on client protection, in line with their roles and responsibilities. The training covers at minimum the following topics:

5.C.2.2.1 Repayment capacity analysis and the credit approval process

5.C.2.2.2 How to avoid aggressive sales techniques, including how to respect clients' rights to refuse products

5.C.2.2.3 How to explain pricing, terms and conditions to clients and how to verify client understanding

5.C.2.2.4 Debt collections practices and loan recovery procedures

5.C.2.2.5 Confidentiality and data sharing policies and fraud risks, including common frauds, fraud identification, and fraud reporting

5.C.2.2.6 How the complains mechanism works, how to resolve complaints against third party providers, and how to treat clients respectfully during the process

## **№** Indicator in ALINUS | SPI5 Entry | SPI5 Full | CP Commit | CP Full Details 5.C.2.2.1, 5.C.2.2.3, and 5.C.2.2.4: Progress CP

The HR policies on recruitment, employee performance evaluation, and employee training should reflect the client protection standards laid out in the Code of Conduct and in the client protection policies and procedures. Trainings may take the form of formal classroom trainings, on-line learning, on-the-job coaching (notably during the probation period) or may occur during regular branch/regional meetings (as long as there is evidence that client protection issues are addressed).

#### **Scoring guidance**

- Score 'yes', if the provider has a systemic client protection training process in place in terms of
  - 1. induction training for all new employees on client protection and on how to comply with 'good' client protection practices and
  - 2. at least annual refresher trainings for all employees
  - 3. both with a hands-on training methodology focusing on practical case studies and role games so that
  - 4. most/all employees understand well client protections.
- Score 'partially', if one or more of the four requirements are met only partly. For instance, (i) the induction training and the refresher trainings cover insufficiently the 'accepted' and 'non-acceptable' client protection practices for the employees or (ii) the training methodology focuses on lectures with little active involvement of the trainees or (iii) many employees have little understanding on client protection.
- Score 'no', if there is no client protection training process in place and/or two or more of the four requirements are largely not met.

#### **Sources of information**

- HR Policy & Procedures manual / Code of Conduct
- Induction and refresher training plans and training material on the social strategy, social goals, and the social performance functions and social targets of staff.
- HR reports on induction and refresher trainings on client protection and training evaluations during the past 12 months.
- Employee files
- Interview with HR manager, Training manager, and different employees (women and men with office and field functions) and at different levels.

#### **Evidence to provide**

• Specify the elements in the HR policies and training materials that are related to the Code of Conduct and client protection policies (training modules, on-site refreshers, on-line learnings, etc.). Training materials should clearly point out the standard of conduct staff is expected to follow.



- Specify when new and existing staff receive training over the last 12 months (ex., induction training, on-the-job coaching, ad hoc sessions).
- Describe the training methodologies and training materials for trainers and trainees.
- Refer to the level of understanding on client protection from the sample staff interviews

## Field examples / Guidance for implementation

<u>For 5.C.2.2.1</u>: Applies to loan officers, field executives supervising several loan officers, branch head of credit, branch manager, head office specialists on lending and loan workout management, and internal auditors.

"Repayment capacity analysis" involves building cash flow analysis, cross checking, and interviewing clients. If due diligence is conducted by group members, groups are trained on how to conduct due diligence and relevant loan criteria.

<u>For 5.C.2.2</u>: Applies to all client-facing staff, notably those with sales functions, and internal auditors.

With the training, staff understand and have the skills to implement policies and procedures related to fair and responsible treatment of clients and aligned with the Code of Conduct. 'Unacceptable' behavior is highlighted. Training material should explicitly refer to 'aggressive' sales. Role plays are particularly valuable in demonstrating what 'aggressive' sales look like.

The provider verifies that third parties (agent network managers, etc.) train their own representatives on fair and responsible treatment of clients. The training is aligned with the provider's Code of Conduct and spells out 'unacceptable' behavior.

<u>For 5.C.2.2.3</u>: Applies to all client-facing staff, notably loan officers and those with sales functions, and internal auditors.

The provider trains all client-facing staff to communicate all information related to products, services and policies to clients in the local language and at an appropriate level given financial literacy limitations. For less literate clients, oral communication supplements written information.

Examples: Provider Y trains its loan officers to be able to read out slowly the product contracts to clients with literacy and/or financial capability limitations, making the exchange a series of questions and answers so that the clients can ask questions and the loan officers can verify understanding.

FSP X has its customer service representatives, who handle disbursement, trained to verify client understanding of terms and conditions verbally during the disbursement process.

<u>For 5.C.2.2.4</u>: Applies to loan officers, field executives supervising several loan officers, branch head of credit, branch manager, head office specialists on lending and loan workout management, and internal auditors.

Training should include actions employees are expected to take and those they are prohibited from taking in case of default. This includes training on how to evaluate a client's willingness and ability to repay.

Example: The field staff in collections is encouraged to refer to clients as "clients with late loans" instead of "delinquent clients" in order to avoid the negative connotations and disdain associated with this word.

#### For 5.C.2.2.5: Applies to all employees.

Providers must train all new and existing employees on (I) its confidentiality and data sharing policies, (2) fraud risks, identification, and reporting, and (3) on how to communicate with clients on data privacy and data security policies (how to talk to clients about privacy and confidentiality, how to keep client information safe, how to keep IT passwords safe).

For 5.C.2.2.6: Applies to all client-facing employees and internal auditors.

For a complaints mechanism to be effective, employees must be aware of its existence and how to use it. Employees should know how the mechanism works and how to refer clients to the appropriate person/mechanism. Complaints handling should be covered in



induction training. How the complains mechanism works is not just the channel to use to file a complaint, but also how staff processes complaints

#### **Resources for indicator 5.C.2.2**

- SKS and Equitas Protect Client Data
- <u>Guidance for Adequate Training of Employees on Code of Conduct and Client</u>
  Protection

# 5.C.3 The provider evaluates and incentivizes employees based on social and financial criteria.

### Incentivize balanced performance

The indicators used to measure and reward employee (and also agent, notably if the agents are contracted directly by the provider) performance communicate an important message to staff and clients about what providers value. If providers claim to have social goals, but incentivize financial performance exclusively, employees have no choice but to deprioritize social performance. For example, it is safe to assume that a "zero tolerance for arrears" incentive policy will lead some loan officers to use unacceptable collections practices. A manager will spend time mentoring staff, only if this is part of his/her KPIs. To design and implement an employee performance management system that includes social and financial goals, providers must first define the behaviors and achievements they want to promote. This depends on their social goals, like respectful treatment of clients, good product fit, and accurate data collection. For example, do they simply want field agents to recover the maximum number of overdue loans possible, or is respectful treatment of delinquent clients also a goal? Do they want employees to sell as many microinsurance policies as they can, or do you also care that an insurance policy is the right fit for the clients buying it? Is it good enough for a field agent to simply fill out a client's social data profile, or is it important that the information is also accurate?

A good staff (and also agent) incentive system will:

- Balance social and financial goals. Integrate "social" variables into the incentive system without exceeding the recommended five variables that keeps the system manageable and uncomplicated(refer to <a href="Examples of Social Variables for Incentivizing Employees">Employees</a> in the resources section). The weights assigned to social and productivity variables should be balanced to make sure the same importance is given to social and financial performance. In some cases, the importance of a social goal can be stressed by placing it as a condition (rather than a variable) in the incentive system. For example, a loan officer's rewards may be conditional upon having a certain percentage of target clients (e.g., women, rural, farmers) in his/her caseload. Additionally, the desired customer treatment can be emphasized by excluding employees who are being sanctioned for mistreating clients.
- Incentivize good treatment of clients. It is important that the variable proportion of a field officer's salary be reasonable always below 50%, though 20 to 30% is a better limit for preventing poor practices such as aggressive sales or recovery tactics. Field officer caseloads limits are important to avoid clients suffering under staff with too-high caseloads (see Guidelines for Caseload Limits). A cap on disbursement/sales incentives is recommended to reduce the incidence of overly aggressive sales practices. For example, a provider decided that anything disbursed over and above 120% of the disbursement target is not accounted for in the incentive calculation.
- Be simple and straight-forward. Incentive calculations should be simple and transparent for each employee group; a good rule of thumb is that any employee should be able to calculate his/her own incentives. Variables—the key indicators that combine to evaluate an employee's performance against pre-defined targets—should not exceed five for each employee group. Providers should track variables and metrics in the MIS or other reliable system that is perceived as transparent and fair by employees.



- Set attainable goals. providers should aim to set conditions that qualify at least 70% of employees for rewards. Especially when introducing new variables or weights into the incentive system, providers should target more employees achieving the reward rather than fewer. Over time, they will be able to gauge whether attainable goals were established and the incentive structure can be adjusted accordingly.
- Promote equality among employees. While some providers choose only to apply incentives to certain positions, experience shows that a comprehensive incentive system that covers the majority of job positions at the institution or at least the field positions creates a greater sense of equality among employees. Additionally, while junior and senior staff may have different KPIs based on their responsibilities, the indicators should all be aligned to the same end goals. For example, a branch manager might be incentivized by a client drop-out target, while a customer service representative at that branch would work toward resolving a target number of customer inquiries so that both would be working towards the same goal of customer retention.

Providers should invest time in communicating to employees the rationale behind any changes of the incentive system and how it works. They should prepare an organization-wide training before implementing a significantly changed system or if many employees do not fully understand the current one. Such training should be complemented with short, simple employee guides that explain the policies and provide sample calculations.

Senior management and Internal Audit/Risk Management should review annually the incentive system. They should examine any new system after three to six months and then annually thereafter. The role of Internal Audit is to monitor the factors presented in the <u>Factors to Consider During Internal Audit of Your Staff Incentive System Table</u> and report to senior management. Senior management should use this information, in addition to market information, to ask the essential questions presented in the <u>Essential Questions to Answer When Reviewing Your Staff Incentive System Table</u>. The ultimate goal is to ensure that the incentive system is not creating unintended negative consequences for clients.

Note: Generally, a single variable should carry a weight between 10 and 35%. Weights lower than 10% are not motivational, and those above 35% create lopsided behaviors (i.e., neglect for other variables).

#### Resources

- Example of Social Variables for Incentivizing Employees
- Example Incentive Structure that Balances Portfolio Growth/Size and Quality
- Social Performance Factors to Examine During Internat Audit
- Essential Questions to Answer when Reviewing Your Staff Incentive System

## **Field Examples**

- <u>Ujjivan Incentivizes Customer Service</u>
- ESAF Rewards Staff for Achieving SPM Targets

5.C.3.1 Employee performance appraisals and incentives include client protection or social performance criteria.

5.C.3.1.1 The performance evaluation includes client protection criteria, such as portfolio quality and customer service, including treating clients respectfully and without discrimination.

5.C.3.1.2 The performance evaluation includes social performance criteria, such as ability to recruit target clients, quality of data collection, quality of non-financial services provided, and client retention.



In order to signal the importance of the Code of conduct, social goals, and client protection, employees (and agents who are directly contracted by the provider) should be evaluated and incentivized on social performance criteria. Incentives, in particular, can have a powerful impact on performance and send a strong message about the importance of what is being incentivized.

#### **Scoring guidance**

- Score 'yes', if the provider has a systemic employee (and also agent) performance evaluation and incentive process in place that
  - 1. evaluates at least annually the
    - [Detail 5.C.3.1.1] client protection compliance with criteria like adherence to the Code of Conduct, treating clients respectfully and without discrimination, achieving high portfolio quality, etc.
    - [Detail 5.C.3.1.2] social performance with criteria like ability to recruit target clients, quality of non-financial services provided, quality of data collection, etc.,
  - 2. offers incentives accordingly in line with the results of the performance evaluation.
  - 3. is reviewed annually by senior management and Internal Audit/Risk Management, and
  - 4. the consistent implementation being checked by HR control and HR compliance audits.
- Score 'partially', if the four requirements are met only partly. For instance, (i) the evaluation criteria are too vaguely defined for
  - [Detail 5.C.3.1.1] client protection compliance
  - [Detail 5.C.3.1.2] social performance, or (ii) the incentive system is (still) largely focused on business/financial criteria or (iii) the performance evaluation and incentive systems are review only every two years or (iv) the HR control is more ad hoc and HR compliance audits capture insufficiently the employees' (and agents')
  - [Detail 5.C.3.1.1] client protection compliance
  - [Detail 5.C.3.1.2] social performance.
- Score 'no', if there is no employee (and agent) performance evaluation and incentive process in place and/or two or more of the four requirements are largely not met.

## **Sources of information**

- HR Policy & Procedures manual / Code of Conduct / Client Protection Policy
- Staff performance evaluation criteria related to client protection compliance and social performance.
- Criteria of incentive systems per main type of position (notably loan officer, field executive supervising several loan officers, client adviser, branch manager) related to client protection compliance and social performance.
- Employee files
- Interviews with HR manager, Operations Manager, different employees (women and men with office and field functions) and at different levels, and agents (who are directly contracted by the provider).

## **Evidence to provide**

- Describe the performance evaluation criteria related to compliance with client protection (like adherence to the Code of Conduct or living the provider's values) and social performance (like meeting social performance targets) per main type of position and explain their weights in the overall performance evaluation.
- Specify the main points of the staff incentives policy and the incentive system per main type of position
- Explain how and when the staff performance evaluation and incentive systems were last reviewed.



• Describe the HR control process and the contents HR compliance audits related to client protection compliance and social performance as part of the staff performance evaluation and incentive systems.

#### Field examples / Guidance for implementation

The provider should measure the criteria to check achievement by each employee through internal audit check, analysis of client outcome data, review of complaints data, etc.

#### Resources for indicator 5.C.3.1

• ESAF Rewards Staff for Achieving SPM Targets

5.C.3.2 The provider reviews incentive schemes to check for negative consequences such as fraud, customer mistreatment, aggressive sales, over-indebtedness, or high employee turnover.

## ▶ Indicator in SPI5 Full | CP Full

Market conditions evolve, with competition, regulation, political and economic fluctuations. Providers must revise targets and incentives with changing market and internal (employee growth, new products, etc.) conditions to keep them appropriate and realistic. For example, if a provider incentivizes loan officers with PAR30 <5% and productivity targets of 250 individual loan clients with a sectoral average of 100 individual loan clients per loan officer, then the incentive scheme might be pushing loan officers to issue less-than-high quality loans.

Incentive schemes should be revised annually. This should include a review for unintended social consequences. Incentive systems can sometimes lead to unintended consequences, encouraging employees to act in a way that has negative effects on clients and/or the provider.

## **Scoring guidance**

- Score 'yes', if the provider has a systemic incentive review process in place that
  - 1. checks for (actual and potential) negative consequences for clients like aggressive sales, client mistreatment, fraud, etc.
  - 2. and employees as reflected by high staff turnover
  - 3. at least annually and
  - 4. takes remedial actions to address negative consequences identified.
- Score 'partially', if the four requirements are met only partly. For instance, (i) the review is quite shallow without any client research undertaken or (ii) it focuses on the employees with little attention given to the clients or (iii) the last review was conducted two years ago or (iv) too limited and/or too late remedial actions were undertaken to address negative consequences.
- Score 'no', if there is no process of reviewing the incentive system and/or two or more of the four requirements are largely not met.

#### Sources of information

- HR Policy & Procedures manual.
- Incentives policy and incentive systems per main type of position (notably loan officer, field executive supervising several loan officers, client adviser, branch manager).
- Latest client research that reveals negative consequences like latest client satisfaction surveys, client exit interviews, etc.
- Latest two employee satisfaction surveys.
- Interviews with HR manager, Operations manager, and different employees (women and men with office and field functions) and at different levels, and agents (who are directly contracted by the provider).



## **Evidence to provide**

- Specify how and when the incentive systems per main type of position were last reviewed and whether they are reviewed regularly or on an ad hoc basis.
- Describe the negative consequences identified for client and employees, if any, and what actions were undertaken to address them.

#### **Resources for indicator 5.C.3.2**

- Factors to Examine During Internal Audit of Your Staff Incentive System
- Essential Questions to Answer When Reviewing Your Staff Icentive System



## Dimension 6. Responsible Growth and Returns

Dimension 6's standards and guidance start from the premise that, as a social enterprise, an institution's financial decisions and results should reflect their social goals. As with other social enterprises, striking the right balance is key. As providers grow and take on new investors who may have different priorities, it is very important for the financial service providers to have institutionalized policies and practices that support their own balance. The three primary areas of focus in this dimension are responsibly managing growth, setting prices and using profits to achieve long-term sustainability while achieving social goals.

Dimension 6 includes three standards:

- Standard 6A: The provider manages growth in a way that promotes its social goals and mitigates risks to clients.
- Standard 6B: The provider sets prices responsibly.
- Standard 6C: The provider uses profits responsibly.

# Standard 6A. The provider manages growth in a way that promotes its social goals and mitigates risks to clients.

This standard has 2 essential practices:

- Essential practice 6.A.1: The provider's strategic and/or business plan establishes responsible growth targets.
- Essential practice 6.A.2: During times of high growth, the provider monitors more frequently data related to responsible growth

#### **Resources for standard 6A**

• SPM Essentials #4 Responsible Use of Profits

# 6.A.1 The provider's strategic and/or business plan establishes responsible growth targets.

Most providers target positive growth rates of their client base and/or portfolio. Average annual growth rates are usually in the range of 5-30%, but they can reach 50% or more in markets where the potential is still very large. Such high growth rates can be appropriate in some contexts—such as when a young provider is expanding its operations—yet they can be very dangerous in others where they can spur client over-indebtedness or weaken the internal control systems of fast-growing providers.

Regardless of why pursuing growth (e.g., to achieve economies of scale and reach sustainability, to meet social goals of financial inclusion), providers must ensure that their target growth rates are sustainable. Sustainability means growing only as quickly as providers can adapt and expand their quality-control systems, such as employee training and MIS capacity, as well as risk monitoring. Sustainable growth rates will allow to expand while maintaining adequate portfolio quality, providing good customer service, respecting clients' rights, and giving employees manageable workloads.

Providers set target growth rates by branch and/or region over a three- to five-year time horizon. During this process, the following factors must be analyzed while keeping in mind the quality of customer service, client protection, and employee satisfaction:

- External factors: client demand, competition, market penetration and saturation, and market infrastructure; and
- Internal factors: internal controls, human resource capability, MIS, and client satisfaction.



#### **Analyze external factors**

For each branch and for each product, client demand, current and future market penetration of competitors, market saturation, and market infrastructure should be analyzed carefully to set sustainable target growth rates. Market information should be segmented by different types of clients and different products because pockets of saturation can exist within an otherwise fairly unsaturated market. Providers should also assess whether an "intensive" or "extensive" growth strategy is most appropriate: an "intensive growth" strategy means adding new clients within existing branches or a limited geographic market, while "extensive growth" strategy focuses on opening new branches and/or entering new markets. In general, more caution is required for intensive growth, which depletes the pool of "good" clients faster than extensive growth. Historical data from the MIX Market shows that intensive growth levels over 168% (growth rate of number of borrowers per branch) are associated with lower portfolio quality; while only extensive growth levels over 631% per year (growth rate of the number of branches per FSP) are associated with worsening portfolio quality. These data do not suggest that providers should never pursue "intensive growth," but rather consider whether growth in existing branches will promote positive outcomes (e.g., financial inclusion) or may lead to negative outcomes (e.g., client over-indebtedness).

The table titled <u>Analyze External Factors to Inform Your Growth Policy</u> sets out the external factors to analyze, the data needed for this analysis ("resources needed"), and what insight to gain from each analysis ("analysis"). Using Global Data to Calculate Market Potential demonstrates how providers can use Global Findex data to help determine their potential market.

#### **Analyze internal factors**

The growth policy must also consider the provider's internal capacity for balancing growth with service quality. Table <u>Analyze Internal Factors to Inform your Growth Policy</u> lists the internal factors to examine, and it summarizes the insights to gain from each analysis.

Field Examples and Resources for 6.A.1

- Analyze External Factors to Inform your Growth Policy
- Using Global Data to Calculate Market Potential
- Analyze Internal Factors to Inform your Growth Policy

6.A.1.1 The provider adjusts growth targets to market saturation.

#### Indicator in ALINUS | SPI5 Entry | CP Commit | CP Full - Progress CP

Market saturation occurs when the provision of a product or service reaches the limits of a targeted client segment's effective demand. Market saturation in credit presents a high risk of over-indebtedness. It is difficult to measure, but there are some warning signals, such as loan officers finding it hard to reach their disbursement targets, or multiple borrowings being common practice.

Some questions need to be analyzed:

- Does the provider monitor market saturation? What are the sources of information?
- Is the budget/financial planning a bottom-up process? Is there input from the field?
- Have there been adjustments made to the growth targets due to market saturation/over-indebtedness in the past?

MIMOSA is a tool created to measure the level of saturation in credit markets and can offer insight into the level of risk a certain country is experiencing.

- Score 'yes', if the provider has a systematic process in place to
- adjust its growth targets per branch and staff in line with evolving market saturation, based on verifiable knowledge of the market,



- review these targets on a regular basis and
- the reason(s) for each adjusted growth target is documented.
- Score 'partially', if the three requirements are not fully met. For instance, the market saturation analysis is based on official statistics and/or primary data only or the documentation of the reason(s) for adjusting growth targets is inconsistent.
- Score 'no', if the provider lacks a systematic process to monitor market saturation and/or did not review its growth targets during the past 24 months.

#### **Sources of information**

- Interview with Board
- Interview with the head of credit
- Interview with CEO
- Interview with CFO
- Management reports to the Board, past Board meeting minutes
- Market studies
- Business plan and the assumptions used for projecting growth
- Past growth trends
- Credit bureau reports, if they exist

#### **Evidence to provide**

• Demonstrate that the Board or the top management request, have, and use information about market saturation to determine and adjust growth targets. If there is an example of adjusting growth targets for this or other reasons, within the last year, describe it.

#### Field examples / Guidance for implementation

- <u>Financial Service Providers in Serbia and Bosnia-Herzegovina Monitor Market Saturation and Over-indebtedness Risk</u>
- Incofin Defines Responsible Growth

#### **Resources for indicator 6.A.1.1**

• The MIMOSA Index, which is based on market penetration and capacity

6.A.1.2 The provider aligns growth targets to demand, by client segment, as identified in market research.

## Indicator in SPI5 Entry | SPI5 Full

Different client segments have unique levels of demand and risks of saturation with regards to credit and other products. To understand these characteristics, providers must differentiate market demand and saturation according to client segment and region / branch areas. Market and sector level research findings should lead to adjustments of responsible growth targets based on client needs and context. Refer to the sections on the essential practices 3.A.1 and 3.A.2 for more information about client-centric market research and analysis of client needs by segment and sector.

- Score 'yes', if the provider has a systematic process in place to
  - 1. carry out regular market research differentiated by its most relevant client segments and
  - 2. adjust each product's growth targets based on the demand, level of indebtedness, and level of market saturation of its most relevant client segments.
- Score 'partially', if the two requirements are not met fully. For instance, market research is not differentiated by all most relevant client segments or market research



does not cover level of over-indebtedness per client segment or not all product growth targets are based on the client-segmented market research.

• Score 'no', if the provider lacks a systematic process to client segmented market research and/or did not review its product growth targets based on client-segmented market research during the past 24 months.

#### **Sources of information**

- Results of market research studies, mystery shopping, country level research, credit bureau research.
- Client interviews.
- Annual or operational plans that show the target growth rates by segment/product.

#### **Evidence to provide**

Summary of the client-segmented market research and product growth target review practices that the provider implemented.

6.A.1.3 The provider allocates funds and human resources to reinforce the following internal capacities to ensure responsible growth:

6.A.1.3.1 Internal control mechanisms/internal audit

6.A.1.3.2 Hiring and training employees, and third-party agents as applicable

6.A.1.3.3 Management information system quality and capacity

## Indicator in SPI5 Entry | SPI5 Full

Growth can cause "growing pains" and these details aim to address the main ways in which rapid growth can lead to shortcomings in internal capacity that can affect client protection and customer satisfaction. Providers need sufficient staff, orientation and refresher trainings, data management infrastructure, and monitoring capacity to be able to effectively manage growth while maintaining high standards for client protection. They must ensure that sufficient staff and monetary resources are in place to build and maintain their internal capacity during times of significant growth.

### **Scoring guidance**

#### Detail 6.A.1.3.1:

- Score 'yes', if the provider's internal control and internal audit capabilities keep pace with operational growth in terms of
  - 1. maintaining internal control functions in scope and quality at branch level,
  - 2. conducting qualified audits of each branch at least annually covering file reviews and interviews of at least 3-5% of total clients.
- Score 'partially', if the two requirements are not met fully. For instance, at branches with rapid growth over the past 12 months, internal control functions could not be fully maintained or below 3% of total clients were audited.
- Score 'no', if internal control and internal audit capabilities failed to keep pace with operational growth

#### Detail 6.A.1.3.2:

- Score 'yes', if the provider, in keeping pace with operational growth,
  - has sufficient staff (and agents, if applicable) to maintain good client service (i.e. not leave the front line stretched thin, overworked or burned out due to staff shortages. See <u>Guidelines for Case Load Limits</u> for recommended levels for loan officers) and
  - 2. conducts both a) annual refresher trainings for all existing staff (and agents, if applicable) and b) orientation trainings for all new staff (and agents, if applicable) within three months of their start date.
- Score 'partially', if the two requirements are not met fully. For instance, at branches with rapid growth over the past 12 months, staff shortages occurred or not all staff



received annual refresher trainings or the orientation trainings for some new staff was shortened.

• Score 'no', if the provider failed largely in hiring and/or training staff (and agents, if applicable) while keeping pace with operational growth.

#### Detail 6.A.1.3.3:

- Score 'yes', if, in keeping pace with operational growth, the MIS capacity allows the provider to
  - keep all social and financial information about all its clients in one stable, secured and complete database (or two databases that are linked by unique client ID) and
  - 2. monitor regularly the situation of each client, in particular regarding the PAR.
- Score 'partially', if the two requirements are not met fully. For instance, the client database is not fully secured with daily back up or not complete as client data input is delayed by a few days.
- Score 'no', if the MIS capacity cannot keep up with operational growth.

#### **Sources of information**

- Interview with the internal audit staff and/or manager.
- Interview with the IT manager or head of MIS.
- Interview with the Head of HR and/or Training.

#### **Evidence to provide**

- How often is each branch visited by the Internal Audit department and what % of clients and/or loan officers receive monitoring visits/calls?
- How often and for how much time per session do staff receive training, what is the rate of turnover in the institution for field staff and overall?
- Whether the MIS is integrated across financial and social performance data.

#### **Resources for indicator 6.A.1.3**

• Guidelines for Case Load Limits

# 6.A.2 During times of high growth, the provider monitors more frequently data related to responsible growth.

Institutional growth has a direct impact on the providers' ability to maintain high service quality and institutional sustainability. This calls for quarterly monitoring of key indicators, including:

- Internal indicators of portfolio growth, per field officer, branch, and region, and for each product and/or client segment, including the following:
  - o Number of loans outstanding
  - o Outstanding portfolio
  - o Average loan size
  - o Number of savings accounts and average balances
  - New client recruitment
  - Incidence of multiple borrowing (from the same provider and from other sources)
  - o Change in PAR 30
  - Productivity (borrowers or clients/employee or borrowers or clients/field staff)
- Vintage analysis per branch for each product or per loan officer. Such analysis can highlight credit risk issues that are minimized by a global analysis. Vintage analysis is useful especially during changes in the credit methodology, incentive schemes, or operational organization.
- The evolution of the local market demand and saturation differentiated by main client segments and/or product type.



Quarterly - instead of annual - assessments of these indicators can capture periods of fluctuation, such as high growth followed by contraction. Monitoring growth by branch is important to identify potential problem behavior at specific branches, such as excessive growth, which would stay hidden in the case of aggregated data analysis. Providers should compare these indicators to their product growth targets and analyze any differences. If detecting unexpected changes in the external conditions, management should act to prevent negative consequences for the provider and its clients. For example, if a new competitor enters a geographic area that already has high penetration by other providers, consider whether preventive or corrective action is necessary, such as implementing more conservative debt limits for client loans or revising growth targets.

#### Monitor internal capacity to handle growth

In addition to carefully tracking institutional growth, providers must also monitor whether their internal capacity is keeping pace with growth. The table <u>Analyze Internal Factors to Inform Your Growth Policy</u> presents some of the most important indicators that management should monitor for each branch or regional office, for each field agent, and for each product, as well as how to analyze these indicators, in order to address risks related to the provider's capacity to handle growth.

#### Enhance internal capacity as needed

Periods of high growth are associated with additional risks. Enhancing/adjusting operations are thus required to avoid problems such as client over-indebtedness, poor service quality, staff dissatisfaction, and deteriorating portfolio quality. For example, an uptick in staff hiring and training tends to expose any weaknesses in the human resources management, such as poor screening of job candidates or insufficient onboarding for new staff. In this case, more robust hiring protocols and additional staff training are needed. When the MIS is required to hold, process, and analyze a more substantial data load, it is not uncommon for a provider to find that upgrades or even, in the worst case, a more powerful new MIS are necessary. Additionally, high-growth providers often need to adjust staff incentives to emphasize portfolio quality and client satisfaction to mitigate the risk of staff pursuing risky clients, such as clients of other providers or those who fall outside the provider's target, for example.

#### **Field Examples and Resources**

- Analyze Internal Factors to Inform your Growth Policy
- Incofin Defines Responsible Growth

6.A.2.1 The provider analyzes growth rates by branch/region. Minimum frequency: annually.

### Indicator in SPI5 Full

When analyzing growth rates at the aggregate level only, providers likely miss the nuances that may be affecting certain areas of the portfolio. Analysis of the growth rates indicators by branch and/or region at a more granular level enables providers to take action in time before one branch's problems affect the overall portfolio quality.

- Score 'yes', if the provider has a systematic process in place to analyze all its portfolio growth rates
  - 1. by branch and/or region and
  - 2. at least annually, but preferably quarterly.
- Score 'partially', if the two requirements are not met fully. For instance, not all portfolio growth rates (e.g. just loan, but not deposit, portfolio growth rates) are analyzed by branch and/or region at least annually.
- Score 'no', if the provider lacks a systematic process to analyze all its portfolio growth rates and/or it did not analyze its portfolio growth rates during the past 24 months.



#### **Sources of information**

- Reports on planned and actual portfolio growth for all financial products.
- The type and capabilities of the MIS to produce such reports.

#### **Evidence to provide**

Key elements of the reports that show data on portfolio growth rates by branch or region or the title and page number of the document where the evidence can be found.

## 6.A.2.2 The provider monitors the following data during times of growth, Minimum frequency: monthly.

6.A.2.2.1 Outreach indicators, including average loan size of new clients and share of new clients who are from the provider's target client group

6.A.2.2.2 Quality of service indicators segmented by branch, including portfolio at risk and number of complaints

6.A.2.2.3 Human resource capacity indicators, including clients per field officer, ratio of internal audit staff to total number of staff, hours of training for new employees (by position), and employee turnover (by position)

## Indicator in SPI5 Full

As providers are seeking to grow, they should have a protocol that requires this data collection at all times. The first detail is designed to help providers to prevent mission drift by making sure that the size of new loans stays appropriate for target clients and monitoring client recruitment to ensure that new clients are in the targeted client segments. The second detail is designed to help identify problems at the branch level so action can be taken before those problems spread to the institutional level. The productivity and turnover data help ensure that the internal capacity is keeping pass with growth so that staff are properly trained and don't have too many clients to be able to provide thorough and careful analysis for each one.

#### Scoring guidance

## <u>Detail 6.A.2.2.1:</u>

- Score 'yes', if the provider has a systematic process in place during times of growth to
  - 1. monitor outreach indicators (incl. average loan size of new clients, share of new clients who are from the provider's target client group) monthly at institutional and branch level and
  - 2. analyze and report them monthly to senior management.
- Score 'partially', if the two requirements are not met fully. For instance, quality of data collection is sometimes not assured fully or reports to senior management are often delayed.
- Score 'no', if the provider lacks a systematic process during times of growth to monitor outreach indicators monthly at institutional and branch level and/or there is no analysis and reporting of outreach indicators to senior management during the past 12 months.

#### <u>Detail 6.A.2.2.2:</u>

- Score 'yes', if the provider has a systematic process in place during times of growth to
  - 1. monitor quality-of-service indicators (incl. PAR by branch, number of client complaints) monthly at institutional and branch level and
  - 2. analyze and report them monthly to senior management.
- Score 'partially', if the two requirements are not met fully. For instance, quality of data collection is sometimes not assured fully or the analysis of PAR does not cover all loan products.



• Score 'no', if the provider lacks a systematic process during times of growth to monitor quality-of-service indicators monthly at institutional and branch level and/or there is no analysis and reporting of quality-of-service indicators to senior management during the past 12 months.

#### Detail 6.A.2.2.3:

- Score 'yes', if the provider has a systematic process in place during times of growth to
  - 1. monitor HR capacity indicators (incl. clients per field officer, ratio of internal audit staff to total number of staff, hours of training for new employees (by position), employee turnover by position, especially for field officers) monthly at institutional and branch level and
  - 2. analyze and report them monthly to senior management
- Score 'partially', if the two requirements are not met fully. For instance, the HR capacity is measured by quantitative indicators only (e.g. hours of training, but not the effectiveness of training) or the analysis of HR capacity does not cover the actual staff qualifications.
- Score 'no', if the provider lacks a systematic process during times of growth to monitor HR capacity indicators monthly at institutional and branch level and/or there is no analysis and reporting of HR capacity indicators to senior management during the past 12 months.

#### **Sources of information**

- Monthly operational reports for the credit staff
- Business intelligence reports
- HR reports
- Training reports/summaries
- Internal Audit reports
- SEPM or CP assessments/audits/ratings, if available

## **Evidence to provide**

List the past three reports on outreach, quality-of-service, and HR capacity indicators to senior management and indicate which of the above data points can be found in these reports.

6.A.2.3 When the provider identifies growth that is harmful to clients, it takes mitigating action such as reducing growth targets, applying more conservative loan approval criteria, or limiting the total number of loans an individual can have at one time.

#### Indicator in SPI5 Full | CP Full

The Essential Practices of this standard (6A) encompass that providers set responsible portfolio growth targets, monitor the data related to this growth, and then, if they detect any issues through this data analysis, they take action to mitigate the risks to clients. The worse client risk is over-indebtedness. Providers must discuss this most critical client and market risk at the highest level and also with other market players. Necessary actions can include reducing growth targets, limiting the amount of credit available to its clients, setting limits on multiple lending for shared clients etc.

- Score 'N/A', if you have evidence that the provider has analyzed thoroughly that its
  growth is not harmful to clients, and that the board and senior management are
  concerned and monitor potential over heating of the market. This may be the case if
  it
  - 1. had already strong client protection practices in place and



- 2. had always pursued a very prudent loan portfolio growth strategy in line with internal capacities and market demand and saturation.
- Score 'yes', if, in cases of economic recession and/or potential over-heating of the lending market with rising over-indebtedness, the provider's senior management and board
  - 1. monitor closely any potential and actual incidences of "harmful growth" in the past 12 months and
  - 2. have taken mitigating action (e.g. applying more conservative loan approval criteria) to bring the potential and/or actual harmful growth down to a level that does not represent a risk to the wellbeing of clients.
- Score 'partially', if the two requirements are not met fully. For instance, the board has not been pro-active in monitoring incidences of "harmful growth" or the mitigating action has not been sufficient enough to prevent all clients from harm.
- Score 'no', if one or both requirements are not met. For instance, neither senior management nor the board had monitored incidences of "harmful growth" during the past 12 months and/or no mitigating action had been taken during the past 12 months.

#### **Sources of information**

- Publications on market context
- Interview with Board
- Interview with CEO
- Interview with Head of Operations
- Management reports to the Board, past Board meeting minutes
- Loan officers' productivity ratios compared to targets
- PAR reports
- Interview with the head of credit

#### **Evidence to provide**

- If you have scored NA, demonstrate that growth is controlled, and that the region of operation clearly presents no risk nor history of over-indebtedness.
- If there is an example of such mitigation action that has been taken, describe it.
- If there should have been mitigating action and there was not, describe the context.

#### Field examples / Guidance for implementation

• Detecting and Monitoring Over-indebtedness Risk in the Market

#### **Resources for indicator 6.A.2.3**

• Over-indebtedness Case Study: Bangladesh 2008

## Standard 6B. The provider sets prices responsibly.

Though the financial services industry does not have a single definition for "responsible," there are objective and quantitative ways to determine whether prices are responsible. A responsible price is one that is sustainable for the provider and affordable for the client. This standard discusses how to determine whether prices fit that description.

This standard has 3 essential practices:

- Essential practice 6.B.1: The provider charges fair prices.
- Essential practice 6.B.2: The provider charges reasonable fees.
- Essential practice 6.B.3: The provider does not transfer unnecessary costs to clients.

## 6.B.1 The provider charges fair prices.

## Use a formal pricing policy



Providers should have a formal (internal) pricing policy that balances their interests with those of the clients. The pricing policy should take into account:

- 1. Cost of providing the product—the cost of funding, operations, and loan losses;
- 2. Affordability for the client (discussed below);
- 3. Desired profit, including returns to capital; and
- 4. Social goals for the product, such as reaching remote locations or providing access to vulnerable and poor people.

Providers are likely taking on costs that more conventional financial intermediaries would avoid—for example, design and pilot costs for innovative "pro-poor" products and costs involved in targeting clients that are harder to reach. While in many cases these efforts will eventually yield a reasonable financial return from better product design, stronger competitive position, or enhanced client loyalty and lower client acquisition costs, there may be a period before they do so. In this regard, providers must decide which of the "investments" in future profitability should be funded by the clients through higher prices and which should be absorbed by the providers (or their investors) through lower retained earnings or dividends.

#### **Set Responsible Prices on Insurance and Payments Products**

Many clients are unfamiliar with or untrusting of insurance, and clients may lose trust in insurance products if they are discontinued or undergo drastic changes repeatedly or unexpectedly. Providers must thus have clear pricing strategies from the onset when offering insurance coverage to their clients (or to specific client segments) via group policies because they should aim at sustainable continuity of coverage. As they consider the insurance coverage as a benefit for clients, they mostly aim at cost-covering pricing, if not at cross-subsidizing it. The former should cover all effective costs like premiums paid to the insurance partner and direct expenses related to client on-boarding, product education, and support in the claims settlement process minus reduced provisions for client risks.

First premiums are based on predicted claims/payouts. However, they should be later adjusted based on actual claims experience as measured by the claims ratio (defined as claims paid out to clients as a percentage of total amount of premiums collected). A claims ratio below 60% raises a red flag, signaling that the insurance product does not create enough value for clients. The provider should renegotiate with its insurance partner for a lower premium and/or higher benefits and pass the benefits to clients in the form of a lower price, expansion of benefits, or other advantages. Alternatively, if payouts are higher than expected, the price should increase in order to ensure the long-term sustainability of the insurance coverage.

Providers should charge market rates for payments services as the payment transaction costs should be comparable to those charged by their peers.

#### Calculate Interest Earned on a Daily Basis

Providers should calculate interest earned on savings deposits on a daily basis. This daily balance method should replace other methods such as paying interest on, for example, the lowest available balance between the tenth and last day of the month. Paying clients based on their day-end balance yields better returns on savings for clients, and it is important for motivating low-income savers to continue to put away money, as even a small daily increase is rewarded.

## **Set Responsible Prices on Credit Products**

Analysis for responsible pricing is based on the assumption that a provider whose costs are well-managed (operations are efficient and credit losses are limited) and has fair profits (that benefit clients) will have fair pricing, as reflected by its income.

Providers should either be currently covering costs (OSS greater than or equal to 100%) or rapidly approaching break-even to maintain their capital base. Sustainability is essential for the institutional longevity for clients be able to depend on service continuity. In sum, sustainability is as important to client protection as it is to financial performance.



The graphic <u>Components of Responsible Pricing</u> depicts this assumption (for providers who derive their main revenue from loans), and it sets out the components of pricing that can tell whether products are priced responsibly. While a provider can control its operating costs, its credit risk, and its expected levels of profits, and take action to reduce or increase them, on the other hand, financial expenses are one of the components of pricing that providers have less control on (costs of funds often rely on market rates).

The pricing analysis for this standard focuses on the three components over which providers have the most control: operational efficiency, loan losses expenses, and profits.

## Use declining balance calculations

Providers should use the declining balance method for calculating loan interest rates and advertise their loan products by Annualized Percentage Rates (APR) or Effective Interest Rates (EIR) that include all loan costs (processing fees, compulsory savings, etc.). This constitutes the responsible loan pricing practice whereas the flat calculation method (i.e. the borrower pays interest on the full loan amount, even though the amount they have over the loan term decreases as they repay the loan) is irresponsible as it is deceiving clients about their full loan costs. This short video explains how flat methodology is unfair to clients.

Many providers are afraid to use declining balance methodology, APR or EIR as their prices may look much higher than competitors who quote a flat nominal rate. However, they can be a first mover in setting responsible pricing standards in their market and position themselves as the leader in treating clients fairly. They need to ensure that staff understand the interest rate calculation and can describe it clearly to clients, as well as discuss the advantages of a declining balance rate. Additionally, they might consider lobbying the regulator to establish policies on interest rate calculations and disclosures. For clients to truly make meaningful comparisons between products, the sector as, a whole, needs to shift to these transparent, all-inclusive pricing formulas.

## Compare financial ratios with peers

Providers should know whether the price of each of their products is higher, lower, or similar to those of their competitors. They need to compare similar products (type, size, term, repayment frequency etc.) and to compare prices that have been calculated in the same way. The first step when assessing the price of a loan product is to clarify what components were included in the calculation (e.g., fees, cash collateral), what interest rate method was used (flat or declining), and what annualization process (nominal or compounding) was used in the conversion.

Calculating the APR for each product is the most standard way to compare prices. Consider an individual client's perspective: it does not matter to him/her that the provider's average price for all credit products is on par with competitors if the one product s/he uses is priced too high. Therefore, loan price analysis should be done at the product level first and foremost, and at the portfolio level secondarily.

The pricing diagnostic also identifies any areas that need further exploration. For example, if the Operating expense ratio exceeds the expected maximum, the provider should examine its business model for explanatory factors. Some of these might include operating in a low-security environment that requires significant spending on non-standard security costs; serving particularly difficult-to-reach clients; serving an exceptionally underprivileged population that requires add-on services (youth, disabled, etc.); or offering non-financial services that are useful to clients but costly. However, if these or similar factors are not present, the provider must improve its efficiency so that its high operation costs are not passed on to clients through too high product prices. However, client and employee well-being should be taken into account when improving operational efficiency by seeking an appropriate balance between efficiency and social goals such as customer service and strong client protection.

#### Consider whether prices are affordable for clients



Apart from the above-outlined methods for responsible product pricing, providers should also consider the affordability for clients by analyzing the following qualitative data:

- 1. Indicators of client stress: Understand whether clients are under undue financial stress as they make their loan payments. Do clients forgo necessities (meals, healthcare, etc.) to afford loan payments? Or make undesired changes to their lifestyle (take children out of school, sell off household items, reduce participation in community activities, etc.)? Are repayments actually degrading their economic activities (selling off productive assets, depleting savings, etc.)? While these unacceptable sacrifices can indicate other problems unrelated to the cost of credit (e.g., too many debts, family crisis, poor business skills), they should be a red flag. The analysis of client stress/financial health should be combined with the data below to understand whether the product costs are contributing to the problem.
- 2. Client feedback on prices and satisfaction with products: Gather client feedback on current prices, loan sizes, interest paid on savings, prices, and fees, and whether they are satisfied with the products and customer service that they receive, given the cost of the product. Higher prices may be justified by high client satisfaction with unique product/service features (e.g., convenience, timeliness), as many clients are willing to pay more for better products and client service. Likewise, low satisfaction is a signal that clients do not find products/services valuable and may only be willing to pay for them due to lack of options or confusion on the real cost. Are clients able to build assets and cope with cash flow uncertainties?

Note: Product-level pricing from peers is not always readily available. In such cases, portfolio yield comparisons are appropriate. It is important to continue working as a sector to make pricing on individual products publicly available.

#### Field Examples and Resources

- Components of Responsible Pricing
- Sustainability Trends

6.B.1.1 The interest rate takes into account the following costs required to deliver credit: funding costs, operating costs, loan losses, and returns to capital.

### Indicator in SPI5 Full | CP Full - Advanced CP

Interest rates should be set to be affordable to clients and sustainable for the provider. It should cover all direct costs involved in providing credit, including a profit margin to build reserves and invest in further client outreach. Funding and operating costs are usually assumed from trends for past averages. Loan losses that should be covered by the interest rate are based on risk assumptions. Returns to capital, or profit margins, are defined by the top management and/or board by their expected or desired level of profit. A formal pricing policy is not mandatory as long as the provider has a documented basis for setting and reviewing its loan interest rates.

- Score 'yes', if
  - 1. the provider has an analytical approach to loan pricing based on funding costs, operating costs, loan losses, and returns to capital (e.g. analysis of the cost per loan) and
  - 2. the senior management and Board reviews the rationale for its loan interest rates at least annually.
- Score 'partially', if the two requirements are not met fully. For instance, the provider has not defined its expected level of profit or its last review of loan interest rates had been within the past 12 to 24 months.
- Score 'no', if the provider doesn't have a documented basis to set its loan interest rates, based on all four above-listed cost items and/or it has not reviewed its loan



interest rates during the past two years, and/or the Board is not involved in interest rate setting at all

#### **Sources of information**

- Interview with CFO
- Interview with product development department
- Interview with CEO, and potentially with Board member
- Pricing policy, if it exists
- · Reports from finance that support interest rate setting

#### **Evidence to provide**

- Give the reference to the Pricing policy or the documented pricing reviews, if applicable.
- Explain how interest rates are defined e.g. based on a cost analysis, based on what competitors charge, etc.
- Explain the expected level of profit defined by the Board or the top management, if applicable.
- Describe in detail how the loan interest rates are set and what information is used to set them.

#### **Resources for indicator 6.B.1.1**

- CGAP Occasional Paper 1 Microcredit Interest Rates
- CGAP Occasional Paper 1 Las Tasas de Interés de los Microcréditos
- CGAP Occasional Paper 1 Les taux d'intérêt applicables aux microcrédits

6.B.1.2 Annual Percentage Rate (APR) for all of the provider's major credit products (> 20% portfolio) is within 15% of its peers. If it is outside the range, the provider can provide a valid justification.

## Indicator in ESG Risk | ALINUS | SPI5 Entry | SPI5 Full | CP Commit | CP Full - Entry CP

The financial inclusion industry uses an internationally recognized formula for APR that can be calculated in the <u>APR Estimation and Benchmarking tool</u>. This formula for APR generates the only comparable data between loan products that have different terms and conditions. APR indicates how much it costs to borrow \$100 and keep this amount during one full year.

In addition to the cost of interest rate and fees, this APR formula also takes into account all the various criteria that differ from one loan to the other and that constitute a cost to the client, such as the loan term, the repayment schedule, grace period and all side costs like a guarantee deposit, commission, fees, etc.

It requires precise and sufficient peer information that is often difficult to collect. The tool needs to be fed with as many loan samples as possible in terms of loan terms and size for both the provider's and peers' products. The loan product sample of comparable peer information should be large and relevant enough with five to six comparable peers from the same market, a variety of different loan sizes and at least 60 data points from peers. The APR Benchmark graph should show a fairly linear average, with very few spikes.

Providers charge responsible (or 'fair') loan prices, if the APR of each of their main loan products is within 15% of their peers. A "main loan product" represents more than 20% share of the total loan portfolio. 15% deviation means that, if the peer APR is 20%, then the providers' APR should range between 17% and 23%.

If with comparable loan sizes, the APR appears above or on the borderline of being responsible (or 'fair'), the SPI auditor must exchange with senior management (CEO, CFO, etc.) why loan prices are elevated and determine whether their justification is acceptable (e.g. operating in insecure markets near war zones where income and expenses are



unpredictable, large foreseen expenses in the short term, such as transformation into a regulated provider, spending the proceeds from earnings on things to improve the client's lives, such as financial education, market studies for new products, etc.).

## **Scoring guidance**

- · Score 'yes', if
  - 1. the sample of comparable peer information is large and relevant enough (the graph shows a rather linear average line with at least 60 data points), and
  - 2. the main loan products' APR are within 15% of peers.
- Score 'partially', if the two requirements are not met fully. For instance, if market studies provide some limited information about peers' prices, and the provider appears to be in the acceptable range, or if the APR of one of the main products is higher than the 15% deviation from peers.
- Score 'no', if the provider or other sources do not provide sufficient comparable peer information and/or the main loan products have higher APR than the 15% deviation from peers.

#### **Sources of information**

- Results from the APR Estimation and Benchmarking tool.
- Provider's detailed loan product specifications (or factsheets) and their average loan term and size.
- Relevant peer information to calculate APR on their main loan products. Sometimes providers have collected it through market studies or mystery shopping. Peer loan pricing data may also be obtained from the national microfinance network, country studies, or data from the provider on its competitors.

Note for SPI auditors: Do not use self-reported APR, which may not be calculated using the formula that is required for this analysis; opt rather for inserting raw data in the APR Estimation and Benchmarking tool.

## **Evidence to provide**

- Ensure enough comparable and relevant loan price data from peers to score this indicator. Comparing to one or 2 other products on the market is not sufficient.
- Make sure that you compare a large variety of loan sizes and loan terms.

#### **Resources for indicator 6.B.1.2**

- APR Estimation and Benchmarking tool
- <u>Microfinance TRAPS The Microfinance Transparent Pricing Supervision Handbook</u>

6.B.1.3 The provider discloses loan interest on a declining balance and according to the exact date of payment.

## Indicator in ALINUS | SPI5 Entry | SPI5 Full | CP Commit | CP Full - Advanced CP

There are two different ways of disclosing the nominal interest rate: (i) on a flat basis, meaning that the interest disclosed is calculated on the initial amount of the loan, or (ii) on a declining balance basis, meaning that the interest is calculated on the outstanding principal amount. Disclosing the interest rate on a flat basis is considered unfair to clients, because it lowers considerably the nominal interest rate figure. Disclosing interest rates on a declining basis is international best practice and is considered the only transparent and responsible practice. In the case that all providers disclose their loan prices on a flat basis (in the absence of regulatory loan price disclosure provisions), providers must have at least a transparent client communication in place to disclose the total borrowing costs.

- Score 'yes', if the FSP discloses its loan interest rates
  - 1. on a declining balance basis



- 2. according to the exact date of payment. The latter requires the MIS to calculate an exact daily interest rate in the cases of an irregular repayment schedule or anticipated payments.
- Score 'partially', if (a) most loan interest rates are disclosed on a declining balance basis reflecting more than 50% of both total number of active loans and loan portfolio share while the peers also disclose some of their interest rates on a flat basis or (b) loan interest rates are disclosed on a declining balance basis, but the MIS cannot calculate an exact daily interest rate for clients or (c) the provider AND all its peers disclose their interest rates on a flat basis, as long as the provider has a transparent client communication in place and discloses the total borrowing costs.
  - o In case of a "Yes/No" scoring approach (e.g. certification), if the provider is in the (c) situation, it may be scored "Yes" as an exception, only if the provider undertakes specific efforts for transparency of pricing disclosure to the clients.
- Score 'no', if (a) loan interest rates are disclosed on a flat basis while peers disclose their interest rates on a declining balance basis and/or (b) if the market practice uses flat disclosure but the provider has no transparent client communication in place to disclose the total borrowing costs.

#### **Sources of information**

- Any document on the loan pricing and disclosure strategy and/or process, if available.
- Loan product brochures and marketing materials from all communication channels of the provider.
- Sample loan repayment schedules / amortization schedules from client files or from the MIS.
- Samples of anticipated payments reports from the MIS to verify that interest was charged according to the exact date of payment

#### **Evidence to provide**

- Findings of reviewing all loan marketing materials on all channels (incl. information consistency across the channels).
- Findings from reviewing several repayment schedules from different loan products and client files, including anticipated payments.
- In the case of a 'partially' score despite the disclosure of some or even all loans at flat interest rate, a corresponding justification is required and the demonstration that all clients receive a thorough and transparent communication on their total borrowing costs.

#### **Resources for indicator 6.B.1.3**

- Key Facts Document Worksheet and Example
- Loan pricing Flat vs. declining balance (2-minutes video)

6.B.1.4 Loan interest (including arrears interest) does not accrue past 180 days in arrears, at maximum.

## Indicator in ALINUS | SPI5 Entry | SPI5 Full | CP Commit | CP Full - Progress CP

When clients fall into delinquency, regular interests usually continue to accrue, meaning it increases the clients' amount due. Some providers also apply an additional penalty interest that starts accruing when the loan falls into arrears. Both these accruals should stop at the latest by the time clients enter more than 180 days in arrears, whether the loans are written-off or not.

Note: If the accounting regulation requires to keep accruing interest on the books, then the interests accrued after 180 days are 100% provisioned, but not charged to the clients.



- Score 'yes', if the provider enforces a policy and/or complies with a regulatory provision specifying that both regular and penalty interest should not be charged to clients after 180 days of arrears.
- Score 'no', if the provider charges clients penalty and/or regular interest past 180 days of arrears.
- If the FSP stops charging regular interest but keeps charging penalty interest after 180 days of arears or vice versa than the score is "partially", and "No" in Certification.

#### **Sources of information**

- Interviews with managers of Finance/Accounting, MIS, and Credit.
- Management Information System (MIS) parameters.
- Sample transactions computed on a sample of delinquent loans.
- Loan Policy & procedures manual(s).

#### **Evidence to provide**

Explain the accrual process used by the provider to calculate both regular and penalty interest on late client loans, including the number of days, if any, when these interests cease to accrue.

## 6.B.2 The provider charges reasonable fees.

Pre-payment penalties, account closure fees, transaction fees, or other penalties should not be excessive. Pre-payment fees should be based on an evaluation of the actual costs incurred by the early repayment, and prepayment penalties should not include interest that would be accrued between time of pre-payment and the end of the loan term. Similarly, arrears interest and penalties should not compound debt; they are calculated based on the principal amount only.

Providers should encourage clients to save as much and as frequently as possible, even in small amounts. Withdrawal, account opening, and minimum balance fees can quickly erode small savings, so that such savings account fees must be kept low or preferably not charged at all. Providers should not charge clients nor receive from the insurance provider an entrance fee, exclusivity fee, or initiation fee. These fees mimic a bribe or kickback for access to the provider's client base, which can have a negative impact on the market (and ultimately on clients) by driving prices up and/or locking a provider into long-term arrangements with an insurer. Providers monitor the fees that their agents or other third-party providers may be charging to their clients (e.g. a transaction fee charged by an agent at the point of sale) and ensure that third-party fees are reasonable when compared to other similar actors in the market.

6.B.2.1 The provider does not charge clients for confirmation of transactions and balance inquiries.

#### Indicator in SPI5 Full | CP Full

Clients should have free access to their account information and loan balance any time. Clients should also receive transaction receipts (in paper or digitally) for free for every transaction. This applies to loans, deposits, and payment services.

- Score 'yes', if the provider provides all its clients with free-of-cost
  - 1. confirmation receipts for all transactions and
  - 2. account balance inquires.
- Score 'partially', if the two requirements are not met fully. For instance, account balance inquires incur a charge after 3 times per month or group loan coordinators



only receive free-of-cost confirmation receipts for the weekly/monthly loan repayments of the entire group.

• Score 'no', if the provider does not provide free-of-cost confirmation receipts for transactions and/or account balance inquires.

#### **Sources of information**

- Interviews with Operations manager and front-line staff
- Branch/field observations and interview of clients
- Description of fees in product factsheets or product policy & procedures manuals or product brochures

#### **Evidence to provide**

Explain the way clients receive confirmation of their transactions and account balances and any fees that may be incurred to receive this information.

6.B.2.2 Prepayment penalties do not include the interest that would have accrued between time of prepayment and the end of the loan term.

## ▶ Indicator in SPI5 Full | CP Full

Most providers apply a prepayment penalty to discourage clients from early repayment (anticipated payment) of their loans which would lead to lower loan margins. However, clients should not pay any future interest on already repaid principal amounts.

Acknowledging that early loan repayment comes with a lower margin or even a loss, providers may apply penalties in the form of a fixed fee, or a percentage fee of the outstanding due, transparently disclosed at or before contract signature. These fees should remain reasonable compared to the outstanding principal due. Both market practice and professional judgement should be used to determine if the fee is reasonable.

This indicator only applies for early repayment of the loan principal and not of prepaying loan installments, which is covered by indicator 6.B.1.3.

#### Scoring guidance

- · Score 'yes', if
  - 1. the provider does not charge all the interest that would have accrued between the time of prepayment and the end of the loan term and
  - 2. the prepayment fee compared to the outstanding principal due represents less than 10% of the outstanding principal.
- Score 'partially', if the prepayment fee is considered high (according to professional judgement and market practice).
- Score 'no', if the prepayment fee is greater or equal to all the interest that would be due until the end of the loan term.

#### **Sources of information**

- Sample loan contracts which mention prepayment penalties
- Interview with management and staff of the credit operations
- Interview with Branch manager and branch staff
- Sample transaction report for a loan with anticipated repayment compared with the future interests that would have been paid
- Loan Policy & procedures manual(s) section(s) on prepayment of loans

## **Evidence to provide**

- Describe the policy that the provider has in place for when a client requests to pay off a loan early, including the fees/costs associated with that choice.
- Describe if there are any exceptions to this policy e.g., for top up loans.
- Professional judgement whether the penalty/fees are reasonable.



6.B.2.3 Arrears interest and penalties do not compound debt; they are calculated based on the principal amount only.

## Indicator in SPI5 Full | CP Full

When clients fall in arrears, providers may apply penalties and arrears interest. When stated as a percentage, the basis for calculation of these penalties and arrears interest should only be the current outstanding loan amount. It should not be based on the installment amount for instance, which includes regular interest.

## **Scoring guidance**

- Score 'yes', if the provider
  - 1. does not apply any penalty for arrears or charges reasonable lump sum arrears penalties as compared to the current outstanding amounts and
  - 2. charges reasonable arrears interest based on the current outstanding amounts.
- Score 'partially', if (a) the provider charges lump sum arrears penalties which are high compared to the outstanding amount for some clients in arrears with small amounts or (b) if the provider charges high arrears interest based on the current outstanding amounts.
- Score 'no', if the provider charges arrears penalties and/or interest based on principal and interest.

#### **Sources of information**

- Sample loan contracts, look for where they mention arrears interest and penalties.
- Interview with credit manager
- Interview with Branch manager and branch staff
- Check with the MIS department and the MIS accounting parameters
- Sample transaction reports for delinquent loans

## **Evidence to provide**

- Describe the policy and practice the provider uses to calculate arrears penalties and interest.
- Professional judgement whether the arrears interest and penalties are reasonable.

6.B.2.4 If the provider offers savings, it charges reasonable fees on savings accounts.

6.B.2.4.1 Fees on deposit accounts are not disproportionately high relative to small deposit balances.

6.B.2.4.2 The fee structure for deposit accounts does not allow zeroing out accounts through repeated application of fees.

## 

Savings or deposit account fees can be for: account opening, account management, each withdrawal, not fulfilling certain conditions (e.g. maintaining a minimum balance), or a specific term before withdrawal, account closure, etc. Savings accounts should clients accumulate useful lump sums they can use to improve their life or manage emergencies. Therefore, fees on the savings accounts, especially those that are serving low-income clients, should have reasonable fees that don't represent a burden to clients or, preferably, providers charge low-income clients no fees on savings accounts.

For detail 6.B.2.4.2, if there is a recurrent fee that may eventually zero out a dormant savings account, the provider should have a mechanism in place to remind the client how to avoid this fee (if it is a penalty), or to top-up his account.



#### Scoring guidance

Score 'N/A', if the provider does not offer savings products.

#### Detail 6.B.2.4.1:

- Score 'yes', if the provider does not charge any fees on deposit accounts or just very low fees for low-income clients who tend to have low deposit balances.
- Score 'partially', if the provider charges low deposit account fees, but not still lower fees for low-income clients who tend to have low deposit balances.
- Score 'no', if the provider charges savings account fees that discourage low-income clients from saving small amounts or from not using savings products at all.

#### Detail 6.B.2.4.2:

- Score 'yes', if the provider does not charge any fees on deposit accounts or has no repetitive fees (e.g. for each withdrawal or for not keeping the monthly minimum balance) that zero out savings balances within two years.
- Score 'partially', if repetitive fees do not zero out savings balances within two years, but already limit the savings behavior of some low-income clients (e.g. limiting the frequency of savings withdrawals to avoid withdrawal fees).
- Score 'no', if the provider charges repetitive fees on deposit accounts that zero out savings balances within two years.

#### **Sources of information**

- Savings product factsheets and brochures that describe all fees
- A sample of savings account statements
- The terms and conditions that clients sign when they open a savings account
- Interview with product manager for savings
- Interviews with low-income clients with and without savings accounts

#### **Evidence to provide**

- Describe the types and sizes of all the fees that are charged on savings accounts.
- Professional judgement whether each of these fees are reasonable or not.

## 6.B.3 The provider does not transfer unnecessary costs to clients.

Providers with a social mission have a responsibility to operate efficiently and spend money prudently in ways that create value directly or indirectly for their clients. Forcing clients to pay excessively high prices to cover unnecessary costs (e.g. salaries of senior managers above comparable market salaries of the peers) or inefficiencies likely undermine social goals, like improving the lives of its clients and their families, reducing vulnerability in their country etc. The goal of this practice and accompanying indicators is to prompt providers to analyze their expenses and make sure that those costs are in line with their social strategy.

#### Field Examples and Resources

• <u>CP4 Companion Tool</u>

6.B.3.1 Loan Loss Expense Ratio (LLER Ratio) is within the accepted performance range. If it is outside the range, the provider can provide a valid justification.

## Indicator in SPI5 Entry | SPI5 Full | CP Full

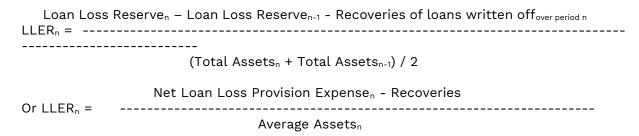
For this indicator, the LLER ratio is defined as the Net Loan Loss Provision Expense (annual) as a % of the average total assets over the year. The net loan loss provision expense represents the net value of loan portfolio impairment loss considering any reversal on



impairment loss and any recovery on loans written off recognized as income during the accounting period.

#### Formula

In local currency, where n is the year for which you are analyzing the financial statements:



The accepted performance range is below 5% which constitutes a high threshold. It is recommended to carry out a LLER trend analysis over at least the past three years to analyze whether the LLER has changed and the internal and/or external reasons for the changes. Both providers and SPI auditors are advised to use the CP4 Companion tool to calculate the LLER. For Client Protection Certification, this ratio needs to be analyzed as of the end of the latest quarter, as of year n (most recent year-end numbers available) and, if very volatile, as of n-1.

### **Scoring guidance**

- Score 'yes', if the LLER is less than 5% or if negative during the past full year. The latter can occur if PAR has considerably decreased or if the provisioning policy has changed to a less conservative method.
- Score 'partially', if the LLER is equal to or greater than 5% during the past year, as long as a trend analysis over the past three years shows prior ranges below 5%, or if it can be explained by one or more external crisis situations (like economic recession, civil unrest, pandemic, etc.)
- Score 'no', if the LLER is equal to or greater than 5% during the past full year with no valid justification.

#### **Sources of information**

- Financial statements over the past three years
- Provisioning policy and possible changes over the past year
- Interview with CFO

Note for SPI auditors: Do not use self-reported ratios, as they may not be calculated in the same way as required by the <u>CP4 Companion tool</u>; opt rather for inserting raw financial data in the tool.

#### **Evidence to provide**

- Documentation of any strategic discussions held at senior management and/or board level during the past 12 months on the current level, trends and projections of the credit risk and/or provisioning policy and actions decided on how to reduce the LLER in line with responsible pricing.
- LLER ratios over the past three years as calculated by the CP4 Companion tool.
- In the case of 'yes' or 'partially' scores despite a LLER ratio outside the accepted performance range, a clear justification is required by describing the exceptional circumstances that explain the excess LLER ratio, and how the provider is taking specific measures to avoid transferring this cost to the clients.

#### **Resources for indicator 6.B.3.1**

- Assessing Responsible Pricing for Inclusive Finance Providers
- CP4 companion tool



6.B.3.2 Operating expense Ratio (OER Ratio) is within the accepted performance range. If outside of the range, the provider can provide a valid justification.

## Indicator in ALINUS | SPI5 Entry | SPI5 Full | CP Commit | CP Full - Entry CP

Operating expenses consist of personnel expenses, administrative expenses (such as rent, utilities, supplies, advertising, transportation, communications, consulting fees, etc.), and depreciation expenses. It excludes loan loss provision expense, financial expense, expenses linked to non-financial services and business income tax.

For this indicator, the OER ratio is calculated has a % of average assets. The accepted performance range is determined by a multi-factor model that estimates the expected OER given the following key factors of the provider and its operating context: GNI per capita, rural population density, rural ratio (rural clients/total number of clients), average outstanding loan size, and assets. In the assessment of this indicator, there is a tolerance level of 6.5 points above the expected ratio (if the expected OER is 10%, then the maximum expected OER is 16.5%).

Both providers and SPI auditors are advised to use the CP4 Companion tool to calculate the OER and the accepted performance range for the provider. Key tips for using the tool:

- Fill the table for key financial data in local currency, applying strictly no adjustments to financial statements.
- The tool automatically conducts the Validity Test which verifies that the 2 sides of the accounting equivalence are within 5% margin of each other: (Expenses + Return on Assets) ≈ Portfolio Yield
- If the test is invalid, it is important to evaluate the source of the discrepancy and make necessary adjustments. For example, if a provider has significant non-loan income, then this income should be excluded from financial statements for the OER calculation (asset base and ROA).
  - Loan portfolios held off-balance sheet should be recalculated using a "managed portfolio" basis, counting loans that are on- and off-balance sheet together. Income from portfolio and security sales linked to the off-balance sheet portfolio should be included as part of the portfolio yield.
  - o Adjustments for provisions when these are insufficient may be made and assets and related ratios recalculated accordingly.
  - o There should be no adjustments for subsidized debt.
- The tool automatically provides a uniform calculation of the provider's OER to be compared to the maximum expected OER.

- Score 'yes', if the OER is below the maximum expected OER.
- Score 'partially' (or "yes" in Certification), if the OER exceeds the maximum expected OER with a valid justification for the following five special circumstances of the provider:
  - 1. Operating in a low-security environment, requiring significant spending on non-standard security costs.
  - 2. Serving an exceptionally under-privileged population, requiring add-on services.
  - 3. Serving exceptionally remote clients, requiring large numbers of staff to regularly travel large distances. Serving rural clients does not qualify as a valid justification.
  - 4. Offering non-financial services that are useful to clients. In this case, it is proposed that their costs be removed from the overall operation, and then the remaining OER compared to the expected value. If the new value is below the 6.5 tolerance level, then non-financial service costs may be allowed.



- 5. When excess OER is observed only during a limited time-period linked to a specific event outside the FSP's control (e.g. natural disaster, monetary crisis, etc.) it may be considered justified only if OERs outside this period comply (in the past and in the projections).
- Score 'no', if the OER exceeds the maximum expected OER.

#### **Sources of information**

- Financial statements of the past three years
- Interview with CFO
- Results from the CP4 Companion tool

Note for SPI auditors: Do not use self-reported ratios, which may not be calculated the same way; opt rather for inserting raw financial data in the CP4 Companion.

### **Evidence to provide**

- Documentation of any strategic discussions held at senior management and/or board level during the past 12 months on the current level, trends and projections of the cost structure, efficiency and productivity levels and actions decided on how to reduce the OER in line with responsible pricing.
- Both the OER and the expected OER as calculated by the CP4 Companion tool as well as the data inserted into the tool.
- Precise explanation of valid justifications to award another score, like the above-listed special circumstances with the required background information.

#### **Resources for indicator 6.B.3.2**

- <u>CP4 Companion</u>
- Assessing Responsible Pricing for Inclusive Finance Providers

6.B.3.3 Return on Assets (ROA) is within the accepted performance range. If outside of the range, the provider can provide a valid justification.

## Indicator in ALINUS | SPI5 Entry | SPI5 Full | CP Commit | CP Full - Advanced CP

Return on assets (ROA) is defined as the net income (after taxes and before donations) as a % of average assets. For the purposes of this indicator, the asset base is adjusted for compulsory deposits\* (meaning that compulsory deposits are subtracted from assets). No other adjustments should be included in this analysis. The analysis looks at the average ROA adjusted over the past 3 years.

The performance ranges of the average adjusted\* ROA over the past 3 years are:

- < 1% = Low range
- 1%-6% = Normal range
- > 6% = High range

\*Adjustment for compulsory deposits only. Compulsory deposits can substantially distort pricing and other financial metrics. For further analysis, financial metrics should be adjusted, retrieving compulsory deposits from the GLP and Asset base.

The question of "what level of profit is deemed acceptable" is more driven by moral rather than financial and economic concerns, but a line has to be drawn somewhere. The cap of 6% has been chosen to leave room for providers to demonstrate a profitable and sustainable business model while being consistent with international best practice for responsible pricing. ROA in the low range brings into question the long-term sustainability of the provider.

ROA in the high range ultimately means the clients are paying excessive prices; the provider should thus consider reducing its interest rates and fees to benefit clients. If high profits



mainly benefit shareholders above the levels justified by the operating context (e.g. inflation), then the FSP's profitability should be seen as inconsistent with responsible pricing.

Both providers and SPI auditors are advised to use the CP4 Companion tool to calculate the average ROA (adjusted by compulsory savings) over the past 3 years.

### **Scoring guidance**

- Score 'yes', if the average ROA falls into the normal range between 1% to 6%.
- Score 'partially', if the average ROA falls into the low range below 1%, and the long-term sustainability of the provider is not endangered.

A 'partially' score may also be given (and "yes" in the case of Certification) when the average ROA exceeds 6%, ONLY in the following four exceptions (with a substantiated justification):

- 1. Inflation: average ROA can be in the high range but cannot exceed the period's average inflation (average inflation over the past 3 years).
- 2. Diverting profits to non-profits that serve their clients with non-financial services. This may only be used as justification for excess ROA up to the amount that is actually passed on to the relevant non-profit entities. This allowance is capped at 1% making the maximum justifiable average ROA 7%.
- 3. Borrower retention rate above 75%: this can be an appropriate justification, only up to 7% average ROA.
- 4. Time-bound exceptional event: If excess ROA is observed only during a limited time-period, linked to recovering after a specific event outside the provider's control (e.g. natural disaster, monetary crisis, Covid crisis, etc.) it may be justified, only if the average ROA outside this period complies (in the past, and in the projections). This is particularly relevant for NGOs, that cannot raise outside equity. Care should be taken to not apply this exception for providers that rely on high retained earnings to make up for frequent periods of high losses, especially where there is no reasonable external explanation.

Note: The following arguments DO NOT justify an average ROA above 6%:

Shareholders expectations of returns

- Country or political risk
- Early-stage FIs / startups
- Building up equity and strengthening the institution (except after a crisis or in preparation for a big change, like transforming into a regulated provider)
- Growing outreach under limited access to equity
- Profits shared with clients

#### **Sources of information**

- Financial statements historical and forecast
- Dividends policy / Shareholder agreement
- Interview with Board
- Interview with CEO
- Interview with CFO

Note: Do not use self-reported ratios, which may not be calculated the same way, rather insert raw financial data in the CP4 Companion tool.

## **Evidence to provide**

- Provide the average ROA over the past three years, and whether the result falls into the low, normal, or high range.
- If the result falls in the low range, assess the sustainability of the provider and its ability to serve clients in the long run. How is ROA projected to evolve in the next 2-3 years? In case the low ROA is consequent to a crisis, what were the ROA levels before the crisis?



- If high profits mainly benefit shareholders above the levels justified by the operating context (e.g. inflation), then the FSP's profitability should be seen as inconsistent with responsible pricing.
- If the result is in high range, the following exceptions can be considered:
  - o Inflation: average ROA can be in the high range but cannot exceed the period's average inflation (average inflation over the past 3 years).
  - o Diverting profits to non-profits that serve their clients with non-financial services. This may only be used as justification for excess ROA up to the amount that is actually passed on to the relevant non-profit entities. This allowance is capped at 1% making the maximum justifiable average ROA 7%.
  - o Borrower retention rate above 75%: this can be an appropriate justification, only up to 7% average ROA.
  - o Time-bound Exceptional Event: If excess ROA is observed only during a limited time-period, linked to recovering after a specific event outside the FSP's control (e.g. natural disaster, monetary crisis, Covid crisis, etc.) it may be justified, only if the average ROA outside this period complies (in the past, and in the projections). This is particularly relevant for NGOs, that cannot raise outside equity. Care should be taken to not apply this exception for institutions that rely on high retained earnings to make up for frequent periods of high losses, especially where there is no reasonable external explanation.
- Note: The following arguments DO NOT justify a high average ROA:
  - Shareholders expectations of returns
  - o Country or political risk
  - o Early stage FIs / startups
  - o Building up equity and strengthening the institution (except after a crisis or in preparation for a big change, like becoming a regulated institution)
  - Growing outreach under limited access to equity
  - o Profits shared with clients
- Score 'no', if the average ROA falls into the high range above 6%.

#### **Sources of information**

- Financial statements of the past three years and ROA projections
- Dividends policy as defined in the shareholder agreement or in the minutes of a board meeting
- Interview with Board
- Interview with CEO and CFO

Note for SPI auditors: Do not use self-reported ratios, which may not be calculated the same way; opt rather for inserting raw financial data in the CP4 Companion tool.

Resources for indicator 6.B.3.3

- Assessing Responsible Pricing for Inclusive Finance Providers
- CP4 companion tool

## Standard 6C. The provider uses profits responsibly.

This standard has 3 essential practices:

- Essential practice 6.C.1: The provider engages with equity investors whose investment strategy is aligned with the provider's social goals.
- Essential practice 6.C.2: The provider uses its profits for expenditures that benefit clients.
- Essential practice 6.C.3: The provider has a transparent financial and social structure.

#### **Resource for Standard 6C**

• SPM Essentials #4: Responsible Use of Profits



# 6.C.1 The provider engages with equity investors whose investment strategy is aligned with the provider's social goals.

When seeking equity investment, providers should look for investors with aligned expectations for financial returns, social returns, time horizons, and exit strategies. It is important that the terms of the investment transaction should explicitly recognize and seek to preserve your institution's social goals (including growth and profitability targets) in the structuring stage of an investment agreement. If terms such as expected social outcomes and use of profits are left unarticulated in pre-investment negotiations, management will be forced to reconcile these inconsistencies once the investment is already in place, which often leads to tension among the old and new shareholders.

Each new equity investor should study the strategy and social goals and the strategy for achieving them (see standard 1A). This ensures that the new investor understands that the mission is not to maximize financial performance but to balance financial and social performance. A funding agreement should include an explicit articulation of the provider's approach and goals with respect to financial and social performance. Likewise, the provider should perform comparable due diligence on potential investors so that the board and management are confident that investors share the social and financial goals.

The table <u>Aligning Social and Financial Expectations</u> lists the terms that should be mutually decided on by the provider and potential investors, alongside discussion questions that will help both parties determine whether the terms are aligned with the social strategy and goals.

#### Field Examples and Resources

- Aligning Social and Financial Expectations
- <u>Equitas Micro Finance Sets Profit Policies and Aligns Management and Investor Expectation</u>

6.C.1.1 The provider discusses its social goals with potential equity investors and asks about their planned timeframe for investment and exit strategies to assess alignment on social strategy.

#### Indicator in SPI5 Full

Providers should cultivate relationships with investors who share its social goals as much as it is possible even if there are limited options as it will benefit them in the long term. Equity investors that insist on higher returns, quick exit in the event of a crisis, or other similar actions, may not truly supporting the providers' social strategy. These differences in priorities can lead to tension between the providers and their investors or mission drift.

- Score 'N/A', if the provider has no equity investors (being a cooperative or non-governmental organization) or if the current (often founding) shareholders do not seek additional equity investors or no equity investor joined the last two years.
- Score 'yes', if the provider (senior management and/or board members) discusses
  - 1. its social strategy/goals and
  - 2. exit strategies with potential investors to seek alignment on these issues prior to any investment transaction and
  - 3. included them in recent investment agreement(s) concluded during the past two years.
- Score 'partially', if the provider discusses only its social strategy/goals or exit strategies with potential investors and included this item in investment agreement(s) concluded during the past two years.



• Score 'no', if the provider does neither have these discussions with potential investors nor included its social strategy/goals and exit strategies in investment agreement(s) concluded during the past two years.

#### **Sources of information**

- Board minutes
- Interviews with the CEO and CFO
- Interview with a Board member, preferably a representative of an investor

#### **Evidence to provide**

- Describe the process of taking on new equity investors from the interviews with the provider's leadership and as documented.
- Describe whether this meets the criteria of the indicator backed up by relevant information.

#### **Resources for indicator 6.C.1.1**

- Aligning Social and Financial Expectations
- <u>Equitas Micro Finance Sets Profit Policies and Aligns Management and Investor Expectation</u>

6.C.1.2 The board of directors prioritizes accepting investment offers from investors whose investment strategy is aligned with the provider's social strategy.

## Indicator in SPI5 Full

Providers should prioritize accepting investment offers from investors who share their strategy and value as much as it is possible given often limited choices and negotiating power.

## Scoring guidance

- .Score 'N/A', if the provider has no equity investors (being a cooperative or non-governmental organization) or if the current (often founding) shareholders do not seek additional equity investors or no equity investor joined the last two years.
- Score 'yes', if the board
  - 1. takes the investors' alignment with the social strategy into account when agreeing to investments, and that
  - 2. this process is documented.
- Score 'partially', if the first requirement is met, but not the second.
- Score 'no', if the first requirement is not met (i.e. the provider has a new investor whose strategy is not aligned.

#### **Sources of information**

- Board minutes
- Shareholder agreements
- Interview with a board member, preferably a representative of an investor
- Interviews with the CEO and CFO

#### **Evidence to provide**

- Describe the types of investors that the provider has taken on in the last two years and whether they are aligned with the provider's social strategy.
- Offer some information on the country and institutional context to show which, if any, options the provider has regarding sources of investment funds.
- Describe whether the above meets the criteria of the indicator backed up by relevant information.



## 6.C.1.3 The shareholder agreement specifies the following:

6.C.1.3.1 Commitment to social goals

6.C.1.3.2 Expected level and use of profits

6.C.1.3.3 Expected investment timeline / exit strategy

## Indicator in SPI5 Entry | SPI5 Full

The provider's institutional policy (bylaws, statutes, shareholder agreements, etc.) should be very clear on the use and allocation of profits. It should detail how much of the current year's profit is expected to be distributed in dividends and bonuses for staff and/or management, how much should be allocated to general reserves to maintain a good capital adequacy in the context of growth, and how much will be allocated to create benefits to clients. The institution should also clearly state whether it has a goal to lower interest rates for clients as long as profits remain above a certain threshold.

#### **Scoring guidance**

• Score 'N/A', if the provider has no shareholder agreements (being a cooperative or non-governmental organization) or if the latest shareholder agreement had been concluded more than ten years ago.

#### Detail 6.C.1.3.1:

- Score 'yes', if all shareholder agreements concluded within the past ten years outline the commitment to social goals.
- Score 'partially', if the requirement is not met fully. For instance, the commitment to social goals is mentioned in most, but not all shareholder agreements concluded within the past ten years or the reference to the commitment to social goals is unclear and not detailed enough.
- Score 'no', if the requirement is not met. For instance, most or all shareholder agreements concluded within the past ten years do not mention the commitment to social goals.

## Detail 6.C.1.3.2:

- Score 'yes', if all shareholder agreements concluded within the past ten years outline the expected level and use of profits clearly and explicitly.
- Score 'partially', if the requirement is not met fully. For instance, the expected level and use of profits is mentioned in most, but not all shareholder agreements concluded within the past ten years or the reference to the expected level and use of profits is unclear and not detailed enough.
- Score 'no', if the requirement is not met. For instance, most or all shareholder agreements concluded within the past ten years do not mention the expected level and use of profits.

## Detail 6.C.1.3.3:

- Score 'yes', if all shareholder agreements concluded within the past ten years outline the exit strategy clearly and explicitly.
- Score 'partially', if the requirement is not met fully. For instance, the exit strategy is mentioned in most, but not all shareholder agreements concluded within the past ten years or the reference to the exit strategy is unclear and not detailed enough.
- Score 'no', if the requirement is not met. For instance, most or all shareholder agreements concluded within the past ten years do not mention the exit strategy.

#### **Sources of information**

- Shareholder agreement(s) from within the past ten years (providers are very hesitant to share them)
- Interview with a board member, preferably a representative of an investor
- Interviews with the CEO and CFO



### **Evidence to provide**

- Quote the passages from the shareholder agreement(s) concluded within the past ten years that fulfill the criteria in the Details.
- Describe whether there is a process in place for including these criteria into shareholder agreements or whether it seems ad hoc.

### **Resources for indicator 6.C.1.3**

- Questions to Consider When Setting Desired Profitability Ratios and Ranges
- Rethinking responsible equity exits: A call to action for impact investors (Cerise+SPTF and e-MFP, February 2024)

# 6.C.2 The provider uses its profits for expenditures that benefit clients.

Higher yield targets might be acceptable if excess profit is used to benefit clients, like investments in: market research/product design/product testing so that products fit better with clients' needs; client monitoring/outcomes management; improved client protection practices (e.g., creation of a client complaints mechanism or revision of loan contracts to improve their transparency); improved staff training on customer service; or extension of services into unbanked geographic locations. However, if high profits mainly benefit shareholders above the levels justified by the operating context (e.g., after accounting for inflation, country risk, etc.), then the provider's profit/profit targets are most likely inconsistent with its social goals.

6.C.2.1 The provider's use of profits in the previous year included at least one of the following investments: strengthening its social or environmental performance management practices, provision of non-financial services, lowering of prices, or local community investment.

# Indicator in SPI5 Entry | SPI5 Full

The use of profits determines if the level of profits is appropriate, especially if the yield on the portfolio or ROA is in the elevated range. The level of profit is acceptable, if some of it benefits clients, such as lowering interest rates, offering educational services for clients and/or their children, or designing new products to meet client needs. However, if the level of profit is in the elevated range and not used to benefit clients then it is simply overcharging clients and not complying with the goals of responsible finance.

There are four main ways of how profit can be used to benefit clients:

- 1. "Strengthening social or environmental performance" includes spending on anything that allowed the provider to implement more or better any practices of the seven dimensions of the Universal Standards.
- 2. "Non-financial services" include any non-financial services offered to clients, such as business development or financial literacy training, access to weather and/or market information, health education or preventative health screening, educational opportunities for clients and their children, etc.
- 3. "Lowering prices" usually means lowering loan interest rates, but it could also be delivered through higher interest paid on deposits or eliminating a fee or commission that was formerly charged to all clients. These reductions should be for all clients not just the clients with a strong repayment history.
- 4. "Community investment" includes activities that benefit the communities where the clients live, such as planting trees, installing clean water sources, electrification, sanitation, and cultural or entertainment activities that can bring the community together.



### Scoring guidance

- Score 'N/A', if the provider earned no profit in the past year.
- Score 'yes', if the provider
  - 1. implemented one or more of the four above-mentioned actions to benefit clients within the past 12 months
  - 2. with significant funds compared to its last year's profit
  - 3. that benefited a large share of clients.
- Score 'partially', if the three requirements were not met fully. For instance, the provider spent only limited funds compared to its last year's profit or only a small share of the clients benefited.
- Score 'no', if the provider did not implement any worth-mentioning action to benefit clients within the past 12 months.

#### **Sources of information**

- Interview with the manager in charge of non-financial services
- Interview with the head of credit, to check for changes in interest rates and why
- Interviews with the SPM officer and/or a representative of the provider's Foundation, if existent, to see what projects to implement the Universal Standards may be underway.
- Interview with staff who work on sustainability initiatives.
- Last annual report
- Last financial statements that show level of profit.

### **Evidence to provide**

Description of the types of activities implemented in the year that benefit clients, the extent of these activities (e.g., by how much were interest rates lowered), and how many clients were reached.

### **Resources for indicator 6.C.2.1**

The examples below show how institutions can use profits to benefit their customers in different areas:

- Example of Assilassimé Solidarité in Togo putting <u>environmental performance</u> <u>management</u> into practice
- Example of Banco Sol offering school supplies to its customers, reducing interest rates, etc.: <a href="Estudio De Caso Cooperativa San Miguel De Los Bancos: Servicio Captación móvil (in English)">Example of Banco Sol offering school supplies to its customers, reducing interest rates, etc.: <a href="Estudio De Caso Cooperativa San Miguel De Los Bancos: Servicio Captación móvil (in English)">Example of Banco Sol offering school supplies to its customers, reducing interest rates, etc.: <a href="Estudio De Caso Cooperativa San Miguel De Los Bancos: Servicio Captación móvil (in English)">Example of Banco Sol offering school supplies to its customers, reducing interest rates, etc.: <a href="Estudio De Caso Cooperativa San Miguel De Los Bancos: Servicio Captación móvil (in English)">Example of Bancos: Servicio Captación móvil (in English)</a>
- Example of RENACA offering financial products for access to solar energy: <u>RENACA</u> <u>Financial products for access to solar energy</u>

6.C.2.2 The provider has a policy that specifies when dividends may be paid and in what amount, in alignment with its social goals.

### Indicator in SPI5 Full

As providers generate profit by selling their services to clients, including low-income and vulnerable clients, they must therefore consider when and at what level dividends may be paid to shareholders in line with their social goals/values/social strategy.

## Scoring guidance

- Score 'N/A', if the provider earned no profit in the past year.
- Score 'yes', the if the provider has a dividend policy
  - 1. approved by the board
  - 2. that specifies when dividends may be paid (e.g., how many times per year) under what conditions and how much
  - 3. in alignment with the social goals.



- Score 'partially', if the three requirements are not met fully. For instance, the dividend policy is vague / not detailed to understand clearly when, how much, and under what conditions dividends are paid or the dividend policy is not well aligned with the social goals.
- Score 'no', if the provider has no dividend policy or any written documentation on when, how much, and under which conditions dividend are paid.

#### **Sources of information**

- The dividend policy or any written documentation on the payments of dividends which may be contained in the shareholder agreements or member charter or any other type of document.
- Board minutes
- Interviews with the CEO and CFO

### **Evidence to provide**

- Description of which document contains this information (title and page number) and a brief summary of the content of the dividend policy.
- Professional judgement whether the dividend policy is in line with the social goals.

# 6.C.3 The provider has a transparent financial and social structure.

Transparency regarding social objectives and return expectations is critical to a full alignment between investors and their providers. Providers should also be transparent on all the risks they bear, notably financial risks, in serving low-income and vulnerable clients in unstable environments with unreliable or non-existent deposit insurance. They should disclose in their financial statements all risks related to assets or liabilities (foreign exchange risk, interest rate risk, maturity risk, etc.), delineate contingent liabilities, disclose off balance sheet items, count them in leverage ratios, and provide all details of their shareholding structure and participations in other companies in compliance with the International Financial Reporting Standards (IFRS). They should make public their annual audit reports.

### 6.C.3.1 The provider publicly discloses its annual audited financial statements.

# Indicator in ESG Risk | ALINUS | SPI5 Entry | SPI5 Full

This is a minimum requirement for the provider to be transparent with its stakeholders. Regulators, investors, and social auditors all need access to the audited financial statements to be able to make informed decisions regarding the provider. Accounting standards sometimes differ by country, however, every should publish its annual audited financial statements in accordance with their national audit requirements or the IFRS standards.

## **Scoring guidance**

- Score 'yes', if the provider has a process in place to publish its latest and at least the past three annual audited financial statements.
- Score 'partially', if the latest annual financial statements are published, but there is no process in place to publish at least the past three audited annual financial statements or if the published latest financial statements are not audited.
- Score 'no', if the provider does not publish its latest audited annual financial statements.

### **Sources of information**

- The last three audited annual financial statements available on the provider's website
- The non-audited latest annual financial statements, if the audited one is not yet available



### **Evidence to provide**

- Link to the audited annual financial statements posted online.
- Document that describes the process to publish at least the last three audited annual financial statements.

6.C.3.2 The provider discloses the results of its social audits and outcomes measurement to all stakeholders, upon request.

# Indicator in SPI5 Entry | SPI5 Full

Transparency in financial performance is important (refer to 6.C.3.1) and the goal of this indicator is to extend that level of transparency to the provider's social performance as well. Social audits, social ratings, client protection certifications, outcomes studies, client satisfaction surveys, impact evaluations etc. can all help the stakeholders understand the provider's social performance practices and priorities. Providers should disclose such reports/studies to their SPI auditors, raters, actual and potential investors and funders, national and regional microfinance networks, and other stakeholders upon request, but preferably refer to them with short summaries on their website.

### **Scoring guidance**

- Score 'yes', if the provider discloses these reports/studies to its stakeholders without issue and refers to them on its website.
- Score 'partially', if the provider only discloses parts of these reports/studies to its stakeholders upon request or does not refer to them on its website.
- Score 'no', if the provider does not disclose these reports/studies to its stakeholders even upon request.

### **Sources of information**

- The provider's website.
- Interview of the Communication/Marketing manager.

Note: Sometimes national or international networks or national regulators will post this type of information about their member institutions as well.

### **Evidence to provide**

- List the types of evaluations/reports/studies that the provider has commissioned in the past 2-3 years and whether and which stakeholders were able to access them.
- Sometimes links can be included to them, if they are posted or linked on the provider's website.

6.C.3.3 The provider discloses the compensation of senior management to donors, raters, investors and other stakeholders, upon request.

### Indicator in SPI5 Full

The goal of this indicator is to ensure that the provider's close stakeholders can obtain the information necessary for them to determine if the compensation paid to the CEO and other senior managers, and board members is appropriate for the responsible inclusive finance sector and consistent with its social goals. Disclosing this information publicly may represent a security risk in some countries and therefore this indicator does not require public disclosure, rather only disclosure to related parties upon request. On a one-off basis, the provider should be able to disclose this information to its regulator, current and potential investors, raters, and SPI auditors upon request.

## **Scoring guidance**



- Score 'yes', if the FSP discloses this information to its close stakeholders without issue.
- Score 'partially', if the FSP discloses this information to only some of its close stakeholders upon repeated requests.
- Score 'no', if the FSP refuses to disclose this information to its close stakeholders.

### **Sources of information**

• The HR manager or the CEO should be able to answer questions about the compensation – both variable and fixed – for the CEO, senior managers, and board directors.

### **Evidence to provide**

- Summarize the information from the interviews with Credit and HR managers and the CEO/CFO addressing both the transparency regarding compensation and the actual compensation.
- When documenting the compensation of senior management, it is important to describe both fixed compensation (salary, base pay, etc.) and variable compensation (may include incentives, bonuses, commissions, non-monetary perks etc.).
- As a rule of thumb, the compensation of the CEO is not more than 25 times the compensation of a newly recruited field officer.



# Dimension 7. Environmental Performance Management

In a context where climate change and environmental degradation are already affecting every region of our planet, and in particular the most vulnerable populations, it is clear that financial and social sustainability objectives will not be achieved without considering environmental issues. FSPs should seriously engage in improving their environmental performance, avoiding generating negative environmental impacts and contributing to foster climate change adaptation, environmental risk mitigation and regenerative solutions.

Dimension 7, which Cerise+SPTF co-developed with the <u>e-MFP Green Inclusive and Climate Smart Finance Action Group (GICSF-AG)</u>, lays out the key practices that FSPs should implement to manage their environmental performance.\*

### This dimension has 3 standards:

- Standard 7A: The provider has an environmental strategy and systems in place to implement it.
- Standard 7B: The provider identifies and manages environmental risks and opportunities.
- Standard 7C: The provider offers financial and non-financial products and services to achieve its environmental goals.

\* Note – The standards and essential practices of Dimension 7 are fully aligned with the Green Index 3.0 developed by the GICSF-AG of e-MFP. The Green Index 3.0 provides an in-depth analysis to providers willing to develop a detailed action plan; Dimension 7 provides a practical analysis for providers willing to develop an action plan consistent with their social performance management strategy, in the frame of the Universal Standards.

### **External Resources for Dimension 7**

- GICSF AG webinars on green inclusive and climate-smart finance
- GICSF AG online library on Green Inclusive and Climate-Smart Finance
- <u>European Dialogue 5th European Microfinance Award Microfinance and the Environment</u>
- Adapting to a New Normal Strengthening Resilience to Climate Change: Best Practices from the European Microfinance Award 2019

# Standard 7A. The provider has an environmental strategy and systems in place to implement it.

In line with Dimension 1 and Standard 1A expecting the provider to have a strategy to achieve its social goals, having an environmental strategy and systems in place to implement it enables the provider to manage environmental performance in a well-thought, global and systematic way, according to its priorities, context of operations and resources, and in consistency with its financial and social objectives.

### This standard has 3 essential practices:

- Essential Practice 7.A.1: The provider has a strategy to achieve its environmental goals.
- Essential Practice 7.A.2: The provider collects, analyzes, and reports data that are specific to its environmental goals.
- Essential Practice 7.A.3: The provider's governance and management structure ensures the implementation and oversight of the environmental strategy.



# 7.A.1 The provider has a strategy to achieve its environmental goals

Having a documented strategy with specific environmental goals, indicators and targets, provides a framework for implementing well-thought, relevant, consistent actions for environmental performance management.

7.A.1.1 The provider has a documented strategy that specifies its intention to achieve at least one of the following environmental goals:

- Reduce the provider's own adverse impacts on the environment
- Reduce clients' vulnerability to climate change and environmental degradation
- Reduce clients' adverse impacts on the environment
- Foster the adoption of green practices and technologies, and meet clients' demands and needs for them

# Indicator in ESG Risk | ALINUS | SPI5 Entry | SPI5 Full

The existence of a formal strategy with environmental goals shows the strategic commitment of a provider. It holds the provider accountable to this commitment and gives a signal to internal and external stakeholders. It provides a framework of action for the provider.

### **Scoring guidance**

- To answer 'yes', the provider should have a formal written strategy, rather than an informal or oral one. It could be either a separate environmental strategy, or part of the provider's overall strategy. The strategy should specify concrete environmental goals relevant to the context of operations of the provider.
- If the environmental goals exist but are too vague or too ambitious, then the answer should be 'partially'. If the strategy is informal but it is possible to verify that environmental goals exist and are known in the organization, then the answer can be 'partially'.
- Assign 'no' if the strategy is very limited (paper management or turning off lights at the end of the day), very vague, or inconsistent with the environmental issues in its context.

### Sources of information

- Strategy/business plan
- Interviews with CEO/managing director
- Interviews with branch managers
- Interviews with field officers

### **Evidence to provide**

Specify how and where (which documents) a commitment to environmental goals is stated. Terms like "environment", "ecological", "climate change", "green" or "planet" should be mentioned directly. If the term "sustainability" is used, it should explicitly be defined as encompassing environmental sustainability, not just financial and social sustainability.

### **Resources for indicator 7.A.1.1**

- Politique Environnementale et Sociale du RENACA Bénin
- Note de positionnement d'Assilassimé Solidarité sur l'environnement et le climat
- Environmental, Social and Governance Policy of CreditAccess Grameen
- Waste Management Policy of CreditAccess Grameen
- Energy Management Policy of CreditAccess Grameen

7.A.1.2 The strategy defines indicators and targets to measure the provider's progress toward its environmental goals.



# Indicator in SPI5 Full

Clearly defining indicators and targets makes it possible to measure whether the environmental goals are being achieved.

### Scoring guidance

- To answer 'yes', the provider should have defined in its strategy documents precise quantitative targets and indicators. The targets should be SMART: Specific, Measurable, Attainable, Relevant, and Time-bound. There should be at least one target for each environmental goal.
- If only few targets are set, or they are not SMART and not really actionable, the answer is 'partially.'
- Assign 'no' if the indicators are missing or the expected results are not specified or cannot be achieved.

### **Sources of information**

- Strategy/business plan
- Operational plan/action plan

### **Evidence to provide**

Give examples of precise quantitative targets found in strategy documents

### Resources for indicator 7.A.1.2

- Stratégie environnementale d'Assilassimé Solidarité
- Plan d'action Environnement d'Assilassimé Solidarité

7.A.1.3 The provider operates in accordance with national and international laws and regulations on environmental protection.

# Indicator in SPI5 Entry | SPI5 Full

Financial service providers are increasingly seen as accountable for their potential impact on the environment.

Making sure that operations and procedures are compliant with national and international laws and regulations on environmental protection is now a critical, minimum step to avoid legal and reputation risks, engage in environmental protection, and reassure investors.

### Scoring guidance

- To answer 'yes', the provider should have identified the national and international laws and regulations on environmental protection relevant to its operations, and made sure that its operations and procedures are fully compliant. This review and compliance check can be done by the Internal Audit department, and should be conducted on a regular basis (annually). If the relevant laws and regulations are clearly mentioned in strategy documents and regular compliance check is documented, for example at the Board or top management levels, the answer can be 'yes'.
- If the identification of relevant laws and regulations and the compliance reviews are regularly conducted but not formally documented, then the answer should be 'partially'.
- Assign 'no' if national or international laws are unknown or not referenced.

### **Sources of information**

- Strategy/business plan
- Manual of operations/procedures
- Internal audit procedures
- Board minutes
- Interviews with CEO/managing director



Interviews with Internal Audit department

### **Evidence to provide**

Specify which laws and regulations have been identified by the provider and how the provider makes sure to comply with them.

# 7.A.2 The provider collects, analyzes, and reports data that are specific to its environmental goals.

Collecting, analyzing and reporting environmental performance data is a strong signal that the provider is indeed committed to achieving its environmental goals. It enables the provider to track progress towards objectives, identify gaps, and define follow-up actions to improve its performance. It also allows communicating on results both internally and externally and building an image of environmental responsibility.

7.A.2.1 The provider collects the following data on an ongoing basis to measure whether it is achieving its environmental goals. Minimum frequency: annually.

7.A.2.1.1 The provider's own adverse impacts on the environment

7.A.2.1.2 Clients' vulnerability to climate change and environmental degradation

7.A.2.1.3 Clients' adverse impacts on the environment

7.A.2.1.4 Outcomes related to its green products and services, including both positive and negative changes for clients, their households, and the environment

# ▶ Indicator in ALINUS | SPI5 Entry | SPI5 Full Detail 7.A.2.1.4: SPI5 Full

Collecting data is critical to monitor progress towards environmental goals, identify gaps, and define follow-up actions to improve environmental performance. The provider should have a formal process to collect quality data on a regular basis (at least annually) for each of the environmental goals defined by the provider. In particular, the providers should collect data on its internal ecological footprint (i.e. its own adverse impacts on the environment / the negative impacts generated at the level of the provider's head office and branches) and on environmental risks at portfolio level (i.e. clients' vulnerabilities to climate change and environmental degradation and clients' adverse impacts on the environment). When a provider offers "green" products and services, it is also important to measure not only the outreach, but also the outcomes of these products and services, in order to check that they do bring the expected benefits to clients, their households, and the environment.

### **Scoring guidance**

- To answer 'yes', the provider must have a formal system/process in place for regular data collection and analysis, and it must have collected data on a regular basis, at least annually.
- If the provider only collects environmental performance data informally (e.g. through qualitative feedback from field officers), or if the provider does not collect such data every year, or if the provider only collected such data once, then the answer should be 'partially.'
- If data is just focusing on portfolio/volume allocated to "green" products, and not on the outcomes for clients, their households and the environment, the answer should be 'no'.

### **Sources of information**

- MIS
- Management reports
- Carbon audit / Evaluations / Clients' surveys
- Interviews with IT / Marketing Department / SEPM Manager



### **Evidence to provide**

Specify what data is collected, through which channels and at what frequency.

### Resources for indicator 7.A.2.1

- ACLEDA Environmental & Social Sustainability Report
- ESAF Green Protocol Audit Checklist

7.A.2.2 The provider reports environmental performance data internally and externally. Minimum frequency: annually.

# Indicator in SPI5 Entry | SPI5 Full

Regular reporting allows the provider to track progress and monitor the environmental strategy. Moreover it makes the institution accountable to its environmental achievements internally and externally, and shows its commitment to transparency.

### **Scoring guidance**

- To answer 'yes', the provider must publish and share reports on its environmental performance both internally (i.e. for Board, management, employees) and externally, and at least on an annual basis. The reports should include key performance data related to the provider's environmental goals. Reporting on environmental performance data can be done either through dedicated reports, or as part of more global performance reports.
- If the reporting is done only internally and not externally, or if it is not done on a regular basis, or if it has been produced only once, the question should be answered 'partially'.
- Assign 'no' if no reports have been made in the last 2 years.

### **Sources of information**

- Management reports
- Annual report
- Institutional website
- Atlas database
- Interviews with branch managers
- Interviews with loan officers

### **Evidence to provide**

Specify the kind of reporting done (target audience, format, content) and its frequency. Specify how results are shared with employees and stakeholders.

### **Resources for indicator 7.A.2.2**

- <u>Memoria del Comité Ambiental de Fondesurco</u>
- ACLEDA Environmental & Social Sustainability Report

7.A.3 The provider's governance and management structure ensures the implementation and oversight of the environmental strategy.

In line with Dimension 2 on Committed leadership, having an environmental strategy is of little value if it is not being implemented. The Board and management play a key role here in ensuring that environmental issues are fully considered in decision-making, and that employees at all level are well informed and trained on their responsibilities.



7.A.3.1 The Board and management make strategic decisions based on the following environmental performance data. Minimum frequency: annually.

7.A.3.1.1 Analysis of the provider's own adverse impacts on the environment.

7.A.3.1.2 Proportion of the portfolio that is vulnerable to climate change and environmental degradation, and the proportion generating adverse impacts on the environment.

7.A.3.1.3 Positive and negative outcomes for clients from implementing green practices and technologies.

### Indicator in SPI5 Full

The Board and management priorities should be consistent with the provider's environmental strategy. The Board and management should adopt a balanced approach to performance management, using financial, social, and environmental data to make decisions.

### Scoring guidance

- To answer 'yes', the board and management minutes should reflect discussions on the topics listed in the details, based on updates from management and reports, provided with internal environmental check/ data (7.1.3.1.1), a careful portfolio segmentation aligned with the level of environmental risks (7.A.3.1.2), or outcomes data collected from clients (7.A.3.1.3), at least once a year.
- If the Board or management only has informal or partial data to discuss, or only checks these data on an irregular basis, the answer should be 'partially'.
- Assign 'no' if the board of directors and management do not have data to make decisions or do not discuss environmental issues.

### **Sources of information**

- Board/management meeting minutes
- Reports sent to Board/management
- Interviews with Board members
- Interviews with the CEO/managing director

### **Evidence to provide**

Specify the date of the board/management meeting minutes where information is found, and/or reference to examples cited during interviews with board members or CEO related to strategic decision-making on environmental issues. Give examples of decisions/concrete actions taken based on analysis of environmental performance data.

7.A.3.2 The provider defines roles and responsibilities for implementing the environmental strategy.

7.A.3.2.1 A dedicated senior management person or team is responsible for the execution of the environmental strategy.

7.A.3.2.2 The provider integrates its environmental strategy in job descriptions and objectives for all relevant roles.

# Indicator in SPI5 Entry | SPI5 Full

To ensure that the environmental strategy is implemented, the provider must assign clear roles and responsibilities.

Having a dedicated person or committee tasked with managing environmental issues improves chances of achieving progress. It shows that there is someone in the institution who is accountable for managing the environmental dimension. While senior management should be ultimately responsible for achieving environmental objectives, they may lack the expertise or the tools to do so. Many providers have found it useful to assign a dedicated function to supporting the management in making decisions—for example, an environmental manager dedicated to defining and monitoring environmental goals. It does not need to be a



full-time function and can be a part-time one, depending on the size of the provider and the ambition of the environmental strategy. To be heard from other colleagues, this person or team should be of sufficient seniority and/or strategic function.

The risk of having only a dedicated person or team is however to create a silo around environmental issues. It is thus critical that the provider also assigns roles and responsibilities related to the environment to all relevant functions within the institution, from field officers to top managers, in particular through job description and objectives. All departments and levels usually have a role to play in implementing the environmental strategy (e.g. promoting green loans at field officers' level, including environmental issues in staff training for the HR department, checking compliance with environmental laws and regulations for the Internal Audit department, etc.).

# **Scoring guidance**

### For 7.A.3.2.1

- To answer 'yes', at least one person of sufficient seniority should formally have part of his/her time dedicated to managing environmental topics.
- If there is an informal commitment and evidence can be provided to demonstrate, then the answer should be 'partially.' If the assigned person or team is not in senior management, the answer should also be 'partially.'
- Assign 'no' if the assigned person has no expertise in environmental issues, no time for these tasks, or if no one is assigned to these tasks.

### For 7.A.3.2.2

- To answer 'yes', job descriptions and employees' objectives should formally integrate roles and responsibilities in implementing the environmental strategy, at all level of the institution (from field officers to top managers, for all different departments).
- If roles and responsibilities are not formally defined in job descriptions but there is strong evidence that employees, for all relevant functions, are aware of their roles and responsibilities in implementing the environmental strategy, the answer should be 'partially.'
- Assign 'no' if individuals are not formally assigned these roles and responsibilities.

### **Sources of information**

- Job descriptions
- Employees' annual objectives
- Interviews with CEO/managing director
- Interviews with HR
- Interviews with branch managers
- Interviews with field officers

### **Evidence to provide**

### For 7.A.3.2.1

Specify the person or team assigned, and its role in the oversight of the environmental strategy. Refer to the profile/experience of the person(s) to show that they have sufficient seniority.

### For 7.A.3.2.2

Specify how job descriptions and objectives integrate the environmental strategy, and for which employees.

# Resources for indicator 7.A.3.2

• <u>Fiche de poste Charge du Développement des Services Sociaux et Point Focal Environnement d'Assilassimé Solidarité</u>



7.A.3.3 The provider trains board members, management and employees on their respective roles and responsibilities, and builds capacity as needed, for implementing the environmental strategy.

# Indicator in ALINUS | SPI5 Entry | SPI5 Full

In order to successfully support, safeguard or implement the provider's environmental strategy, board members, management and employees all need to understand what the environmental objectives are and how they should contribute achieving them. Capacity-building is even more crucial as environmental issues may be new, little known, not seen as a priority, and often quite technical. Regular trainings should thus be organized at different levels to make sure that board members, management and employees are familiar with the environmental strategy and their responsibilities, and to progressively build internal capacities on environmental issues, according to the areas of actions defined by the provider (e.g. renewable energy, climate-smart agriculture, environmental risk management, etc.).

### **Scoring guidance**

- To answer 'yes', the provider must systematically include a session on the provider's environmental strategy and explanations of respective roles and responsibilities in all orientation / integration trainings for new Board members / managers / employees. It should also organize regular trainings to build capacities on environmental issues (at least every 2 years).
- If the trainings are not conducted in a systematic and regular way, or if they are only conducted for a limited audience (e.g. only for Board members, but not for employees), then the answer should be 'partially.'
- Assign 'no' if there is no training or if very basic, general training/awareness-raising was provided only once more than two years ago.

### **Sources of information**

- HR policy
- Annual training plan
- Training materials
- Interviews with HR
- Interviews with Board members
- Interviews with management
- Interviews with field employees

### **Evidence to provide**

Specify how and when board members, management and employees are trained on the environmental strategy of the provider, on the roles/responsibilities of each internal stakeholder, and on specific skills for environmental management. Give examples of recent trainings in relation with those subjects.

# Standard 7B. The provider identifies and manages environmental risks and opportunities.

Environmental issues are broad and very diverse. To engage in environmental performance management, it is important that the provider first identifies the environmental risks and opportunities relevant to its context of operations. Then it can define relevant strategies to mitigate these risks and/or grasp potential opportunities.

This standard has 3 essential practices:

- Essential Practice 7.B.1: The provider identifies and manages its own environmental risks at headquarters and branch level.
- Essential Practice 7.B.2: The provider identifies and manages client-level environmental risks.



• Essential Practice 7.B.3: The provider identifies opportunities to finance green practices and technologies.

# 7.B.1 The provider identifies and manages its own environmental risks at headquarters and branch level.

This Essential Practice focuses on environmental risks at the provider's level (while 7.B.2 focuses on environmental risks at portfolio or client level). It looks both at the environmental risks faced by the provider (i.e. the vulnerability of its headquarters and branches to climate change) and the environmental risks generated by the provider's activities (i.e. the adverse impacts of its internal activities on the environment).

7.B.1.1 The provider assesses the vulnerability of its properties, buildings, and human resources to climate shocks.

# Indicateur : SPI5 Full

With climate change, heat waves and dramatic climate events are becoming more and more frequent and serious, affecting all countries around the world. Some regions are more particularly affected, depending on their exposure, sensitivity and adaptive capacity. For a provider, these climatic shocks may directly affect their properties, buildings and human resources (e.g. heat waves creating hard work conditions, floods damaging buildings and properties, mudslides threatening lives, etc.). In the end, it can affect the provider's capacity to operate, and thus translate into operational and financial risks. Assessing the vulnerability of its properties, buildings and human resources to climate shocks is a first step to be able to manage such risks.

## **Scoring guidance**

- Assign 'yes' if the institution 1) has mapped the main climate risks that have or may have an impact on its headquarters and branches (key climate risks may be floods, heavy rains, typhoons, mudslides, drought, heat waves, etc.). 2) The mapping is carried out per branch / area of operation, and specifies the likelihood of occurrence and significance of impact. The provider must also assess its strengths and weaknesses in facing these hazards to gauge its level of vulnerability. 3) This assessment is updated at least every two years.
- Assign 'partially' if one of the elements is missing.
- Assign 'no' if two or three elements are missing.

### **Sources of information**

- Risk mapping
- Interviews with Risk Management
- Interviews with the dedicated person on environmental strategy (if applicable)

### **Evidence to provide**

Specify how the climate risk assessment / climate risk mapping is conducted and at what frequency.

### **Resources for indicator 7.B.1.1**

- 12 Steps to Resiliency A Guidebook on Disaster Risk Reduction and Business Continuity Planning for Microfinance Institutions
- <u>Climate Risk Management framework of First MicroFinance Bank Pakistan</u>



7.B.1.2 The provider has a contingency plan to mitigate the vulnerability of its properties, buildings, and human resources to climate shocks.

### Indicator in SPI5 Full

Having a contingency plan helps the provider prepare for future climate shocks, by anticipating climate shocks and outlining the systematic measures by which the provider will effectively respond before, during or immediately after a disaster. Its main objective is to ensure the safety of clients and personnel once a disaster strikes.

### Scoring guidance

- To answer 'yes', the provider must have a documented disaster contingency plan or disaster risk reduction and management plan, with clear distribution of roles and responsibilities and definition of procedures to follow before, during and immediately after a disaster (e.g. warning system, communication protocol, evacuation procedures, emergency procedures, etc.). The plan should be known from all employees.
- If the provider has a documented disaster contingency plan, but the latter is not known from employees at all level, then the answer should be 'partially.'
- Assign 'no' if the plan remains very vague or does not exist.

### **Sources of information**

- Disaster contingency plan
- Interviews with CEO/operations manager
- Interviews with the dedicated person on environmental strategy (if applicable)
- Interviews with branch managers/field officers

### **Evidence to provide**

Mention the contingency plan and what year it was published. Specify how the contingency plan is shared with employees at all levels (e.g. Is it only by providing access to the document? Are there trainings or awareness-raising sessions on the roles/responsibilities/actions to be taken in case of disaster? Is it included in the induction training of the staff? etc.)

### **Resources for indicator 7.B.1.2**

- <u>12 Steps to Resiliency A Guidebook on Disaster Risk Reduction and Business Continuity Planning for Microfinance Institutions</u>
- Climate Risk Management framework of First MicroFinance Bank Pakistan

7.B.1.3 The provider identifies the adverse impacts of its internal activities on the environment.

### Indicator in SPI5 Full

Through its internal activities, at its headquarters, branches or during field visits, the provider can generate adverse impacts on the environment. Being a service provider, these negative impacts are mostly linked to energy consumption, water consumption, paper consumption, transportation and fuel consumption, and waste production. They can be translated into greenhouse gas emissions to calculate the provider's carbon footprint for Scope 1 and Scope 2 emissions (Scope 1 covers emissions that the provider makes directly – for example running its vehicles; Scope 2 are emissions that the provider causes indirectly when the energy it purchases and uses is produced; Scope 3 encompasses emissions that the provider is indirectly responsible for, up and down its value chain, i.e. mainly at the portfolio level).

Being service providers, financial service providers usually have a limited internal ecological footprint. Yet, managing direct adverse impacts is important to show that the provider is directly engaged (and not just asking clients to engage). It helps the provider build legitimacy



on the environmental topic and create internal buy-in. Identifying the direct / internal adverse impacts is a first step to be able to mitigate these impacts.

### Scoring guidance

- To answer 'yes', the provider must conduct regular assessments (annually) of the negative impacts of its internal activities on the environment, by tracking at least one of the following: energy consumption, water consumption, paper consumption, transportation and fuel consumption, waste production and greenhouse gas emissions.
- If the assessment is not conducted for the whole institution (e.g. only for the headquarters but not for branches), or if it is not conducted regularly (every year), or if it has been done only once, then the answer should be 'partially.'
- Assign 'no' if there has been no impact assessment.

### **Sources of information**

- Management reports
- Annual report
- Carbon audit
- Interviews with CEO/managing director
- Interviews with the dedicated person on environmental strategy (if applicable)

### **Evidence to provide**

Specify what is assessed, how the assessment is conducted and at what frequency.

### **Resources for indicator 7.B.1.3**

- ACLEDA Environmental and Social Sustainability Report
- Environmental Performance Management in practice #4 The experience of CRECER IFD, in Bolivia
- <u>La Gestion de la Performance Environnementale en pratique #4- Le témoignage de CRECER IFS, en Bolivie</u>
- <u>La Gestión del Desempeño Ambiental en práctica #4 El testimonio de CRECER IFD, en Bolivia</u>

7.B.1.4 The provider avoids, minimizes and/or offsets the adverse impacts of its internal activities on the environment linked to:

- Energy consumption
- Water consumption
- Paper consumption
- Transportation and fuel consumption
- Waste production
- Greenhouse gas emissions

### Indicator in ESG Risk | ALINUS | SPI5 Entry | SPI5 Full

Even if financial service providers usually have a rather limited internal ecological footprint due to the nature of their activity (service), implementing actions to avoid, minimize or offset its own adverse impacts on the environment shows the commitment of the provider to act, and not just preach. It is also a very efficient way to raise employees' awareness and commitment, create a corporate spirit around environmental responsibility, and build the provider's legitimacy to engage clients in the same pathway.

### Scoring guidance

 To answer 'yes', the provider must implement more than one action to avoid, minimize and/or offset the adverse impacts of its internal activities. An action is defined either as an investment for the headquarters, branches or staff (e.g. in solar panels, insulation, water tanks, energy efficient vehicles, etc.), as an awareness-



raising initiative (e.g. awareness campaign, visual material to remind good practices, etc.), or as a formal procedure (e.g. to sort waste, to automatically switch off all lights after work hours, to have systematic double-side printing, etc.).

- The answer should be 'partially' if only one action is implemented.
- If nothing formalized is in place, then the answer is 'no'.

### **Sources of information**

- Management reports
- Annual report
- Manual of procedures
- Interviews with CEO/managing director
- Interview with the dedicated person on environmental strategy (if applicable)
- Interviews with employees

### **Evidence to provide**

Specify the actions implemented and in which manual of procedures or report those activities are detailed.

### Resources for indicator 7.B.1.4

- Waste Management Policy of CreditAccess Grameen
- Energy Management Policy of CreditAccess Grameen
- Guía de Buenas prácticas medioambientales de CRECER IFS
- ESAF Green Protocol
- ESAF Green Protocol Audit Checklist
- Environmental Performance Management in practice #4 The experience of CRECER IFD, in Bolivia
- <u>La Gestion de la Performance Environnementale en pratique #4- Le témoignage de CRECER IFS, en Bolivie</u>
- <u>La Gestión del Desempeño Ambiental en práctica #4 El testimonio de CRECER IFD, en Bolivia</u>

# 7.B.2 The provider identifies and manages client-level environmental risks.

This Essential Practice focuses on environmental risks at the portfolio or client level (while 7.B.1 focuses on environmental risks at institution level). It looks both at the environmental risks faced by clients (i.e. clients' vulnerabilities to climate change and environmental degradation) and the environmental risks generated by clients (i.e. clients' adverse impacts of on the environment).

### Ressource utile

• ESMS for Microfinance Institution, by IFC / First for Sustainability

7.B.2.1 The provider identifies clients' vulnerability to climate change and environmental degradation related to the following:

- Climate change
- biodiversity loss
- Pollution and other environmental degradation

### Indicator in ESG Risk | ALINUS | SPI5 Entry | SPI5 Full

While poor and vulnerable people only contribute marginally to global greenhouse gas emissions (in particular in developing countries), they are the ones most affected by the effects of climate change and environmental degradation. This is largely due to their higher



exposure and sensitivity to these risks (e.g. they may live in more disaster-prone areas, they rely more on natural resources for livelihoods...) and their lack of coping capacities (e.g. they do not have savings or insurance, they lack alternatives...). Climate change, biodiversity loss, pollutions or other environmental degradations may directly affect clients' businesses, livelihoods, health, lives, and that of their families. For the provider, it may represent a financial risk of degraded portfolio quality. Identifying clients' vulnerabilities to climate change and environmental degradation is an important first step to be able to manage and mitigate these risks. It is particularly important for providers working with clients in the agricultural sector, which is already directly impacted by climate change and will become increasingly impacted in the near future.

### **Scoring guidance**

- To answer "yes", the provider must assess the level of exposure and sensitivity of its clients to climate and environmental risks, per geographic areas and sector of activities, as well as their adaptive capacities to such risks. This assessment should be updated at least every two years.
- If the assessment is not conducted for the whole portfolio, or if it is not done regularly, or if has just been done once, the answer should be 'partially'.
- Assign 'no' if no assessment has been made.

### **Sources of information**

- Risk mapping / portfolio segmentation by level of risks
- Interviews with Risk Management
- Interview with the dedicated person on environmental strategy (if applicable)

### **Evidence to provide**

Specify what types of client-level risks are assessed, how the assessment is conducted and at what frequency.

### **Resources for indicator 7.B.2.1**

- Climate Risk Management framework of First MicroFinance Bank Pakistan
- L'agriculture Ouest-Africaine face au changement climatique (UNEP-MeBA)
- La agricultura andina frente al cambio climático (UNEP-MeBA)
- La agricultura de Centroamérica y el Caribe frente al cambio climático (UNEP-MeBA)

# 7.B.2.2 The provider identifies clients' adverse impacts on the environment, related to the following:

- Greenhouse gas emission.
- Air, water, or soil pollution, including the use and improper storage of hazardous chemicals.
- Deforestation, land degradation, biodiversity loss, protected wildlife/areas, in particular linked to biodiversity-sensitive areas.
- Waste production and management.

### Indicator in ESG Risk | ALINUS | SPI5 Entry | SPI5 Full

Alors que la majorité des clients peuvent participer à des activités commerciales et à des activités de services ayant des répercussions négatives limitées, d'autres clients peuvent être engagés dans des activités ayant des effets négatifs importants sur l'environnement.

While a majority of clients may be involved in small trade and small service activities with limited negative impacts, some other clients may be engaged in activities with significant adverse impacts on the environment. This is particularly the case for activities that use chemicals (e.g. agriculture, textile dyeing), produce solid or liquid wastes (e.g. leather tanning), generate polluting particles (e.g. brick kilns), have inefficient production processes that consume a lot of energy or water, or exploit or degrade natural resources (e.g. mining, charcoal making). Be they micro, small or medium-



size, these activities can generate negative impacts on the environment that directly and significantly affect the livelihoods and health of the clients, their families and surrounding communities. For the provider, it may in the end represent a financial risk of degraded portfolio quality, as well as a reputation risk linked to the financing of harmful activities. Identifying clients' adverse impacts on the environment is an important first step to be able to manage and mitigate these risks.

### Scoring guidance

- To answer 'yes', the provider must assess the level of risk (high, medium, low) of clients' adverse impacts on the environment, either at individual or sector level. This assessment should be done systematically for all new loan application, and formally integrated in the loan appraisal process (e.g. through the loan application form, the manual of procedures, etc.). The assessment should clearly focus on environmental risks, and not just social risks. Regarding biodiversity loss, the provider should at least identify biodiversity-sensitive areas and how its activities may affect these protected areas. It should also identify the risks on biodiversity in general, linked to the use of pesticides in agriculture, deforestation, predatory activities, etc.
- If the assessment is not conducted for the whole portfolio (e.g. only for individual loans but not group loans, only for loans above a certain amount, only using an exclusion list targeting specific activities), the answer should be 'partially.'
- Assign a 'no' rating if no assessment has been conducted.

### **Sources of information**

- Loan appraisal format
- Credit manual
- Interview with the dedicated person on environmental strategy (if applicable)
- Interviews with loan officers, branch managers

### **Evidence to provide**

Specify the procedures and tools used to evaluate the level of environmental risks of clients' activities. Various tools may be used, such as an environmental risk categorization list per sector, or a specific environmental list checklist in the loan application process.

### Resources for indicator 7.B.2.2

- Environmental and Social Risk by Industry Sector, by IFC / First for Sustainability
- Risques environnementaux et sociaux par secteur d'activité, par IFC / First for Sustainability
- <u>Social and Environmental Management Guidance for Microfinance Institutions Part B. Field Guide</u>
- <u>Guide de gestion environnementale et sociale pour les institutions de microfinance Part B. Guide pratique</u>
- <u>Guía de gestión ambiental y social para las instituciones de microfinanzas Parte B.</u> Guía práctica
- Formulario de créditos verdes de Fondesurco
- Grille d'Evaluation des Pratiques Agroécologiques (UBTEC)
- Databases on biodiversity-sensitive areas:
  - o <u>World Database on Protected Areas</u>
  - o Key Biodiversity Areas
  - o IBAT Integrated Biodiversity Assessment Tool
- Partner's experience of environmental risk assessment
- Ponderaciones guías para medir el riesgo ambiental

7.B.2.3 The provider develops risk mitigation policies and processes in response to identified vulnerability and adverse environmental impacts and integrates them into its standard risk management.



# Indicator in SPI5 Entry | SPI5 Full

After having evaluated client-level environmental risks (indicators 7.B.2.1 and 7.B.2.2), the next step is to define strategies and actions to manage these risks. Different measures can be taken: excluding highly risky loan applications, diversifying the portfolio, including environmental clauses in the loan contract requiring clients to improve their practices, offering incentives for switching to ecological or resilient practices, raising awareness or training clients on risk mitigation and good practices, etc. Experience shows that it is important to integrate environmental risk mitigation policies and processes into the provider's standard risk management system, so that environmental risk management can be systematically applied.

# Scoring guidance

- To answer 'yes', the provider must have defined specific strategies, policies, procedures or actions to manage client-level environmental risks (both in terms of vulnerabilities to climate change and environmental degradation, and adverse impacts on the environment), and have integrated them in its standard risk management system to ensure their systematic implementation.
- If the provider has developed risk mitigation measures but without integrating them into the standard risk management system, or if the environmental risk mitigation measures are not implemented, or if the risk mitigation measures do not cover all the client-level environmental risks identified, then the answer should be 'partially'.
- Assign 'no' if no mitigation measures have been identified or if at least two of the above elements are missing.

### **Sources of information**

- Credit manual
- Risk management procedures
- Interviews with Risk Management
- Interview with the dedicated person on environmental strategy (if applicable)
- Interviews with loan officers, branch managers

### **Evidence to provide**

Specify what policies or processes have been developed to mitigate client-level environmental risks and how they are integrated into the provider's risk management system.

# Resources for indicator 7.B.2.3

- Environmental and Social Management (ESM) Procedure
- <u>Climate Risk Management framework of First MicroFinance Bank Pakistan</u>

7.B.2.4 The provider categorizes loan applications according to their level of environmental risks and implements at least one of the following actions for loan applications with high environmental risks:

- Conducts additional analysis of environmental risks.
- Excludes or limits financing, taking into account potential trade-offs with the provider's social and financial performance.
- Includes environmental clauses in the loan contract, conditioning loan renewal or provision of incentives on the adoption of mitigation solutions and/or green practices.

### Indicator in ESG Risk | ALINUS | SPI5 Entry | SPI5 Full

Evaluating client-level environmental risks (indicators 7.B.2.1 and 7.B.2.2) is important, but to truly manage these risks, the results of the evaluation should be taken into account in loan decisions. There should be consequences for borrowers whose activities present high levels of environmental risk. The type of consequences is to be defined by the provider according to its global strategy and in alignment with its social and financial objectives.



### **Scoring guidance**

- To answer 'yes', the provider must categorize loan applications according to their level of environmental risks (low / medium / high) and for high-risk applications, it must effectively implement one of the actions listed in the indicator.
- If the provider's policy is to assess environmental risks and categorize loan applications only for part of its portfolio (e.g. only for individual loans), but effectively implement measures for this portfolio segment, then the answer of this indicator may be 'yes' while the scoring for 7.B.2.1 and/or 7.B.2.2 would be 'partially'.
- If the provider categorizes loan applications according to their level of environmental risks but does not apply specific procedures for high-risk categories, or only applies the procedures for loans of high amount (representing a limited share of its portfolio), the answer should be 'partially'.
- Assign 'no' if there is no risk categorization.

### **Sources of information**

- Credit policy
- Loan application
- MIS
- Interview with the dedicated person on environmental strategy (if applicable)
- Interviews with branch managers, loan officers
- Interviews with clients

### **Evidence to provide**

Specify whether the loan categorization applies to all loan applications or not. Specify the type of follow-up actions implemented for loan applications with high environmental risks.

### Resources for indicator 7.B.2.4

- Environmental and Social Management (ESM) Procedure
- Sonata Finance Pvt. Ltd (India) exclusion list

# 7.B.3 The provider identifies opportunities to finance green practices and technologies.

Managing environmental performance is not just about managing environmental risks: it is also about fostering green opportunities. If the provider has identified client-level environmental risks (in 7.B.2), it usually implies that there is a need to help clients mitigate these risks. And if there is a need, it means that there is an opportunity for the provider to offer a solution – a "green" solution – to fulfill this need. Risks and opportunities can thus be seen as the two sides of the same coin. This also works for some specific social and economic risks (e.g. linked to lack of access to energy or water, inefficient production processes...) for which green practices and technologies can be a response. Gauging the potential market for green practices and technologies opens new opportunities for the provider, who can then consider developing new products and services, differentiating from competitors, and increasing its outreach.

# 7.B.3.1 The provider identifies green practices and technologies that create benefits for clients in at least one of the following ways:

- Improve access to basic services.
- Increase productivity, revenue, efficiency, or quality of production.
- Reduce adverse impacts on the environment and on health.
- Reduce vulnerability to climate change or environmental degradation.





Offering financial products and services to promote green practices and technologies can be a great opportunity for a provider to diversify its product line and increase its customer base, while addressing some critical environmental, social or economic needs. A first step for the provider is to identify what are the environmentally-friendly practices and technologies that could respond to the specific needs of its clients and bring clear benefits to them. For instance, solar home systems can respond to the basic social need of access to electricity and decrease energy expenditures for the clients, while mitigating the adverse impacts on the environment linked to the use of kerosene lamps or generators. Or, setting an agroforestry system can reduce the farmers' vulnerability to climate change, while helping to diversify sources of income and secure agricultural yields.

### **Scoring guidance**

- To answer "yes", the provider must show documented evidence that it identifies green practices and technologies relevant to its clients and investigates the social, environmental and economic benefits that they generate. This can be done through interviews with experts, technical supports from specialized organizations, references to national or regional studies, data collection from clients, market studies, etc.
- Assign partially if this work is done informally or marginally.
- Assign no if there are no identified opportunities.

### **Sources of information**

- Management reports
- Market studies / clients' surveys
- Interview with the dedicated person on environmental strategy (if applicable)
- Interviews with CEO/managing director and/or operations manager
- Interviews with marketing/product development department

# **Evidence to provide**

Specify the green technologies and practices identified, and how they were identified.

- Microfinance for ecosystem-based adaptation Options, costs and benefits (UNEP-MeBA)
- <u>Microfinanzas para la adaptacion basada en ecosistemas Opciones, costos y beneficios (UNEP-MeBA)</u>
- <u>Microfinance pour l'adaptation fondée sur les écosystèmes Microfinance pour l'adaptation fondée sur les écosystèmes (UNEP-MeBA)</u>
- Renewable Energy & Energy Efficient Products Catalogue (GICSF AG)

7.B.3.2 The provider ensures that the practices or technologies identified are recognized as "green" by an environmental taxonomy and/or comply with clear environmental criteria.

# Indicator in ALINUS | SPI5 Entry | SPI5 Full

Sometimes, some practices and technologies can be misperceived as "environmentally-friendly" or may be "green" in some contexts but have detrimental impacts on the environmental in others. This can be the case in particular for agricultural practices (e.g. ploughing can be perceived as more environmentally-friendly than using chemical herbicides, but it can contribute to soil degradation and CO2 emissions). The provider needs to go beyond "intuition" to identify green technologies and practices, and actually make sure that the identified technologies and practices are recognized as "green" by an environmental taxonomy (or local/national classification / categorization) and/or comply with clear environmental criteria.

# **Scoring guidance**



- To answer 'yes', the provider must show evidence that an environmental taxonomy or clear environmental criteria have been used to assess all selected green practices and technologies. If an environmental taxonomy is used, it should be recognized as a standard at international, regional or national level (e.g. EU Taxonomy). If environmental criteria are used, they should have been defined and used with the support of experts.
- If a taxonomy or environmental criteria have been used for only part of the selected green practices and technologies, then the answer should be 'partially'.
- Assign 'no' if no taxonomy or criteria are used, or if there is no support for environmentally friendly practices.

### Sources of information

- Environmental taxonomy used
- Market studies
- Interview with the dedicated person on environmental strategy (if applicable)
- Interviews with CEO/managing director

### **Evidence to provide**

Specify the taxonomy or environmental criteria used.

### Resource for indicator 7.B.3.2

- Mongolian Green Taxonomy
- South Africa Green Finance Taxonomy
- EU Taxonomy (EN)
- EU Taxonomy (FR)
- EU Taxonomy (ES)
- AFI resource database on Inclusive Green Finance national strategies, guidances, taxonomies

# 7.B.3.3 The provider conducts market research for the green practices and technologies identified, with at least one of the following objectives:

- Assess demand for green practices and technologies, and related financial needs of target clients.
- Identify local technology or technical providers of green practices and technologies, and the quality of their practices and technologies.
- Identify local market and regulation incentives or disincentives for green practices and technologies.

### Indicator in SPI5 Full

In line with Dimension 3 – Client-centered products and services, it is important that the provider conducts market research to better understand the demand (i.e. clients' needs, in terms of green practices or technologies, financial needs to invest in these practices and technologies, and needs for training or awareness-raising), the current supply (i.e. local technology providers, local technical providers of training and technical assistance, quality of the locally available technologies and practices, costs and return on investments for the green practices and technologies), as well as the overall context (e.g. regulations, incentives, technology support such as apps or software, funding opportunities, etc.). This market research will help the provider identify the green practices and technologies most adapted to its clients' needs, define adapted financial products and marketing material, identify reliable technology or technical providers with which to partner, and grasp potential opportunities in terms of financing.

### **Scoring guidance**

• To answer 'yes', the provider must have conducted market research for all selected green practices and technologies. The market research should address at least one of the objectives listed in the indicator.



- If the provider has conducted market research only for part of the selected green practices and technologies, then the answer should be 'partially'.
- Assign 'no' if no market research has been conducted.

### **Sources of information**

- Market research reports
- Interviews with the dedicated person on environmental strategy (if applicable)
- Interviews with operations
- Interviews with marketing/product development

### **Evidence to provide**

Specify when and how the market research was conducted, and where it has been documented (refer to related reports if available).

# Standard 7C. The provider offers financial and non-financial products and services to achieve its environmental goals

Beyond a mere do-no-harm approach, the provider can also opt for a proactive support by offering financial products and non-financial services that will contribute to reduce clients' vulnerabilities to climate change and environmental degradation, mitigate clients' adverse impacts on the environment, and foster the adoption of green practices and technologies.

# 7.C.1 The provider offers financial products and services to achieve its environmental goals.

Offering financial products that promote environmentally-friendly practices and technologies gives an opportunity for the provider to diversify its product range, differentiate from competitors, and expand into new markets, while contributing to environmental risk management and ecological transition.

# 7.C.1.1 The provider offers at least one of the following financial products or services to help clients cope with climate shocks:

7.C.1.1.1 Emergency loans, loans rescheduling, or loans restructuring

7.C.1.1.2 Agricultural or climate insurance products

7.C.1.1.3 Saving products, money transfer, remittances, or guarantees

# Indicator in SPI5 Entry | SPI5 Full

With climate change, dramatic climate events, such as heat waves, droughts, heavy rains, floods, or storms are becoming more and more frequent and serious. These climate shocks directly and strongly affect poor and vulnerable populations who have limited coping capacities. In case of extreme climate events affecting the business or household of clients (e.g. crop loss, asset loss, injuries, etc.), offering adapted financial products and services to affected clients can help them better cope with the consequences of the shocks. For the provider, it is a strategy to manage portfolio risk, at least in the short term (in the longer term, what is needed is to increase the adaptive capacities or resiliency of clients by adopting climate-smart practices and/or diversifying their sources of revenues).

### **Scoring guidance**

### For 7.C.1.1.1

 To answer 'yes', the provider must have a formal procedure specifying how emergency loans, loans rescheduling, or loan restructuring are applied in case of climate shocks



or natural disasters. Emergency loans do not have to be specifically designed for climate risks; they can be generic emergency loans but must have a formal procedure specifying that they apply particularly in cases of climate shocks. The provider must also give evidence that emergency loans, loans rescheduling, or loan restructuring are effectively provided to clients in cases of climate shocks.

- If the procedures or products have not been formalized but there is evidence that they are applied in cases of climate shocks, the answer can be 'partially.'
- Assign 'no' if no formal procedures or informal practices are in place.

### For 7.C.1.1.2

- To answer 'yes', the provider must have a formal insurance product that specifically cover climate and/or agricultural risks and not only other general risks such as death, health, etc. The insurance product can be offered directly by the provider or through a partnership with a third-party. The provider must also give evidence that the insurance product is effectively mobilized in cases of climate shocks.
- If the provider can give evidence (documents, past events, etc.) that an insurance product that is not specific for climate or agriculture risks has been able to cover losses from an agriculture or climate event, score 'partially.'
- Assign 'no' if no insurance product can address climate risks.

### For 7.C.1.1.3

- To answer 'yes', the provider must have a formal procedure specifying how saving products, money transfer, remittances, or guarantees are mobilized to help clients in case of climate shocks or natural disasters. These financial products and services do not have to be specifically designed for climate risks; they can be generic financial products and services, but must have a formal procedure specifying that they can easily and quickly be mobilized in cases of climate shocks (e.g. term deposits made available in cases of climate shocks). The provider must also give evidence that the products or services are effectively provided to clients in cases of climate shocks. These financial products or services can be offered directly by the provider or through partnerships.
- If the procedures or products have not been formalized but there is evidence that they are applied in cases of climate shocks, the answer can be 'partially.'
- Assign 'no' if no savings product can address climate risks.

### **Sources of information**

- Product descriptions
- Credit manual
- Partnerships agreements
- Interview with the dedicated person on environmental strategy (if applicable)
- Interviews with head of operations, branch managers, loan officers
- Interviews with clients

Evidence to provide

Specify the type of financial product or service and how it is provided.

### **Resources for indicator 7.C.1.1**

• Adapting to a New Normal - Strengthening Resilience to Climate Change: Best Practices from the European Microfinance Award 2019

7.C.1.2 The provider offers loans that allow its clients to implement or maintain green practices and technologies, including:

7.C.1.2.1 Sustainable agriculture, animal breeding, or fishery practices ("nature-based solutions")

7.C.1.2.2 Clean energy and energy efficiency technologies

7.C.1.2.3 Improved access to clean drinking water and sanitation

7.C.1.2.4 Waste management and recycling ("circular economy")



# Indicator in SPI5 Entry | SPI5 Full

This indicator is about financing activities or technologies that are environmentally-friendly, be it through dedicated loan products or more standard loan products; while indicator 7.C.1.3 is more specifically about having developed dedicated loan products to finance these activities.

### Regarding 7.C.1.2.1

Smallholder farmers are particularly vulnerable when it comes to dealing with the effects of climate change. Rising temperatures and erratic weather like flooding and drought, can lead to loss of production, reduced productivity, loss of infrastructure, soil erosion and diminished food security. Moreover, smallholder farmers can have practices (e.g. deforestation, use of chemicals...) that negatively impact the environment (pollution, loss of biodiversity, etc.) and can affect their production (e.g. decreased soil quality) and health. Offering financial products that promote sustainable and climate-smart agriculture gives an opportunity for the provider to help clients be more resilient to climate change, decrease their impacts on ecosystems, improve their productivity and ensure food security.

# Regarding 7.C.1.2.2

Loan products that finance renewable energy (RE) and/or energy efficient (EE) technologies help address an important environmental and social risk in contexts where energy sources are impacting negatively the environment (fossil fuel, charcoal) while being expensive, unreliable, polluting and sometimes dangerous for people's health (e.g. wood-burning cook stoves, kerosene lamps). Because RE and EE technologies often involve a significant upfront cost (especially for poor households), financing such technologies gives an opportunity for the provider to diversify its product line while promoting green energy solutions.

### Regarding 7.C.1.2.3

Loan products that finance improved access to drinking water and sanitation help address an important environmental and social risk in contexts where people rely on unsafe sources of water that are dangerous for their health, or where the lack of proper sanitation systems generate social discomfort and may contribute to water sources pollution. Because water and sanitation technologies often involve a significant upfront cost (especially for poor households), financing such technologies also gives an opportunity for the provider to diversify its product line while promoting environmentally-friendly solutions.

### Regarding 7.C.1.2.4

Significant waste production and improper solid and liquid waste management are the direct causes of serious pollutions of air, soil and water, which directly affect people's health and ecosystems' biodiversity. Offering financial products that promote businesses and practices linked to waste management and circular economy (i.e. sharing, leasing, reusing, repairing, refurbishing, and recycling existing materials and products as long as possible) gives an opportunity for the provider to help clients optimize their production processes (reducing wastes, accessing cheaper material...), reduce expenditures, or even develop new businesses.

Offering those types of products can also have more global positive impact on the financial sustainability of the provider: decrease of loan default (linked to decrease of clients' expenditures, increase of revenues due to improvement of agricultural yields or development of new businesses...), increased client retention and satisfaction, impact on the provider's reputation (which can possibly lead to attracting new investors), etc.

### **Scoring guidance**

• To answer 'yes', the provider must give evidence that it offers loans for the implementation of at least one of the green practices or technologies specified in the detailed scoring guidance below. It could be either through dedicated loan products, or through standard loan products. What matters for this indicator is the loan destination (how the loan is used), not the loan product. When the green practices or technologies are financed through standard loan products, the provider must have a monitoring system that enables to track the loan destination in details and show



what proportion of the portfolio goes to the financing of the green practices or technologies.

- If the green practices and technologies financed represent less than 5% of the provider's portfolio, then the answer should be 'partially'.
- Assign 'no' if there are no green practices and technologies being funded.

### For 7.C.1.2.1

Sustainable agriculture practices include organic, agroecological, conservation agriculture, permaculture, climate-smart and/or ecosystem-based practices, such as: use of organic fertilizers and pesticides, integrated pest management, integrated nutrient management, vermicompost, soil restoration, no-tillage system, drip irrigation, infiltration pits, natural retaining walls, rainwater reservoirs, resilient seeds (no GMO), crop association, crop rotation, crop diversification, local species, live fences, agroforestry, sylvopastoralism, managed grazing, coastal wetland management, etc.

It does not include the provision of agriculture or climate insurance, which is assessed in 7.C.1.1.

### For 7.C.1.2.2

Renewable energy technologies include solar photovoltaic solutions (solar lamps, pico PV, solar home systems, solar water pumps...), solar thermal solutions (solar water heaters, solar dryers or dehydrators, solar cookstoves...), biomass solutions (biogas digesters, biomass gasifier stive...), micro-hydro, mini-wind turbine, and clean energy and hybrid mini-grids.

Energy efficient technologies include housing thermal insulation, improved cook stoves, and energy efficient devices (refrigerators, air conditioners, etc.).

### For 7.C.1.2.3

Water and sanitation solutions include clean water filters, desalination systems, solar water disinfection, rainwater catchment systems, connection to piped water network, improved private toilet, composting toilets, etc.

### For 7.C.1.2.4

Circular economy solutions include all models of production and consumption that involve sharing, leasing, reusing, repairing, refurbishing, and recycling existing materials and products as long as possible.

## **Sources of information**

- Product descriptions
- MIS
- Partnerships agreements
- Purchase orders to providers of green technologies
- Interview with the dedicated person on environmental strategy (if applicable)
- Interviews with head of operations, branch managers, loan officers
- Interviews with clients

### **Evidence to provide**

Specify the types of green practices and technologies financed, the % of portfolio they represent, and how the provider gives evidence of the loan destination (dedicated loan product, monitoring system).

### **Resources for indicator 7.C.1.2**

- <u>VIDEO ESAF's Clean Energy for the Poor Initiative</u>
- <u>VIDEO XacBank's Eco Product Program</u>



7.C.1.3 The provider offers dedicated green loans and promotes their uptake and responsible use by doing the following:

7.C.1.3.1 Defining financial conditions (loan amount, term, repayment schedule) adapted to the green practice or technology financed

7.C.1.3.2 Documenting the costs, return on investment, and benefits of the green practices or technologies financed

7.C.1.3.3 Having dedicated marketing material and channels

7.C.1.3.4 Verifying that clients are using green loans to invest in green technologies and practices

7.C.1.3.5 Entering into partnerships with third parties to increase the provider's ability to offer high quality green practices and technologies to its clients

While the previous indicator (7.C.1.2) focuses on the loan purpose (financing activities or technologies that are environmentally-friendly), this indicator is more specifically about having developed dedicated loan products and procedures to finance these green activities or technologies.

Most green practices and technologies indeed require adapted financial conditions (7.C.1.3.1): e.g. sustainable agriculture solutions often represent upfront investments to be amortized over longer periods and with a repayment schedule adapted to income seasonality; while for renewable energy solutions for domestic use, the repayment schedule can be tailored to match the monthly savings generated by the technology in terms of energy expenditures.

Many of the green practices and technologies are more "push" solutions than "pull" solutions: they need to be promoted in order to attract customers. For the provider, it is thus critical to reach out to target customers and inform them about the existence, benefits and accessibility of these green practices and technologies (7.C.1.3.3). In particular, to convince clients, experience shows that beyond the social and environmental benefits, it is crucial to communicate on the financial benefits that can be expected from these practices and technologies (7.C.1.3.2).

Having a system in place to make sure that clients are indeed using their loans for the expected purpose (7.C.1.3.4) is a strong signal to show the provider's commitment to promote green technologies and practices, as well as an opportunity to follow up on clients' satisfaction and possible outcomes, and to adapt products offer accordingly.

Finally, as one cannot expect financial service providers to become experts of all environmental technologies and practices, experience shows that having partnerships with third parties (e.g. technologies suppliers, technical assistance providers...) is key to a successful implementation of green financial products (7.C.1.3.5).

Partners can indeed bring their expertise and/or technologies, contribute to the marketing and communication efforts, bring new customers, share funding opportunities, conduct training or awareness sessions, ensure post-sales follow-up, etc.

# **Scoring guidance**

- To answer 'yes', the provider must offer financial products that have an explicit objective of promoting green technologies and practices (related to sustainable agriculture, clean energy and energy efficiency, water and sanitation, waste management, recycling and "circular economy"), and must have formal, documented evidence for the different practices mentioned in the details.
- Assign 'partially' if these products represent less than 5% of the portfolio.
- Assign 'no' if this type of product does not exist.

### **Sources of information**



- Loan product descriptions
- Market studies
- Marketing materials
- Monitoring forms or procedures
- Partnerships agreements
- Interviews with head of operations, branch managers, loan officers
- Interviews with marketing/product development
- Interviews with the dedicated person on environmental strategy (if applicable)
- Interviews with clients

### **Evidence to provide**

Specify how the provider implements the different details and where they are documented.

### **Resources for indicator 7.C.1.3**

- Environmental Performance Management in practice #2 The experience of UBTEC, in Burkina Faso
- <u>La Gestion de la Performance Environnementale en pratique #2 Le témoignage de l'UBTEC, au Burkina Faso</u>
- <u>La Gestión del Desempeño Ambiental en práctica #2 El testimonio de UBTEC, en Burkina Faso</u>
- Environmental Performance Management in practice #3 The experience of Enda Tamweel, in Tunisia
- <u>La Gestion de la Performance Environnementale en pratique #3- Le témoignage</u> d'Enda Tamweel, en Tunisie
- <u>La Gestión del Desempeño Ambiental en práctica #3 El testimonio de Enda</u> Tamweel, en Tunez
- Access to finance for Renewable Energy technologies How to
- Access to finance for Renewable Energy technologies Lessons learned
- Descripción del producto Fonde Energia de Fondesurco
- Fiches produits des produits financiers verts du RENACA-Bénin

# 7.C.2 The provider offers non-financial services to achieve its environmental goals.

Addressing environmental issues usually implies changing habits or practices. If financial services can remove some of the barriers to adopting green practices/technologies (i.e. the financial barrier, as well as the physical barrier in case of partnerships with green technology providers), they only work if clients are already aware and willing to change their behavior and adopt new practices/technologies. Non-financial services are indispensable to foster behavior change and help the provider achieve its environmental goals.

7.C.2.1 The provider raises awareness of its clients on their vulnerability to climate change and environmental degradation, on their adverse impacts on the environment, and/or on green practices and technologies, through at least one of the following channels:

- Leaflets, brochures, posters, videos
- Individual talks
- Awareness-raising events or activities

### Indicator in ALINUS | SPI5 Entry | SPI5 Full

This indicator is about raising awareness – a first, light-touch approach to make clients' conscious of some key environmental risks and opportunities –, while indicator 7.C.2.2 is



about building more in-depth, technical skills around environmental risk mitigation and green practices.

Awareness-raising can be used as a strategy to mitigate the client-level environmental risks identified by the provider, or as a necessary, preliminary action to foster the uptake of green loan products. It may take the form of formal awareness sessions / events / campaigns or may be integrated into the existing touch points with clients.

### **Scoring guidance**

- To answer 'yes', the provider must effectively conduct awareness-raising efforts, based on key messages formally defined and communicated to its employees. The awareness-raising efforts can be conducted by the provider itself or in partnerships with a third party. Staff involved in the awareness-raising efforts should be clear on the key messages to communicate to clients, even if these efforts are carried out in an informal way.
- If the provider conducts awareness-raising efforts but there is no formalization of the key messages or no formal training of the staff to communicate in a consistent way, then the answer should be 'partially.' If the awareness-raising activities implemented reach less than 10% of the providers' clients, then the answer should be 'partially.'
- Assign 'no' if there are no awareness efforts or if they remain vague and not focused on issues that matter to customers.

### **Sources of information**

- Awareness materials
- Interview with HR/ Training department
- Interviews with branch managers, loan officers
- Interviews with dedicated person on environmental strategy (if applicable)
- Interviews with clients

### **Evidence to provide**

Specify the type of awareness-raising efforts conducted and their outreach.

### **Resources for indicator 7.C.2.1**

- Charte Environnementale Aliniha
- Environmental Performance Management in practice #1 The experience of Assilassimé, in Togo
- <u>La Gestion de la Performance Environnementale en pratique #1- Le témoignage d'Assilassimé, au Togo</u>
- <u>La Gestión del Desempeño Ambiental en práctica #1 El testimonio de Assilassimé, en Togo</u>
- The experience of CAMIDE-PASECAS the Aliniha program

7.C.2.2 The provider builds the capacity of its clients to reduce their vulnerability to climate change and environmental degradation, to mitigate their adverse impacts on the environment, and/or to adopt green practices and technologies, by offering at least one of the following services:

- Field visits or peer-learning opportunities
- Trainings
- Technical assistance to implement or maintain green practices and technologies, including after-sales services





This indicator is about building in-depth, technical skills around environmental risk mitigation and green practices, while indicator 7.C.2.1 is about raising awareness, in a first, light-touch approach to make clients' conscious of some key environmental risks and opportunities.

Capacity-building can be used as a strategy to mitigate the client-level environmental risks identified by the provider (e.g. training clients on climate-smart agricultural practices to reduce their vulnerability to climate change), to foster the transition towards a more ecological economy (e.g. training clients on developing a solar installation business), and/or to make sure that clients properly use and implement new green technologies/practices, and hence increase the probability of positive outcomes.

### **Scoring guidance**

- To answer 'yes', the provider must offer at least one of the capacity-building services mentioned in the indicator. These capacity-building actions must specifically address strategies to reduce vulnerabilities to climate change and environmental degradation, mitigate adverse impacts on the environment, and/or adopt green practices and technologies. They can be conducted by the provider itself or in partnerships with a third party (7.C.2.3).
- If the capacity-building activities implemented reach less than 5% of the providers' clients, then the answer should be 'partially'.
- Assign 'no' if there is no capacity building targeted at environmental issues for customers.

### **Sources of information**

- Training materials
- Interview with HR/ Training department
- Interview with the dedicated person on environmental strategy (if applicable)
- Interviews with clients

# **Evidence to provide**

Specify the type of capacity-building services offered and their outreach.

### Reources for indicator 7.C.2.2

• VIDEO - Kompanion's Credit for Conservation

7.C.2.3 The provider partners with third parties to offer training to clients on environmental risks and opportunities, and/or technical support to clients for the implementation or maintenance of green practices and technologies.

### Indicator in SPI5 Full

Environmental issues not only cover a variety of topics (energy, waste, agricultural practices, biodiversity, etc.), but they are often quite technical. It is not expected that the provider can build all the internal knowledge and capacities to address all issues on its own. Also, the provision of non-financial services can be costly and difficult to finance for some providers. This is why it is strongly recommended to work in partnerships with third parties that already have the required skills and experiences and that may also have the budget to offer trainings and technical support to clients. Such partnerships also help the provider build on economies of scale while reaching out more widely than just the provider's clients. Environmental issues are complex; to successfully address them, a variety of actors need to work together, as an ecosystem.

### **Scoring guidance**

- To answer "yes", the provider must have at least one formal and active partnership with a third party offering training or technical support to clients on environmental risks or good practices.
- Assign 'partially' if the partnerships are informal.



• Assign 'no' if there are no partnerships or if they are not followed up with concrete practices/exchanges/training/support.

### **Sources of information**

- Partnerships agreements
- Annual report
- Interview with the dedicated person on environmental strategy (if applicable)
- Interviews with CEO/managing director and/or operations manager
- Interviews with clients

### **Evidence to provide**

Specify the name and sector of the partner, the objective of the partnership, when the partnership started, and the type of trainings or technical support offered.