



Keeping clients first in microfinance

The Smart Campaign: Introducing Certification

*Elisabeth Rhyne, Managing Director
Center for Financial Inclusion at ACCION*

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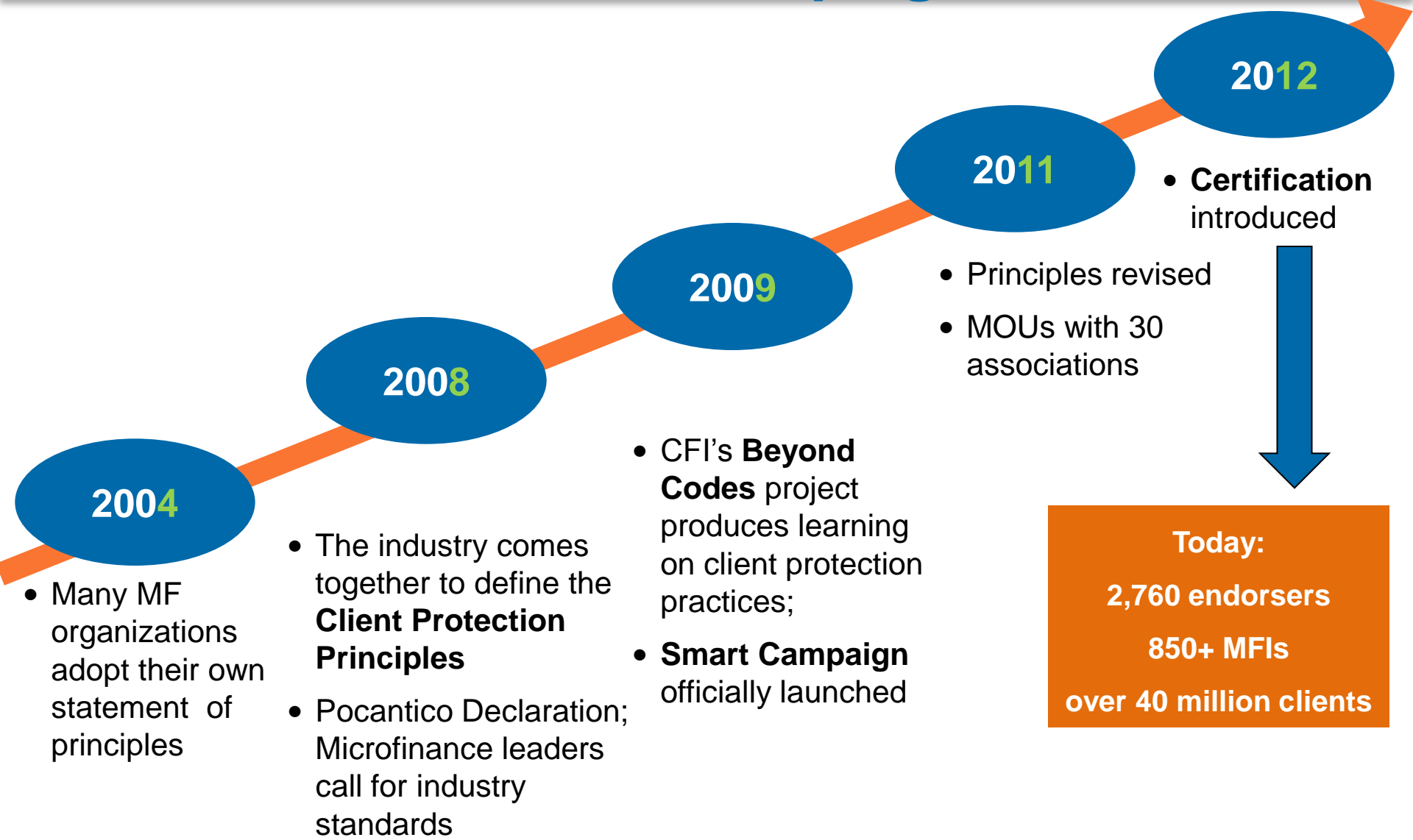


Introducing The Smart Campaign

The purpose of the Smart Campaign is to embed the Client Protection Principles deeply within the fabric of the microfinance industry in a lasting way – for the benefit of clients.

- Global, industry-wide effort
- Industry development: culture, know-how, standards, measurement, incentives
- Governance and participation: Steering Committee + Task Forces
- Staffed by the Center for Financial Inclusion at Accion
- Collaborates with CGAP, SPTF, MIX Social Reporting, MF Rating Agencies, MFTransparency

Timeline of the Smart Campaign



The Client Protection Principles

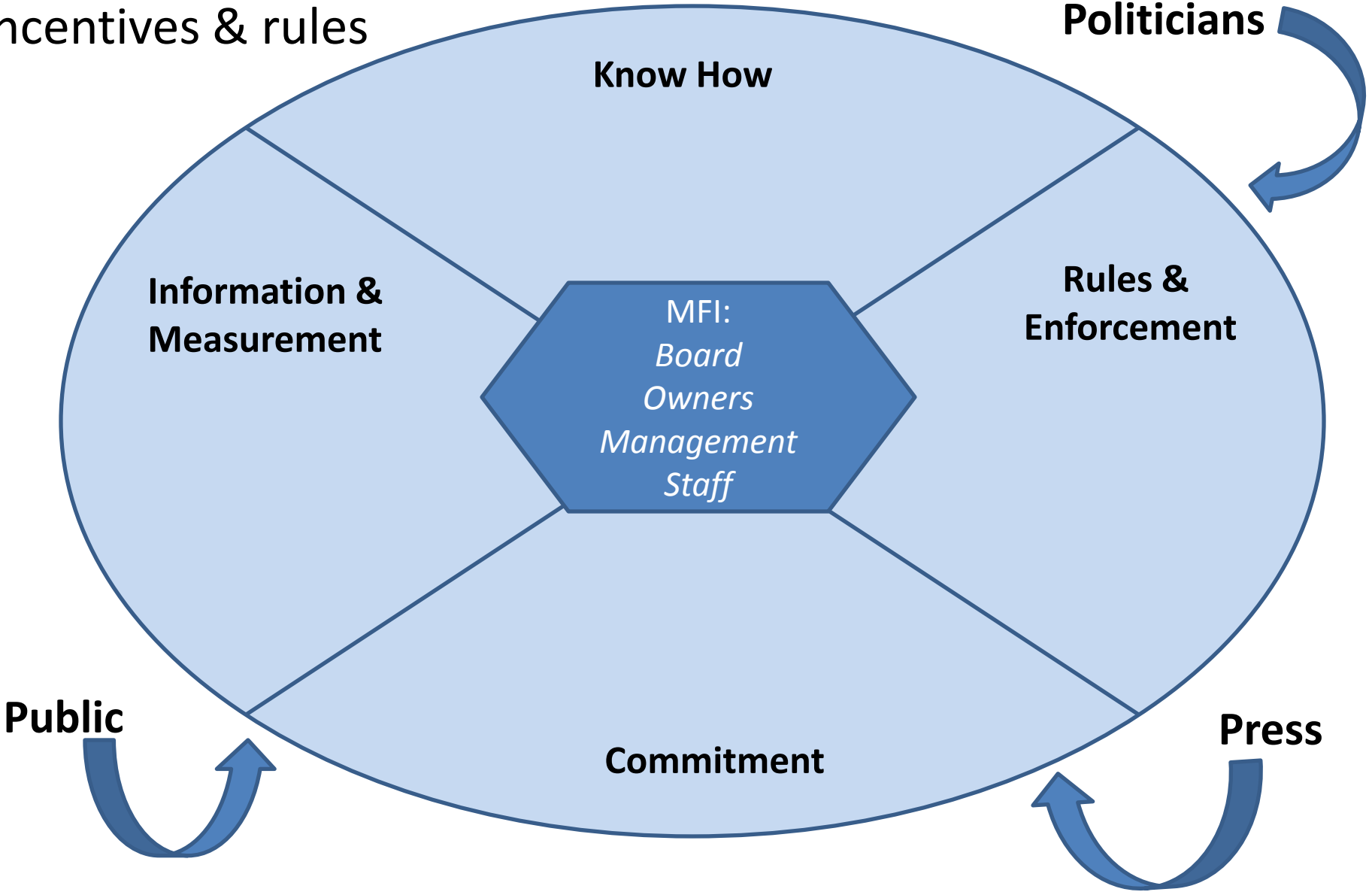
- 1. Appropriate product design and delivery**
- 2. Prevention of over-indebtedness**
- 3. Transparency**
- 4. Responsible pricing**
- 5. Fair and respectful treatment of clients**
- 6. Privacy of client data**
- 7. Mechanisms for complaint resolution**

Financial service providers are collections of *people* who occupy different roles, and who work together to create the outcomes and experiences their clients receive.

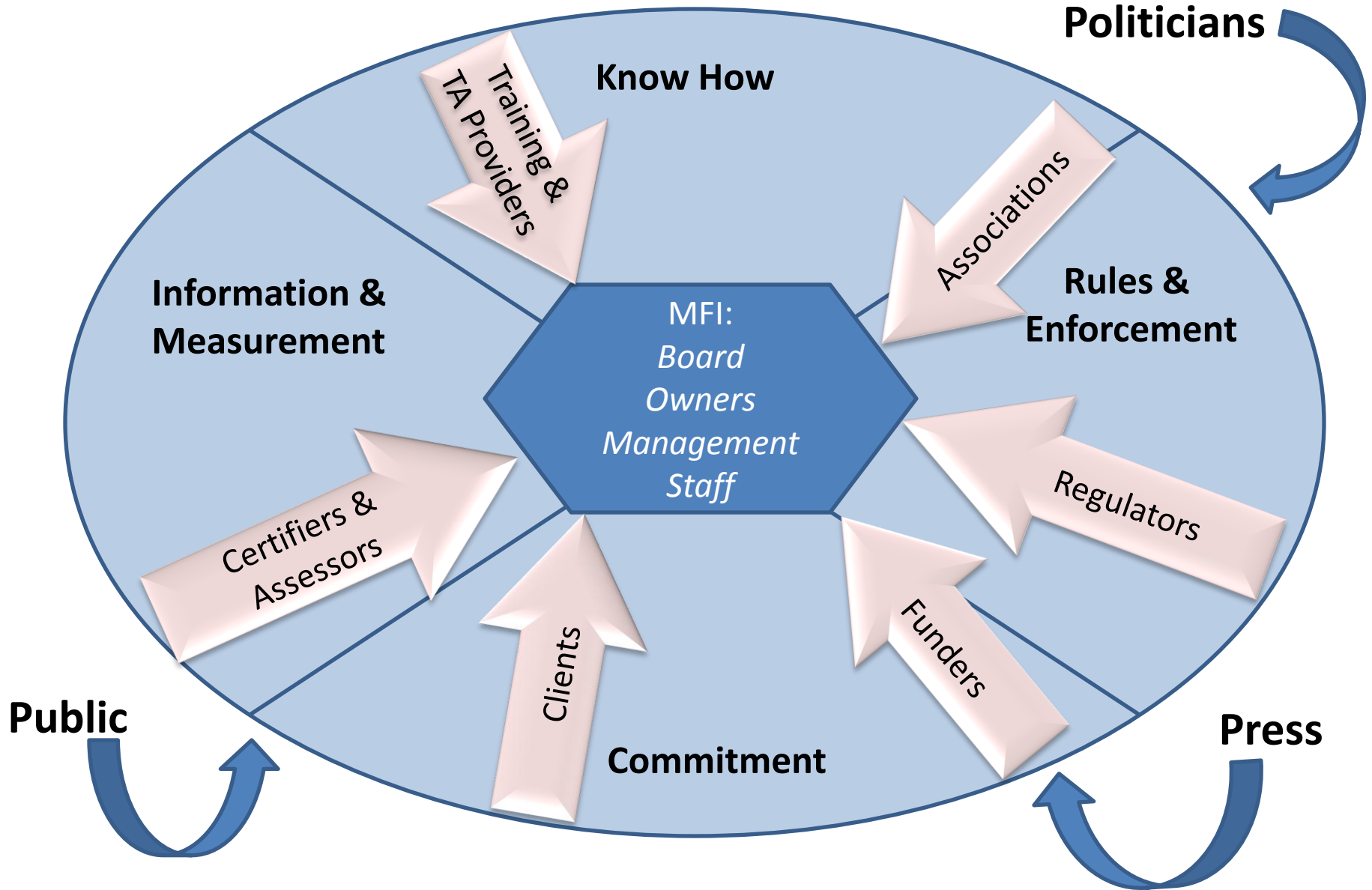


What will make them uphold the Client Protection Principles?

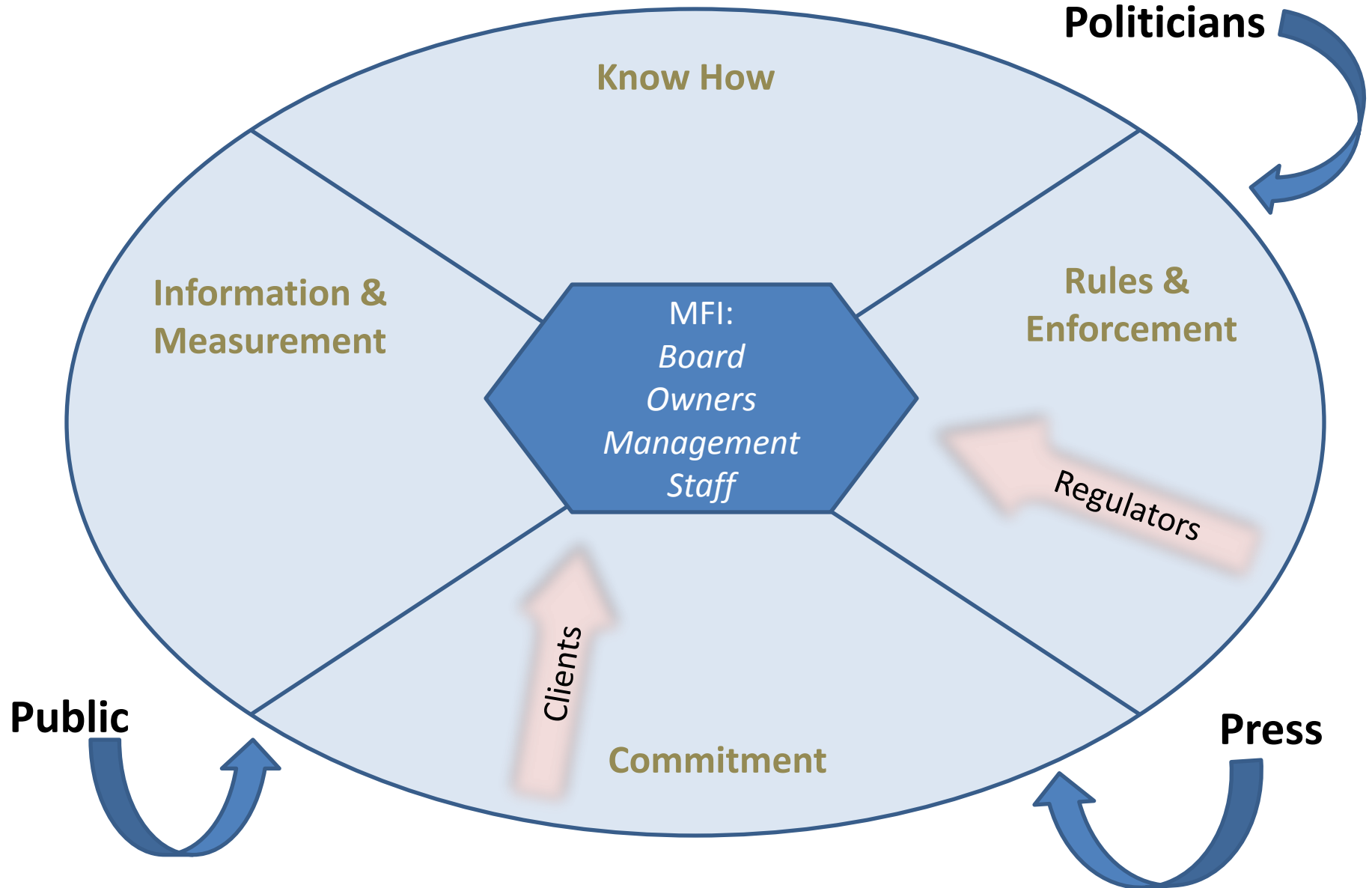
Hypothesis: MFIs will apply the CPPs when they have commitment & ability, in the context of transparency, standards, incentives & rules



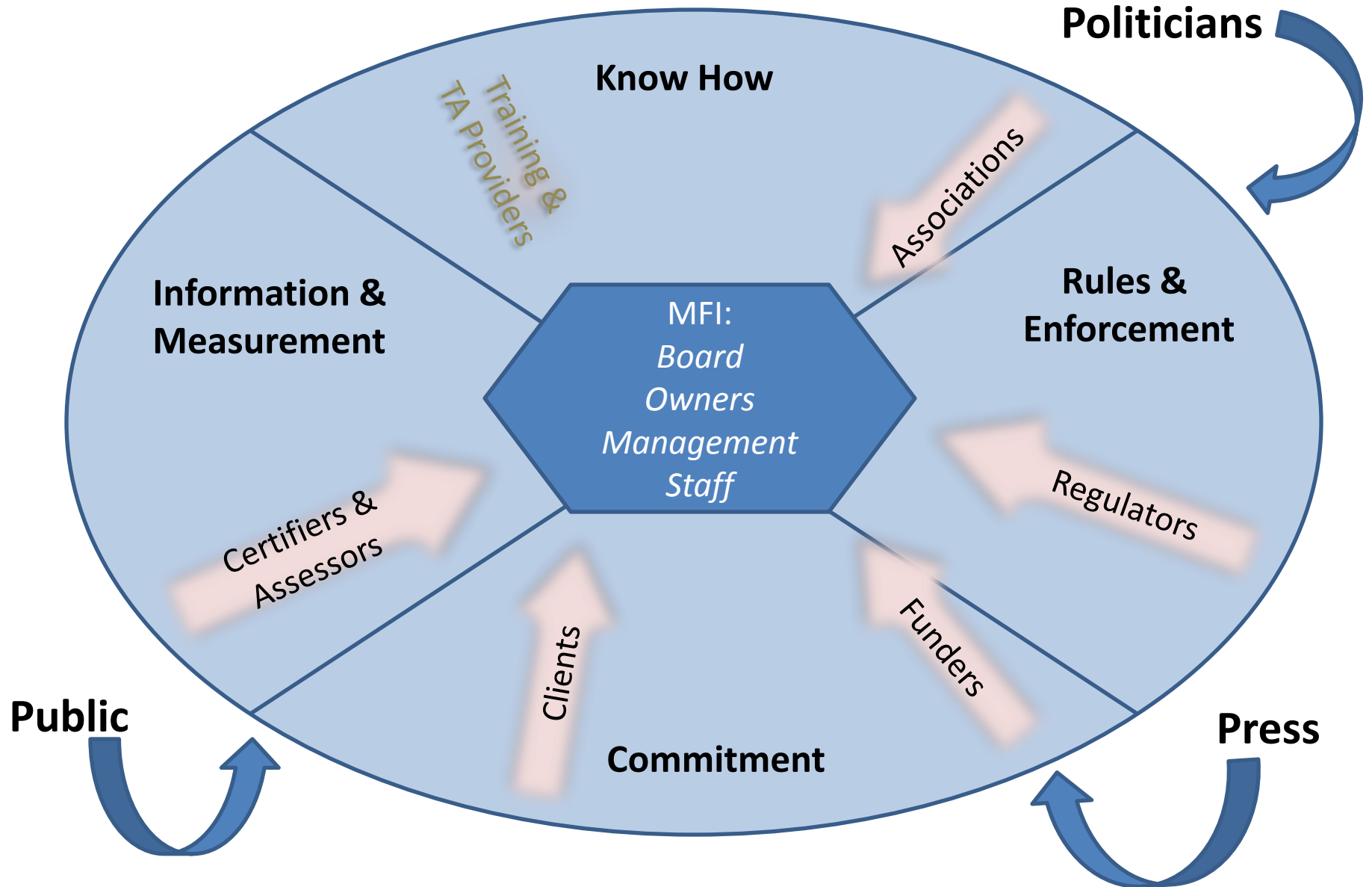
In an ideal state, many players enable or encourage MFIs to Apply the CPPs



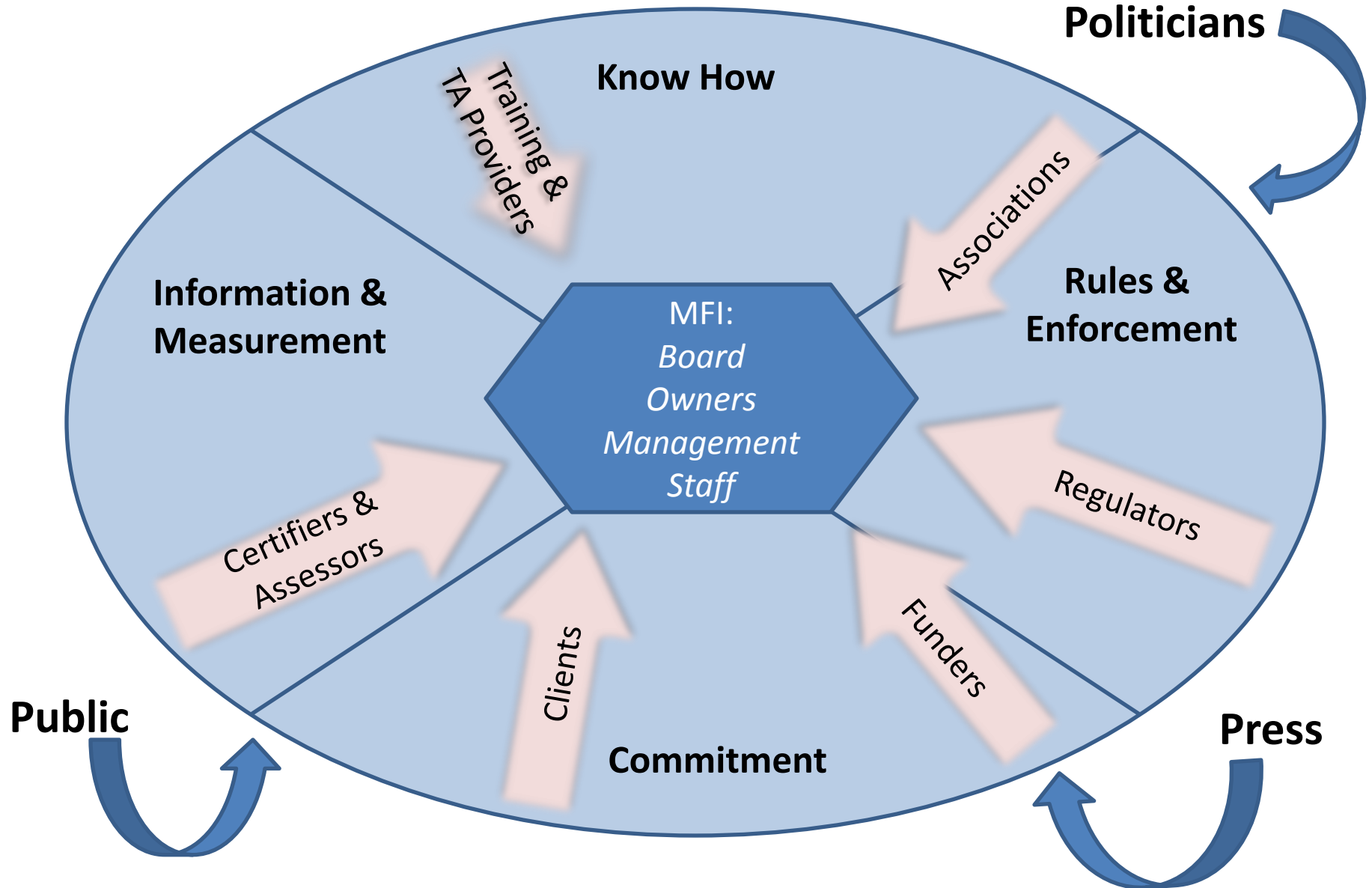
At Start of Smart Campaign these forces were weak or missing



At the end of the first two years of the Campaign, progress has been made



With Certification, the Campaign will strengthen information and measurement, and thereby enable investors, regulators, and ultimately clients to create positive incentives.



Why Certification?

Standardized third party verification is necessary to provide credible evidence that a financial institution is meeting adequate standards of care.

- Provides an incentive for providers to work seriously on evaluating, monitoring and improving their client protection practices.
- Provides assurance for supporters that they are working with MFIs that take adequate care to implement the CPPs (investors, regulators, partners).
- Ultimately, raises the likelihood that clients will receive respectful and responsible treatment.

Other intended outcomes from certification

- The certification indicators will serve as a best practice document that clearly describes the minimum standards in regards to client protection.
- It is expected that – among others – regulators will be able to use this information to review relevant issues for microfinance and client protection.

Certification Program Basics

- Smart Campaign licenses expert certifiers.
- Financial institutions apply to be certified (by contacting certifier).
- Certification team reviews policies and procedures; carries out on-site investigation; speaks with clients.
- To be certified, must meet adequate standards of care on all 7 CPPs.
- If MFI is certified, a brief report is published on Smart Campaign website (and other sites). MFI may use Certification label publicly (for 2 years).
- Financial institution receives detailed private report.

Common Certification Methodology

The prospective certifiers and the Smart Campaign have developed a *unified* certification methodology and scoring system, based on learning from Smart Assessments and social ratings.

Certifiers will examine five main categories of MFI operations: 1) governance, 2) policies and procedures, 3) staff incentives and staff training, 4) compliance, and 5) results.

- Must “pass” all indicators for each principle
- Context will be taken into account (ongoing complexity)
- Adequate standards of care – emphasis on passing
- Desk review and on-site review
- Client verification is part of results assessment

The Smart Campaign will develop license agreements with prospective Certifiers.

- Criteria will be established in terms of methodology, process and treatment of results, expertise of personnel.
- During the pilot phase – estimated to last 12-18 months – licenses will be open only to the four specialized rating agencies members of the technical sub-committee of the Certification Task Force.
- Beyond the pilot year, others may also apply to be licensed, provided they meet the criteria.

- *What will happen to assessments?*
 - Assessments will remain very important: enabling MFIs to identify changes needed and prepare for certification.
- *What happens if an organization is not certified?*
 - It will have 6 -12 months to put in place corrective measures to enable certification. During this time, Smart Campaign website will list them as “certification in progress.” Organizations that fail to pass in specified time frame will be dropped from listing.
- *How long will certification last?*
 - Two years.
- *How will credibility be maintained?*
 - Smart Campaign will provide intensive oversight and quality control to ensure consistent scoring and keep indicators up to date. Possibility of creating a representative Certification Board to oversee.

How much will certification cost?

Best estimates to date (high end):

- As part of a social rating -- \$5,000 additional
- As part of a financial rating -- \$7,000 additional
- As a stand-alone -- \$15,000
- More if with client survey
- Prices do not include airfares

Roll out of Certification

- Funding for testing certification and for initial certifications is provided by the IDB (Latin America), IFC (Bosnia), and the Campaign (India).
- Initial impetus likely to come from investors. For example, Deutsche Bank is developing a fund with Smart Campaign certification as a cornerstone of investment decisions.
- Rating agencies carry out scores of social and financial ratings per year. We have very little estimate of how many of these will include client protection certification. Could be as many as 100.
- 2012 will be a pilot year, with major review and course correction in 2013.
- Positive feedback so far from nearly everyone. A few exceptions. Most negative feedback is about cost.

Timeline

June 2010	Certification Task Force launched.
February 2011	Technical sub-committee of the Certification Task Force formed.
October 2011 – February 2012	Public comment period on the certification program: <ul style="list-style-type: none">• Open webinars for Q&A in• Send your comments by email
January – September 2012	Test certifications carried out.
September 2012	Pilot Launch – First reports published.
September 2012 – September 2013	Pilot Year – Certifications available – market test.
October 2013-December 2013	Review and refresh based on pilot year learning; end of pilot phase, beginning of “real life” ₁₉



How will various players use certification?

- **Financial institutions:** to market their organization as a pro-client institution to their clients, funders, and the general public.
- **Investors and donors:** to inform their funding decisions. Investors will use the certification results during due diligence, and require certification prior to or after investment.
- **Technical assistance providers:** to target the financial institutions that need assistance in putting the client protection principles into practice.
- **Rating agencies:** will update their methodologies to reflect the standards defined for the certification program, providing a unified basis for how client protection is measured.
- **Regulators:** may review certification for in-depth information about practices at institutions they supervise.

How can DFIs support certification?

- Encourage your investee financial institutions to improve their client protection practices and seek certification.
- Encourage your investee funds to promote assessments and certification.
- Incorporate questions about certification into your due diligence.
- Consider working with other investors to create a fund to kick-start the market for certification.
- Continue to engage in dialogue across the industry about the CPPs, the Smart Campaign and Certification.

Join the Campaign and Endorse the Client Protection Principles

www.smartcampaign.org

Thank you!