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in microfinance

## How to Develop an Institutional Code of Ethics

Originally developed by The Smart Campaign, this resource remains a relevant tool for institutions seeking to develop or revise their Code of Ethics. It offers a practical guide divided into three phases: forming a committee, participatory drafting of the code, and institutional formalization. Its goal is to establish clear ethical standards and foster a culture based on fair and respectful treatment of clients. While a written code does not guarantee ethical behavior, it represents a vital first step toward more responsible management.

**Keywords:** Code of Ethics - Institutional ethics - Fair treatment of clients - Client protection – Smart Campaign - Employee behavior - Responsible finance

The Smart Campaign's client protection principle on Fair and Respectful Treatment of Clients encourages financial service providers to treat clients with fairness and respect and to ensure that measures exist to detect and correct corruption and abuse, particularly during the credit sales and collection processes.

An institutional Code of Ethics<sup>1</sup> helps employees practice fair and respectful treatment of clients by defining clear standards of ethical behavior that they must uphold. A written Code does not *ensure* ethical conduct, but it is the first step toward creating an ethical organizational culture. In other words, establishing high standards of ethical employee behavior is a two-part process; first, the institution defines standards of behavior, and second, those standards are brought to life throughout the institution. This guide will focus on the first part of the process—defining standards of behavior through a formal Code of Ethics.

Most microfinance institutions already have a Code of Ethics, but many of these Codes are not “living” documents that carry significance within the organization. **This short guide provides concrete suggestions for creating or remaking an institutional Code of Ethics.** The process is divided into three phases:

1. Formation of a Code of Ethics Committee
2. Drafting and Reviewing the Code
3. Institutionalizing the Code

The guide also provides real examples from the field for each of these phases.

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<sup>1</sup> Other common terms for an institutional Code of Ethics include “Code of Ethics,” “Staff Rulebook,” and “Behavioral Guidelines.”

## PHASE 1. Formation of a Code of Ethics Committee

*The first step in creating or remaking a Code of Ethics is to assemble a group of people who will be responsible for the creation of the Code, from beginning to end. The committee should have clearly defined leadership authority and should seek the input of others within the organization.*

**Establish a clear mandate.** The Committee should establish a clear mandate for itself. At minimum, the mandate should be the creation of a relevant and accessible document that describes the ethical standards and norms of behavior that will govern the actions of all employees.

The committee (or the institution) must establish the extent of the group's authority. The group will develop the Code of Ethics, but will it oversee its implementation? Will it settle disputes over violations of the Code or determine disciplinary measures? How will it collaborate with other employees?

**Convene a representative group.** This group should be comprised of a diverse set of representatives from the Board of Directors, Legal department, Human Resources department and Internal Audit department, among others. It is also important to include staff who deal directly with clients—such as field staff and customer service staff, and those who monitor client complaints.

While the document is in the development and approval process, the committee should notify other employees of progress and invite them to participate. The committee can work with the institution's Human Resource, Communications, or other applicable departments to develop a communication strategy to update and solicit feedback from employees. The strategy should provide for straightforward communication with people responsible for critical tasks within the organization and should offer a direct channel of communication between the committee and other staff, for example, offering an email address established just for the committee (e.g. [codecommittee@mfi.org](mailto:codecommittee@mfi.org)).

**Create a timeline for completion.** At the first meeting, the group should create a timeline or calendar that establishes dates for each phase of Code development. If possible, the timeline should take into consideration important institutional meetings such as Board meetings, employee retreats, and employee trainings. These strategic meetings are good opportunities to discuss Code drafts and/or present the completed Code.

## PHASE 2. Drafting and Reviewing the Code

*Once the institution has a group charged with the creation of the Code, the committee should outline a draft Code. It is useful to create a list of topics to be included in the Code, and then use these topics to divide the Code into sections. Writing the Code in discreet sections will be easier than tackling the entire document at once. If a Code already exists and the committee is revising it, it may be easiest to review the entire Code then outline the changes that should be made, by section.*

**Include essential topics.** The Code should at least cover the topics below. Topics 1 and 2 form the “aspirational code”—or statements of beliefs and guiding principles, while topics 3-6 form the “directional code,” which are concrete rules for specific business situations.<sup>2</sup>

### Basic Code Contents

1. Introduction on purpose of the Code
2. Institutional mission and values
3. Rules of conduct
  - a. Employee rights
  - b. Behavior toward other employees
  - c. Behavior toward clients
  - d. Behavior toward the community and the environment
4. Sanctions for Code violations
5. How to report Code violations and whistleblowing<sup>3</sup>
6. Updating and providing feedback on the Code

**Use plain language.** The Code should be easy to understand for all employees, including those at the lowest level of the institution.

- Define any terms that may not be easy for all employees to understand. A glossary of terms is one way to clarify concepts that may be difficult to understand.
- Keep each section as concise as possible, while covering all necessary information.
- Provide information on what an employee should do if s/he has a question about the Code.

**Include employees at all levels in the Code creation.** Employees at all levels of the organization—from the executive and managerial level to staff and partners—should be included in the creation of the Code. This can be done through focus group/ small group discussions, meetings between representative employees and members of the Code committee, and written feedback. Some institutions may wish to reward employees for participating, or make participation a contest or competition. Employees at all levels are an integral part of upholding and maintaining the integrity of the Code and early participation is an important way to increase employee buy-in.

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<sup>2</sup> Source: Rossouw, Deon. 2002. Business Ethics in Africa. Cape Town: Oxford University Press. pages 125 – 134.

<sup>3</sup> The Code should include a “whistleblower” policy that establishes procedures for employees to report suspected illegal or unethical activities by others within the organization, without fear.

### PHASE 3: Institutionalizing the Code

**Get Board approval.** Just as the Board should be involved in drafting the Code, their approval of the final document is essential. The Board should formally adopt the Code and each Board member should sign their approval and commitment to uphold the Code.

**Make a formal presentation.** When the Code is finalized and approved by the Board, the institution should make a formal presentation to the employees, signaling that the new Code deserves employees' time and attention. Employees should be allowed to ask questions and express concerns about the Code. Employees should understand what is expected from them (e.g. each employee must read the Code and sign a statement of agreement).

**Make the Code available publicly.** The institution should make the document available to internal and external stakeholders. This includes providing copies to all employees, Board members, recruits, investors, donors, and others; publishing the Code on the institution's website; and promoting the Code within trade associations (such as regional microfinance associations), where appropriate.

**Train Code "ambassadors."** For the Code to be meaningful, managers and other institutional leaders should become ambassadors of the code among staff. Train key employees on the details of the Code, how to explain it to other employees, and how to identify Code violations.

**Train new employees on the Code.** People who join the institution should receive a printed copy of the Code when signing their employment contract. This is a good opportunity for Human Resources staff to answer questions about the Code and explain expected conduct. New employees should also complete a formal training module on the Code. Best practice is to use "real life" ethical situations to help employees understand how to apply the Code to their daily work. Some institutions may choose to test employees on the Code, to check understanding.<sup>4</sup>

**Require employee signatures.** Each employee should be required to sign their approval and commitment to uphold the Code. It is a good idea to require a signature on a regular basis, such as during the annual employee review process. All new employees should be required to sign the Code before their employment begins.

**Make the Code accessible to clients.** Clients should know what behavior to expect from employees. This is especially important to help clients identify unethical behavior so they can inform the institution. But it is also useful for demonstrating to clients that the institution values client protection, which may build trust in the institution. The institution may want to summarize key points into a one-page document that is distributed to clients and posted in branch offices.

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<sup>4</sup> For examples on training and testing employees, see pages 5-7 of this document.

## Examples from the Field

### *Examples of Phases 1 & 2*

**Alalay Sa Kaunlaran, Inc. (ASKI)**, a microfinance institution in the Philippines developed their Code of Conduct and Discipline through a collaborative process. First, a Code committee composed of senior managers and representatives from the Board of Directors developed a draft code. This initial draft reflected client feedback that ASKI had already collected using its customer complaint system. A draft of the document was then presented at the institution's annual retreat. During a workshop breakout session, employees were able to review the Code, comment on it, and ask any clarifying questions. For example, one question they asked was whether or not checking client credit history violated the principle of confidentiality. They also asked for specifics on how Code violations would be punished. After receiving employee feedback, the Code committee revised and finalized the Code. ASKI also decided to review the code every five years, to reflect ongoing learning about ethics and customer service.

The ASKI Code outlines core values like God-centeredness, integrity, stewardship, excellence, and commitment to serving the needy. It stresses ASKI's expectation for client treatment—especially the importance of maintaining high job performance, such as a quality portfolio, while also observing the highest standards of customer service. The code also covers practical matters such as being on time, maintaining client confidentiality, and avoiding conflicts of interest, such as receiving gifts from clients.

**Swadhaar FinServe Pvt. Ltd. (India)** Uses a Code of Conduct for Collections that provides collections staff with specific guidelines and procedures for treating clients with dignity during the loan collection process. The Code details when clients should be contacted (“between 7:00am and 7:00pm”); how employees should communicate (“Swadhaar is committed to ensure that all written and verbal communication with its borrowers will be in simple local language”); how client privacy is to be respected and how clients are to be treated (“Swadhaar will not resort to intimidation or harassment of any kind, either verbal or physical, against any person in their debt collection efforts, including acts intended to humiliate publicly or intrude the privacy of the clients family members and friends, making threatening and anonymous calls or making false and misleading representations.”)

### *Examples of Phase 3*

At **Compartamos Banco in Mexico**, Code of Conduct training includes concrete examples of ethical dilemmas that correspond to the employee's specific position. Trainees explore acceptable and unacceptable behavior through role-play and discussions, as well as discussions about actual ethical dilemmas that other bank employees have confronted.

When they begin orientation, new employees sign a Code of Ethics letter of agreement. At the end of a three-month training period, each employee must be certified in the Code of Ethics. Permanent contracts do not become effective until the staff member passes an exam on the Code with a score of at least 80 percent.

All employees must also pass an annual re-certification exam. Online training is available for those who do not pass. If an employee fails to re-certify successfully, both the employee and his supervisor receive an administrative sanction.

Compartamos also has an Ethics and Values Department that works in collaboration with other institutional departments to ensure that employees at all levels follow the Code. The bank encourages reporting to detect corruption and code violations. Staff receive instructions on how to use this reporting system, whom to consult, and the severity with which claims of ethical violations are viewed.

Depending on the severity of the violation, sanctions can include: verbal and written warnings, reduction in performance bonuses, decreased promotion potential, temporary suspension, termination, and filing legal charges. More serious violations result in termination of employment.

To train employees in ethical behavior, **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 trainees’ understanding of ethical behavior.

For **ASKI**, when a violation of the Code of Ethics & Discipline is suspected/identified through a report from an employee, client, supervisor, or internal auditor, the institution takes the following steps, called the “ASKI Values Protocol:”

- The case is documented by the immediate supervisor or auditor.
- This documentation is presented to the employee’s manager for review, if appropriate. If it is not appropriate to involve the immediate supervisor, the case is reviewed at a higher level, to ensure an objective assessment.
- The Internal Audit Team conducts and documents an initial investigation, and presents the findings to an Ethics Committee, which is led by the Human Resources department.
- The Ethics Committee reviews the case and selects an appropriate sanction using the Code of Conduct and Discipline as reference. Sanctions depend on the gravity of the offense.
- Senior management follows-up on the case to make sure appropriate steps were taken to resolve the issue.
- The outcomes are documented by the immediate supervisor (unless implicated, this is the Branch Manager) and presented to the Ethics Committee. If they are satisfied with the outcomes, they declare the case closed.

An ASKI employee who receives any disciplinary action is ineligible for promotion for one year. More serious offenses may result in employee probation or termination. On the other hand, *positive* feedback is reflected in the employee’s performance evaluation. Regular staff performance appraisal reports include an item relating to Code of Conduct compliance, and the institution recognizes outstanding staff members using compliance on Code of Ethics policies as indicator for the award.

**Grameen Financial Services Pvt. Ltd. (India)** created a Code of Conduct based on other codes endorsed by leading microfinance bodies in India—the Microfinance Institutions Network (MFIN) and Sa-Dhan—as well as the guidelines offered by the Smart Campaign. During GFSPL’s employee induction, all trainees are introduced to the code as well as the institutional mission, vision, and values. Employees are trained on how to treat customers, as well as appropriate and inappropriate workplace behavior. Then, they are tested on their knowledge using an “e-Learning Module” which allows the employee to review the Code at their own pace, and answer questions that test their knowledge of the Code. The employee must answer all the test questions correctly in order to move ahead in the module. GFSPL uses this module to refresh employee’s knowledge of the Code and to ensure they meet the institution’s qualifications.

**Opportunity Bank Serbia** ensures that clients know how to make complaints and ask questions. They provide clients with four ways to make a complaint—in-person, by phone, via email, and via postal mail—using these mechanisms, in part, to monitor employee conduct. The bank provides clients with brochures that describe exactly how to make these complaints, and encouraging clients to provide feedback.

**ASKI** conducts client satisfaction surveys through a research team. During these interviews, the team asks clients if they receive respectful and ethical treatment from ASKI loan staff. This report is given to branch and senior management who use it to check staff service performance and improve on any weaknesses.

To complement this feedback mechanism, ASKI has a system called *Komento mo...I-TEXT MO!* (“Send us your comments by TEXT!”). The institution provides clients with a phone number to send us text messages that include questions and complaints. Clients know that this is a confidential way for them to complain about employee behavior. Likewise, employees know that all clients are empowered to comment on staff behavior at any moment. In addition to providing better service to clients, the text system helps ASKI to identify problems and enforce the Code of Conduct and Discipline.

## Appendix: Examples from Microfinance Networks

The **Pakistan Microfinance Network (PMN)**, an industry association for microfinance in Pakistan, developed a Code of Conduct for Consumer Protection for the country's microfinance sector. Each PMN member became a voluntary signatory to the Code in early 2009. PMN's strategy is to disseminate the Code of Conduct to three types of stakeholders: 1) the staff of its member organizations, 2) the clients of its member organizations, and 3) Pakistani policymakers. In order to reach MFI staff, the Code was translated into Urdu (Pakistan's national language) and into the four provincial languages. PMN produced the Code in poster form, for display in members' branch offices.

Beyond these efforts, PMN ensures that member MFIs internalize the Code by:

1. Holding an official launch event during which all members signed on to the Code.
2. Encouraging members to complete the Smart Campaign's Getting Started Questionnaire, a self-audit of current client protection practice.
3. Offering a short training module on consumer protection for its member MFIs to use when training their staff. Training topics include: the core values of client protection; its importance for the Pakistani microfinance industry; what client protection means for MFI staff; and the business case for client protection.
4. Hosting various sector roundtable events that include issues on client protection and responsible finance.

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