



STATE OF THE PRACTICE

STATE OF CLIENT PROTECTION IN RWANDA'S MICROFINANCE SECTOR



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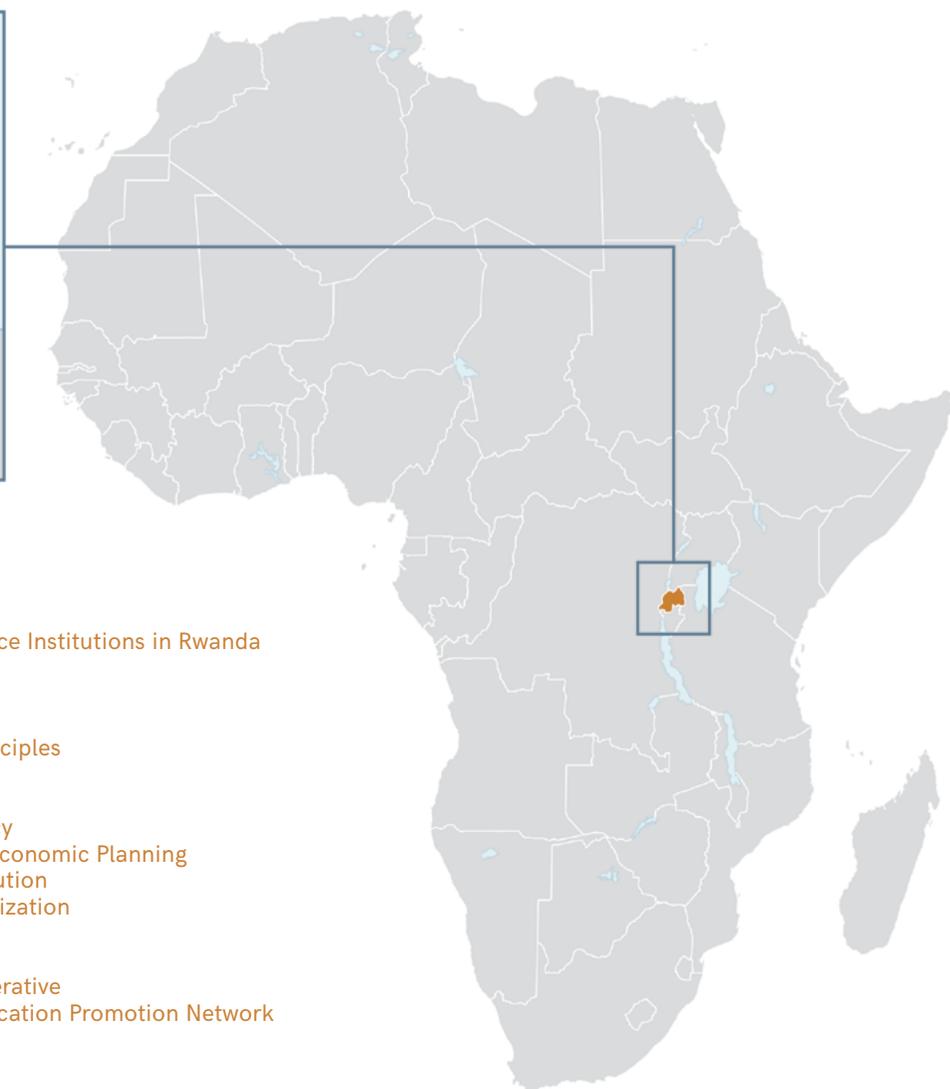
Client Protection in Rwanda's Microfinance Sector



The SEEP Network

1611 North Kent Street, Suite 610
Arlington, VA 22209
T: 202.534.1400 | F: 703.276.1433
seepnetwork.org

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Acronyms and Abbreviations

AMIR	Association of Microfinance Institutions in Rwanda
BNR	Rwanda Central Bank
CoC	Code of Conduct
CP	Consumer Protection
CPP	Consumer Protection Principles
CRB	Credit Reference Bureau
MFI	Microfinance Institution
MFTransparency	Microfinance Transparency
MINECOFIN	Ministry of Finance and Economic Planning
NBFI	Non Bank Financial Institution
NGO	Non Governmental Organization
PAR	Portfolio at Risk
RW	Rwandan Franc
SACCO	Savings and Credit Cooperative
SEEP	Small Enterprise and Education Promotion Network
TA	Technical Assistance
USD	United States Dollars

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Executive Summary

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

- 1) Accompanied self-assessments of five MFIs/financial service providers that used the Smart Campaign assessment methodology to take an in-depth look at their client protection practices;
- 2) A client protection market diagnostic, conducted by the Association of Microfinance Institutions in Rwanda (AMIR), using a tool recently designed by the SEEP Network to provide an overview of client protection rules, practices, and issues in country-level markets; and
- 3) A baseline assessment of members' use of AMIR's Code of Conduct, which evaluated the understanding and perceived implementation of the Client Protection Principles by association members.

Findings are structured according to the seven Client Protection Principles promoted by the Smart Campaign. Regulations, industry rules, and industry practices and perceptions, in addition to strengths and weaknesses, are considered under each principle. The report aims to guide Rwandan sector stakeholders in efforts to improve client protection regulation and practices. A summary of the key findings follows:

Principle 1

Appropriate Product Design and Delivery

MFI directors are aware of the importance of offering suitable products, but many institutions appear to lack the formal systems necessary to ensure appropriate product design and a robust client feedback loop. Client feedback suggests that, despite the relatively broad product mix, there is a need for more efficient and timely delivery. **Overall, level of implementation is fair. There is room for improvement, but the weaknesses do not pose major risks to consumers.**

Principle 2

Prevention of Over-Indebtedness

Rwandan MFIs are doing well in applying this principle, particularly with the standards regarding repayment capacity analysis and credit bureau usage. Elements that could be improved on a sector level are incentives systems and greater awareness of over-indebtedness from a client perspective (as opposed to an institutional perspective that just looks at portfolio at risk). **Overall, level of implementation is good and coincides with clear regulation on credit limits and the use of a credit bureau.**

Principle 3

Transparency

MFIs are making efforts to communicate transparently, and clients recognize this. Communication is largely effective but does not address pricing in a fully transparent way. Institutions generally do not communicate the total cost of credit and use pricing mechanisms that are confusing, making it difficult for clients to know how much they are really paying. **Level of implementation is good, but strong efforts are needed to enable clients to understand the true cost of products.**

Principle 4

Responsible Pricing

There does not appear to be widespread use of a standardized technical formula to establish interest rates in Rwanda, with most institutions basing their pricing on that of peers. **Level of implementation is satisfactory, but MFI capacity could be strengthened in order to help these institutions better understand how to set prices.**

Principle 5

Fair and Respectful Treatment of Clients

The AMIR Code of Conduct clearly defines standards to ensure that clients are treated fairly. However, implementation of these standards is not yet widespread: MFI policies do not fully specify expected staff behavior and sanctions in case of noncompliance. Fortunately, client feedback indicates that abuses are not common. This suggests that even in the absence of systems to support fair and respectful treatment of clients, MFIs are behaving responsibly (or at least in line with what clients expect). **Overall, formal level of implementation is weak, with stronger institutional efforts required to put the AMIR Code of Conduct into practice.**

Principle 6 Privacy of Client Data

Both MFI staff and clients feel that client data are protected. However, practices indicate the absence of systems to ensure this. This does not mean client data are not protected in practice, but the absence of policies suggests this is not a priority and creates the risk of breach of privacy, either intentionally or unintentionally. **Level of implementation is weak, with a lack of policies regarding client confidentiality and data protection.**

Principle 7 Mechanisms for Complaint Resolution

MFI have no written policies or procedures for dealing with complaints, even if they appear to address issues on an ad hoc basis. Given the importance of an effective complaints mechanism for both empowering clients and providing valuable feedback to an MFI on its employees, products, and services, filling this gap should be a priority for the sector. While internal recourse mechanisms provide the most useful data for operational improvements of individual MFIs, an effective external mechanism can send a strong message with regard to respecting clients' rights, in addition to providing valuable sector-level data to shape the regulatory framework. **Complaint resolution is where the level of implementation is weakest.**

In sum, client protection in Rwanda is a work in progress. The foundations for good practices are in place, thanks to the regulatory framework and the sector Code of Conduct, but there is still much to be done to achieve full compliance with all of the provisions. This report details these issues, along with the activities undertaken by or recommended to industry players to address them, in order to catalyze wide implementation of microfinance client protection in Rwanda.

Key Findings | Principles in Practice

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

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



Introduction

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

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

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

- Develop and enforce microfinance sector Codes of Conduct,
- Train and assess MFIs on the Client Protection Principles,
- Facilitate the establishment or improvement of credit information-sharing systems,
- Identify meso-level interventions to promote client protection,
- Undertake client protection market diagnostics, and
- Promote client grievance and recourse mechanisms.

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

Key Data²

Number of legally registered microfinance institutions

497

(13 limited companies, including 416 Umurenge SACCOs [administrative units], 64 non-Umurenge SACCOs, and 4 microfinance banks)

Number of persons accessing services of MFI

1.5 million³

Percentage of the financial sector in Rwanda represented by the microfinance sector (in terms of total assets)

5.9%⁴

Average loan size/GNI per capita

79.9%⁵

¹ Mark Flaming et al., “Consumer Protection Diagnostic Study,” FSD Kenya, January 2011.

² National Bank of Rwanda, Monetary Policy and Financial Stability Statement, February 15, 2015, http://www.bnr.rw/index.php?id=343&elD=dam_frontend_push&docID=1362.

³ The Mix Market. <http://www.mixmarket.org/mfi/country/Rwanda>.

⁴ National Bank of Rwanda, *ibid.* p. 31.

⁵ National Bank of Rwanda, Monetary Policy and Financial Stability Statement, February 12, 2013, http://www.bnr.rw/index.php?id=343&elD=dam_frontend_push&docID=856.

Overview of Rwanda's Microfinance Sector

Rwanda has a relatively young microfinance sector compared to its East African neighbors. With a few exceptions, most institutions are less than seven years old. Despite this relatively short time period, the sector has already weathered a major crisis that led to the collapse of nine microfinance institutions in 2006. Plagued by poor governance and portfolio mismanagement, the institutions saw massive withdrawals of deposits that ultimately led to their liquidation by the Central Bank (Banque Nationale du Rwanda, BNR). Over \$8 million USD in client deposits were lost. The government responded by reimbursing 50 percent of depositors' money and passing a microfinance law⁶ in 2008 to increase supervision and regulation.

Rwanda has one of the most enabling regulatory environments for microfinance in sub-Saharan Africa; it is ranked third, after Tanzania and Kenya, in The Global Microscope 2014. The government has made considerable headway with its financial inclusion strategy, with some 72 percent of the adult population reportedly accessing financial services or mechanisms (both formal and informal).⁷ Still, the institutional framework for client protection is fragmented.

Rwanda's parliament has passed a number of laws relevant to client protection in recent years, but overlapping responsibilities between the Central Bank and Ministry of Trade and Industry make devolution of supervision and enforcement unclear. The box on the following page summarizes key regulatory texts that are relevant to client protection in the microfinance sector.⁸

Together with these regulatory dispositions, the Association of Microfinance Institutions in Rwanda (AMIR) is working to promote common standards of conduct for consumer protection. With 243 members that represent an estimated 80 percent of market share in total assets, and even more in terms of number of clients,⁹ AMIR plays a central role in Rwandan microfinance. In 2013, AMIR members adopted a Code of Conduct with an emphasis on consumer protection, based on the rationale that it makes sound business sense for MFIs. The Code of Conduct is organized around a set of common values that should guide AMIR members:

- Integrity, treating customers with dignity, and responsible pricing
- Good customer care
- Transparency
- Nondiscrimination
- Privacy of data
- Ethical staff behavior
- Timely complaint resolution

Key messages in the Code include the following:

- Good consumer protection can contribute to increased MFI client satisfaction and client retention, as well as good repayment and healthy loan portfolios.
- Satisfied clients are crucial to ensuring MFI sustainability and the long-term health of the microfinance industry.
- Good consumer protection practices can also have a positive impact on the reputation of the microfinance industry, increasing the confidence of lenders, funders, and regulators.

The Code aims to be a self-regulatory mechanism for MFIs and is aligned with the Client Protection Principles as articulated by the Smart Campaign.



⁶ Law N° 40/2008 of 8/26/2008.

⁷ FinScope Survey Report 2012: Financial Inclusion in Rwanda 2008-2012 (October 2012), <http://www.statistics.gov.rw/publications/finscope-survey-report-2012>.

⁸ It is worth noting that the Smart Campaign has developed a model legal framework for financial consumer protection based on the Client Protection Principles. This document is designed to help policymakers develop and improve legislation and is available on the Smart Campaign website.

⁹ Estimates provided by AMIR.

Key Regulatory Texts

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

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

Implementing regulation for microfinance activities | Regulation N° 02/2009

- Obligation to use and report to a credit information bureau (**arts. 17–18**).
- Obligation to have credit policies with details on credit limits per borrower (**art. 69**).

Regulation of the publication of tariff of interest rates and fees applied by banks | Regulation N 14/2011

- Publication of rates and fees; prices and fees should be displayed in local newspapers, on banks' websites, and on the information board at the banks' location (**art. 3**).
- Obligation to inform the public and the Central Bank of any change; format to use to publish rates and fees (annex) (**art. 4**).

Directive on customer service delivery in financial institutions | Directive 05/2012

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

Law on competition and consumer protection | Law N 36/2012

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

Client Protection State of Practice

In 2014, AMIR conducted several field and desk studies with the goal of better understanding the state of the client protection practices of their membership. These studies included the following:

A Code of Conduct baseline assessment

This field study assessed the understanding and perceived implementation of the Client Protection Principles as detailed in AMIR's Code of Conduct (CoC). The assessment surveyed 162 people (MFI clients, managers, and staff) from 22 institutions (42 percent of AMIR membership base).

Five Accompanied Self-Assessments, using the Smart Campaign assessment methodology

Conducted by Smart-accredited support assessors, the assessments, which were conducted in 2014, took an in-depth look at the client protection practices of five AMIR members (four SACCOs and one limited company).

Client Protection Market Diagnostic

AMIR piloted the newly developed SEEP CP Market Diagnostic Tool, designed to develop a comprehensive overview of client protection rules, practices, and issues in country-level markets. The analysis included information from a desk review of legal and regulatory texts, as well as findings from the Code of Conduct baseline assessment.

This state of the practice report draws on the findings of these studies to provide an overview of client protection in Rwanda. Findings are structured around the seven Client Protection Principles and highlight regulations, industry rules, and industry practices and perceptions, in addition to strengths and weaknesses, under each principle. It aims to guide Rwandan sector stakeholders (AMIR, governmental and nongovernmental players, investors/donors, TA providers, etc.) on technical and advocacy efforts in this area.

Principle 1

Appropriate Product Design and Delivery

"Providers will take adequate care to design products and delivery channels in such a way that they do not cause clients harm. Products and delivery channels will be designed with client characteristics taken into account."¹⁰

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

Relevant text in AMIR Code of Conduct | Articles 2 and 3

- "Every member of AMIR is expected to be committed to ensuring quality services to clients, appropriate to their needs and delivered efficiently in a convenient and timely manner" (art. 2, b).
- "Members shall emphasize using social collateral which includes various forms of peer assurance such as lending through groups and group guarantees at the village, hamlet or neighborhood level, or guarantees by relatives, friends, neighbors or business associates; and explain clearly to clients what the obligations of social collateral are" (art. 3, j).

Relevant regulatory text

There is no regulation relevant to product design. This is typically the case; rarely do authorities regulate product design in any sector.

Perceptions of the implementation of the Code of Conduct

The majority (88 percent) of MFI directors interviewed for the Code of Conduct baseline survey felt "proud of the level of implementation" of this aspect of the Code. Other staff members were less convinced, with only 30 percent of managers and 57 percent of field staff stating that they had achieved a satisfactory level of implementation. This disconnect suggests that staff who are closer to clients have a sense that more can be done to meet client needs.

The clients themselves also shared mixed opinions on whether they felt products were adapted to their needs. In focus groups, many highlighted delays and loan application procedures that were too lengthy or cumbersome, given the quick turnover of their activities. Group members appeared more satisfied with products than their peers with individual loans, which may reflect different levels of expectation.

Practice

A deeper look into the practices of the five MFIs that have gone through a Smart assessment confirms staff perception that more can be done. While all the institutions are clearly doing something to ensure appropriate product design—an averaging of scores finds that three of the four indicators under this principle are met by most of the MFIs in the sample—there is room to improve practices around the gathering of different forms of client feedback and incorporating the feedback into product design and delivery.

Appropriate Product Design and Delivery



- + Most of the institutions offer a relatively wide range of loan products, with terms and conditions adapted to the loan purpose;
- + The institutions appear to have no aggressive sales techniques; indeed, in the case of savings and loan cooperatives (COOPECS), liquidity constraints impede them from lending more;
- + The institutions assessed all have collateral policies, although in some cases they could be further clarified (by specifying unacceptable collateral or setting limits for the collateral/loan amount ratio, for example);
- + Client feedback is collected informally, usually through loan officers, and has been used to improve products.

- The institutions assessed have no formal product development processes in place and do not conduct regular market research;
- While some institutions conduct exit interviews, there is no systematic investigation of reasons for client drop out, so institutions miss out on an easy, low-cost way of collecting valuable client feedback.

¹⁰ Throughout this report, the grey boxes quote Smart Microfinance's seven Client Protection Principles. Refer to <http://www.smartcampaign.org/about/smartmicrofinance-and-the-client-protection-principles> for more information.

Lessons Learned

MFI directors are aware of the importance of offering suitable products, but many institutions appear to lack the formal systems necessary to ensure appropriate product design and a robust client feedback loop. Client feedback suggests that despite the relatively broad product mix, there is a need for more efficient and timely delivery. **Overall, the level of implementation is fair. There is room for improvement, but the weaknesses do not pose major risks to consumers.**

Priorities for the Sector

- Continue to support MFIs in the **product development process** (which includes market research).¹¹ This could involve offering training opportunities (like MicroSave's Market Research for MicroFinance course).
- **Help MFIs develop procedures** to collect, analyze, and use client feedback. This could involve disseminating tools like an Excelbased file to collect reasons for client drop out or adding a few questions regarding client satisfaction with products to the internal audit's checklist. Another helpful tool is a draft protocol for how to analyze data on a regular basis, which specifies who will collect the data, who will analyze the data, how the data will be reported, and to whom.



Photos Courtesy of AMIR

¹¹ In recent years, five major MFIs have used donor support to improve product development and conduct market research

Principle 2

Prevention of Over-Indebtedness

"Providers will take adequate care in all phases of their credit process to determine that clients have the capacity to repay without becoming overindebted. In addition, providers will implement and monitor internal systems that support prevention of overindebtedness and will foster efforts to improve market level credit risk management (such as credit information sharing)."

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

Relevant text in AMIR Code of Conduct | Articles 2 and 3

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

Relevant regulatory text

- Obligation to use and report to a credit information bureau | **Regulation N° 02/2009, arts. 17-18.**
- Obligation to have credit policies with details on credit limits per borrower | **Regulation N° 02/2009, art. 69.**

In Rwanda, MFIs are required by law to use the Credit Reference Bureau (CRB), a commercial private entity that collects, stores, and shares credit history information on clients with loans over 200,000 RWF (approximately \$276 USD). The Central Bank tracks usage and has seen a steady increase by MFIs and SACCOs in the last two years. By June 2014, the CRB had registered nearly 8,000 searches by MFIs and 3,000 by SACCOs. Still, not all searches are successful, due to missing client information.¹² In focus groups, clients have complained that, in some cases, MFIs have forgotten to update clients' files with their repayment history, until those clients seek a subsequent loan. MFIs are also required to have credit policies in place, with details on credit limits per borrower.¹³

Perceptions of the implementation of the Code of Conduct

The majority (69 percent) of MFI directors interviewed for the Code of Conduct baseline assessment felt "proud of the level of implementation" of this aspect of the Code, while 67 percent of staff members felt that they were fully compliant with this principle.

Discussions with clients supported this assessment. MFIs appear to make necessary efforts to prevent clients' over-indebtedness, including thorough loan application analyses, use of the Credit Reference Bureau, and checks with local authorities to verify the repayment capacity of the applicant.

Still, roughly 42 percent of the 105 interviewees said it was very easy (21 percent) or fairly easy (21 percent) to get a loan from one institution while still having an unpaid balance at another. This may be in part because not all MFIs have a policy prohibiting clients from holding several loans at once (this is acceptable practice provided an acceptable debt burden ratio is respected—but it could indicate that loan sizes are sometimes too small to meet client needs). Also, CRB registers data for loans above 200,000 RWF, which means that anything below that amount passes unnoticed, which would also permit cross-borrowing.

Practice

Findings from the client protection assessments show strong practices under this principle. Along with Responsible Pricing, it is the principle for which the MFIs scored the highest—in the aggregated analysis, 80 percent of the indicators were fully met.

¹² BNR Annual Report 2014, p. 64.

¹³ Regulation N 02/2009, art. 69.

Prevention of Overindebtedness

80% ○

15% △

4% ◇

- + All five institutions conduct an appropriate client repayment capacity analysis before disbursing a loan;
- + The institutions track PAR regularly, at least monthly and often daily;
- + Most institutions systematically report to the Credit Reference Bureau and use this data to inform credit decisions. Only one institution had some branches that were not reporting, despite having access to the CRB platform.
- Incentive systems are either absent or not clear as to whether they actually value portfolio quality over volume;
- The institutions could improve in terms of management and board awareness of the risk of over-indebtedness. While they regularly monitor PAR and assess risk, client over-indebtedness is not addressed specifically. Because PAR is a lagging indicator (once PAR goes up, the problem has already taken hold), it is important to monitor other indicators such as market saturation, early repayments, and parallel loans. Qualitative indicators based on client feedback can also shed light on client over-indebtedness.

Lessons Learned

Rwandan MFIs are indeed doing well in applying this principle, particularly with the standards regarding repayment capacity analysis and credit bureau usage. Elements that could be improved on a sector level are incentive systems and a greater awareness of over-indebtedness from a client perspective (as opposed to an institutional perspective that just looks at portfolio at risk, or PAR). **Overall, level of implementation is good and coincides with clear regulation on credit limits and the use of a credit bureau.**

Priorities for the Sector

- **Provide guidance to MFIs on how to develop incentive systems.** Incentive systems are an important tool for motivating field staff to conduct good analyses and avoid over-lending, and should be crafted carefully. Incentive] systems do not have to rely on quantitative data like portfolio volume or PAR. Incentives can be based on compliance with policies and procedures, as verified by an internal supervisory mechanism, such as internal audits, internal controls, or a compliance department. An incentive that encourages systematic reporting to the Credit Reference Bureau, for example, could be beneficial to the Rwandan sector.
- Credit bureau uptake is strong but MFIs are not yet fully engaged. MFIs must subscribe by law but are not necessarily making enquiries in the system. There is room to **further encourage MFIs to make enquiries and report systematically to the Credit Reference Bureau.** AMIR could lobby for the reduction of the CRB subscription fee¹⁴ for microfinance institutions as an incentive for MFIs to subscribe, report, and use data from the CRB.



¹⁴ Estimated at \$50 USD/month.

Principle 3

Transparency

"Providers will communicate clear, sufficient and timely information in a manner and language clients can understand so that clients can make informed decisions. The need for transparent information on pricing, terms and conditions of products is highlighted."

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

Relevant text in AMIR Code of Conduct | Articles 2 and 3

- Every member of AMIR "shall provide its clients complete and accurate information and educate them about the terms of financial services offered such as interest rates and all other charges as well as their policies and procedures in a manner that is understandable by them" (**art. 2, c**).
- In addition, members "shall ensure that before extending a credit facility, a client shall be informed in a clear and understandable language institutional policies and applicable terms and conditions to the facility including the consequences and procedures to be applied in case of default so that a decision taken by client is based on informed consent" (**art. 3, e**).
- Transparency is also important between AMIR members, their clients, and third parties. Members "shall ensure transparency in the maintenance of books of accounts and reporting/presentation and disclosure of financial statements by qualified auditor/s" (art. 3, n); and "shall raise the client's awareness of the options, choices and responsibilities in the financial relations with every member" (**art. 3, p**).

Relevant Regulatory Texts

- Display of interest rates and fees | **Law No 40/2008, art. 35**.
- Disclosure of product information prior to signing a contract | **Law No 40/2008, art. 33**.
- Law on competition and consumer protection (Chapter V, art. 33; obligation to inform the consumer), and the right to customer service and care (art. 35; display of prices) | **Law N° 36/2012, arts. 33 and 35**.
- Publication of interest rates and fees applied by financial institutions (art. 3; publication of rates and fees), obligation to inform the public and the Central Bank of any change (art. 4), and the format to use to publish rates and fees (annex) | **Directive No 05/2012, arts. 3 and 4, annex**.
- [Banks only] Publication of rates and fees; the prices and fees should be displayed in local newspapers, on banks' websites, and on the information board at the banks' locations. Obligation to inform the public and the Central Bank of any change and the format to use to publish rates and fees | **Regulation N° 14/2011, arts. 3-4, annex**.
- There are no regulations regarding how to calculate interest rates (flat or declining method) or regarding interest rate ceilings.

Perceptions of the implementation of the Code of Conduct

The majority (80 percent) of managers interviewed believe that their institution communicates transparently (communication of terms and conditions in the local language; transparent information on pricing). A smaller portion of field staff (57 percent) felt that they provided sufficient information about collateral options to clients, and only 52 percent of staff check regularly on clients' understanding.

In client focus groups, roughly 90 percent strongly agree that providers communicate appropriate information clearly. A few clients indicated that comparing terms and conditions across institutions was not easy. Overall, however, the perception is that transparency is satisfactory.

Practice

The client protection assessments also found satisfactory practices under this principle. In the aggregated analysis, 71 percent of the indicators were fully met, 18 percent were partially met, and 11 percent were not met.

Transparency



- + Communication is largely effective, with terms and conditions disclosed at multiple times and staff available for questions;
- + The institutions provide accurate and timely account information (proof of transactions, updated balances, and copies of contracts are provided systematically).

- Pricing is not fully transparent: institutions commonly use the flat interest rate calculation method (in which the quoted interest rate appears much lower than the actual cost of the loan) and require upfront cash collateral as well as ongoing compulsory deposits, which increase the cost of the loan;
- The total amount paid by the client is not always disclosed on contracts or repayment schedules;
- Some institutions do not display product pricing at bank locations;
- Some institutions communicate less thoroughly on savings products than for loans.

Lessons Learned

MFIs are making efforts to communicate transparently, and clients recognize this. Communication is largely effective but does not address pricing in a fully transparent way. Institutions generally do not communicate the total cost of credit and use pricing mechanisms that are confusing, making it difficult for clients to know how much they are really paying. **Level of implementation is good, but strong efforts are needed to enable clients to understand the true cost of products.**

Priorities for the Sector

- **Lobby for regulation to standardize elements of product contracts—including savings—to ensure key information is provided, including the total amount paid by the client.** This could take the form of a standardized first page of the loan agreement/contract or a key facts summary page, with clear descriptions of prices and other important conditions.
- **Verify compliance with legal obligations to display interest rates and fees in the public domain, using the format provided in Directive 05/2012 on customer service delivery.**
- **Consider providing relevant product and pricing information for each member on AMIR's website to help clients make informed decisions.**



Principle 4

Responsible Pricing

"Pricing, terms and conditions will be set in a way that is affordable to clients while allowing for financial institutions to be sustainable. Providers will strive to provide positive real returns on deposits."

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

Relevant text in AMIR Code of Conduct | Article 3

- Members must design "cost-effective services to reduce a cost burden shifted to clients" (art. 3, c).

Relevant Regulatory Texts

There are no guidelines regarding pricing and no standard formula is used to calculate prices. There is no legal limit on credit products pricing in the microfinance sector, nor is there a supervisory body in charge of enforcing microfinance pricing rules. This is generally the case in most countries, with the exception of zones where usury laws limit pricing (such as UEMOA, the West African Economic and Monetary Union).

Perceptions of the implementation of the Code of Conduct

Pricing is generally perceived to be fair and responsible from both institutional and client perspectives. The majority of MFI staff and managers who are aware of the AMIR Code of Conduct feel that their "pricing, terms and conditions are set in a responsible way to avoid shifting the burden on [to] clients' shoulders" (87 percent and 65 percent, respectively). Clients largely agree that interest rates on credit are reasonable and fair (81 percent) and do not consider them to be particularly low or high (77 percent qualified pricing levels as "medium").

Practice

Overall scoring in this area was satisfactory. Two of the five institutions were found to have considerably higher interest rates for certain products than their peers, and one institution was charging particularly high penalty fees. It is impossible to make a sweeping generalization regarding responsible pricing in Rwanda based on a sample of five institutions. To get a sense of pricing in Rwanda, we can refer to 2011 MFTransparency data that show a wide range of pricing (19–60 percent), with the weighted average APRs for NGOs and NBFIs considerably higher than those for SACCOs.

Responsible Pricing



+ Four of the five MFIs in the sample show pricing and efficiency ratios that are generally in line with those of their peers.

○ Institutions rarely base prices on the actual cost of providing a product, but rather set prices based on what their peers are charging. The lack of a systematic approach to pricing creates the risk of overcharging (in which case, clients may be lost to competitors) or undercharging (in which case, the profitability targets will not be met).

Lessons Learned

There does not appear to be widespread use of a standardized technical formula to establish interest rates in Rwanda, with most institutions basing their pricing on that of peers. **Level of implementation is satisfactory, but MFI capacity could be strengthened to better understand how to set prices.**

Priorities for the Sector

- **Propose training on how to set interest rates** to help MFIs understand the components of an interest rate calculation, including the impact of compulsory savings and cash collateral on the effective interest rate.

Principle 5

Fair and Respectful Treatment of Clients

"Financial service providers and their agents will 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 staff and agents, particularly during the loan sales and debt collection processes."

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

Relevant text in AMIR Code of Conduct | Articles 2, 3, and 4

- Commitment to providing financial literacy to clients and protection "against fraud and misrepresentation, deception or unethical practice." In lending, debt recovery, and collection of dues, "members shall be committed to fair practices, which balance respect for client's dignity and an understanding of their vulnerable situation, with reasonable pursuit of recovery of loans" (art. 2, d).
- Respect for practices based on "fair treatment, respect, dignity, persuasion and courtesy to clients" (art. 3, a).
- Provision of services to clients without discrimination (art. 3, b).
- Appropriate debt recovery behaviours, including "decency and decorum during the debt recovery processes" (art. 3, g); avoidance of "inappropriate occasions such as bereavement in the family or such other calamitous occasions to apply debt recovery procedures" (art. 3, h); and avoidance of "any demeanor upon a client that would suggest any kind of threat or violence." (art. 3, i).
- Ensuring client choice, collection client feedback, and client satisfaction (art. 3, p, u, x).
- Integrity of those who serve on governing bodies (art. 4, h).

Relevant Regulatory Texts

No regulation addresses fair treatment of clients. Rwanda does have a national financial education strategy (since 2011) to inform and empower financial consumers to "ask questions and seek the information they need to fully understand the products they choose and the contracts they sign."¹⁵

Perceptions of the implementation of the Code of Conduct

The majority of staff and managers (62 percent and 55 percent, respectively) were "proud of their achievements" in complying with this principle. Overall, managers were more optimistic in evaluating their practices: 75 percent felt that they treat clients "equally and fairly ... with respect" and offer "quality customer care." However, only 57 percent of staff felt the same. Most managers agreed that "we avoid, during loan collection, behaviors that might be perceived as harassment or illegal by the client" (70 percent), but fewer staff (62 percent) felt that they were fully compliant. In terms of safeguards to prevent fraud, only 40 percent of managers fully agreed with the statement "We avoid recruiting people who were involved in malpractice in other financial institutions, or who were convicted of fraud in his/her previous job."

Clients for the most part did not feel aggressive sales practices or corruption (87 percent and 79 percent, respectively) were an issue in their respective microfinance institutions, although 8 percent did recognize these practices as issues. A great majority felt they were educated "on their rights, the products and services [on] offer, as well as choices and duties stemming from using the products" (88 percent), although only about half of staff (52 percent) interviewed felt the same.

Practice

The comparatively hesitant view of staff regarding their institution's compliance with this principle is echoed in the findings of the client protection assessments; more than 50 percent of the indicators were either partially met or not met, with 46 percent fully met.

¹⁵ Andrea Del Granado and Maria E. Perdomo, "Consumer Protection: Balancing Rights and Responsibilities," *Microfinance Opportunities and Freedom from Hunger*, Washington, DC, 2008, cited in MINECOFIN (2013), National Financial Education Strategy for Rwanda, p. 15.

Fair and Respectful Treatment of Clients



+ Each of the five institutions have some strengths under this principle (e.g., competitive wages, which can deter fraud, and staff appraisals that take into account ethical behavior), but they are not common strengths shared by all.

- The institutions generally do not have a standalone code of conduct, and the elements of the AMIR Code of Conduct are not yet reflected in procedures manuals or in staff rules;
- Debt collection practices are ill-defined. Institutions do not specify what is acceptable or unacceptable, do not define collateral seizure policy, and in some cases endorse a "zero tolerance" for late repayments, which can incite aggressive collections practices;
- There are no sanctions specified in the case of violation of the AMIR Code of Conduct by any of the institutions.

Lessons Learned

The AMIR Code of Conduct clearly defines standards to ensure that clients are treated fairly. However, implementation of these standards is not yet widespread: MFI policies do not fully specify expected staff behavior and sanctions in case of noncompliance. Fortunately, client feedback indicates that abuses are not common. This suggests that even in the absence of systems to support fair and respectful treatment of clients, MFIs are behaving responsibly (or at least in line with what clients expect). **Overall, formal level of implementation is weak, with stronger institutional efforts required to put the AMIR Code of Conduct into practice.**

Priorities for the Sector

- Drawing on the Smart Campaign indicators, **develop a checklist or assessment tool to help members comply with the association's Code of Conduct.** The checklist or tool could designate specific activities to address gaps for each point on the list, such as staff training, policy adjustments, revised procedures manuals, and regular client satisfaction surveys.
- **Explore the feasibility of a centralized database of staff employed by microfinance institutions who are involved in any malpractice, including corruption, fraud, and delinquency.** The database should be accessible to each member who undertakes a recruitment process, to avoid recruiting people with this type of background. AMIR members should commit to updating the database on a regular basis.



Principle 6

Privacy of Client Data

"Financial service providers and their agents will 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 staff and agents, particularly during the loan sales and debt collection processes."

According to the Smart Campaign, "The confidentiality of personal information is a right that protects privacy and individual liberties. From an institutional standpoint, confidentiality of personal financial information can help to prevent losses due to theft and fraud. Clients also have a responsibility to keep their financial information safe (keeping their loan passbooks in a safe place, for example), and to correct any inaccurate data held by their financial institutions."¹⁶

Relevant text in AMIR Code of Conduct | Articles 2 and 3

- "Every member shall safeguard clients' personal information, committing non-disclosure clauses to clients ensuring and only allowing disclosures and exchange of such information to others who are authorized to see it, with the knowledge and consent of clients" (art. 2, e).
- "Every member shall keep personal client information strictly confidential except in the following circumstances:
 - Client has been informed about such disclosure and permission has been obtained.
 - It is legally required to do so.
 - The party in question has been authorized by the client.
 - This practice is customary amongst financial institutions and available for a close group on reciprocal basis (such as a credit bureau)" (art. 3, k).

Relevant Regulatory Texts

None.

Perceptions of the implementation of the Code of Conduct

Board members generally felt that their respective MFIs are doing well in upholding this principle (75 percent). A smaller portion of managers felt that they are doing well in implementing the principle in such a way that "clients' data are protected, and only used in the following cases: when the clients has approved the use of the data, when it is provided for by the law, when it is a normal practice in the industry, for example disclosure to credit reference bureau" (45 percent).

Clients largely confirmed that unnecessary disclosure of client data was not an issue in their respective institutions (81 percent), although 9 percent said that it is an issue. Most feel that their data are effectively protected (91 percent).

Practice

Despite these positive perceptions, in terms of implementation, only 41 percent of the indicators were fully met. The gap between perceptions and practice is likely due to the relatively general provisions in the Code of Conduct, compared to the more precise indicators used in the Smart assessment. This principle in practice calls for a formal privacy policy and staff training on the policy, as well as clients' understanding of their rights; the Code of Conduct, on the other hand, does not specify how MFIs should "safeguard clients' personal information."

¹⁶ The Smart Campaign, "Putting the Principles to Work: Detailed Guidance on the Client Protection Principles, Version 2.0," September 2011.

Privacy of Client Data

41% ○

22% △

27% ◇

+ The institutions store client files securely and generally have password protect Management Information systems, (MIS).

- Four out of five institutions do not have a comprehensive privacy policy (addressing current staff and departing staff), although confidentiality is mentioned in operations or procedures manuals;
- Four out of five institutions do not offer guidance to staff on how to protect client data and do not systematically inform all clients (including clients who are only depositors) how their information will be used or shared.

Lessons Learned

Both MFI staff and clients feel that client data are protected. However, practices indicate the absence of systems to ensure this. This does not mean client data are not protected in practice, but the absence of policies suggests this is not a priority and creates the risk of breach of privacy, intentionally or unintentionally. **Level of implementation is weak, with a lack of policies regarding client confidentiality and data protection.**

Priorities for the Sector

- Pursue current efforts to **clarify the Code of Conduct** with an assessment tool that specifies how to put provisions into practice.
- Disseminate **examples of comprehensive and standardized privacy policies** for MFIs based on tools from the Smart Campaign, such as the Client Welcome Kit.

Principle 7

Mechanisms for Complaint Resolution

"Providers will have in place timely and responsive mechanisms for complaints and problem resolution for their clients and will use these mechanisms both to resolve individual problems and to improve their products and services."

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

Relevant text in AMIR Code of Conduct | Article 3

- Members shall "ensure that there is a designate staff to handle complaints and/or note any suggestions from the clients and make his/her contacts easily accessible to clients" (art.3, v); and "ensure that there are in place complaint handling systems which will take steps to correct any error and handle/receive complaints speedily and efficiently to the satisfaction of clients" (**art.3, w**).

Relevant Regulatory Texts

There are no legal or regulatory requirements that apply to internal recourse mechanisms in MFIs. However, there is an external recourse mechanism in Rwanda available to any citizen, including MFIs' clients, provided by the Ombudsman Office. Research for the Code of Conduct baseline assessment report indicates that there is a project to create a financial window in the Ombudsman Office to handle complaints related to financial institutions.

Perceptions of the implementation of the Code of Conduct

Board members reported feeling “proud” of their achievements in the implementation of the principle (63 percent), but only 25 percent of managers and staff felt the same. Indeed, only 43 percent of staff interviewed said they were fully compliant with the requirements laid out in the Code of Conduct.

Roughly 50 percent of the clients interviewed believed their institutions had someone in place to deal with complaints, but 24 percent were not sure. Overall, clients felt confident that they could bring complaints to their institution and have them dealt with, even though they were unsure of the existence of any formal mechanism. MFIs' clients are usually not informed about the external recourse mechanism.

Practice

This mixed picture of perceptions is confirmed in the findings from the individual MFI assessments. All of the institutions assessed could provide examples of dealing with complaints informally, which explains why clients felt confident their complaints would be dealt with. However, no institution has any formal policy in place to collect or resolve complaints, or a clear reporting system to monitor whether complaints are being addressed in a timely or effective way. This principle has the weakest application, with more than half of the indicators not met (53 percent) and 31 percent partially met.

Mechanisms for Complaint Resolution



○ Although aware of their right to complain, clients are not given clear guidelines on how to do it;

○ With the exception of one institution that has an active but informal complaints mechanism, there are no policies, procedures, dedicated staff, or monitoring mechanisms in place for handling complaints.

Lessons Learned

MFIs have no written policies or procedures for dealing with complaints, even if they appear to address issues on an ad hoc basis. Given the importance of an effective complaints mechanism for both empowering clients and providing valuable feedback to an MFI on its employees, products, and services, filling this gap should be a priority for the sector. While internal recourse mechanisms provide the most useful data for operational improvements of individual MFIs, an effective external mechanism can send a strong message with regard to respecting clients' rights, in addition to providing valuable sector-level data to shape the regulatory framework. **Complaint resolution is where the level of implementation is weakest.**

Priorities for the Sector

- Drawing on tools from the Smart Campaign, **equip MFI managers to set up effective mechanisms to handle clients' complaints.** A simple, user-friendly toolbox with a sample complaints procedures manual, an Excel-based tracking tool, and a process flow chart could help microfinance institutions set up mechanisms to collect, analyze, and effectively respond to clients' complaints on a regular basis.
- Engage the government (BNR, MINICOM, RCA, the Ombudsman Office, and MINECOFIN) to **explore the possibility of setting up a financial ombudsman** in the Ombudsman Office, and research mechanisms to enforce consumer protection rules and principles.

Depositor Protection

While depositor protection is not addressed in the current version of the Client Protection Principles,¹⁷ it is a fundamental concern when it comes to financial consumer protection. Ideally, deposit-taking institutions should operate in contexts where regulation or deposit insurance mechanisms ensure that depositors are protected against the risk of losing their savings. This is rarely the case; therefore, use of prudential ratios is absolutely critical. In Rwanda, there is no deposit protection mechanism in place for the microfinance sector, but there is a legal basis for deposit protection in Law N° 40/2008, arts. 38–39. The law allows for a Central Bank–managed mechanism to cover MFI deposits. The extent of the coverage is not clear in the law, but the government has so far covered 100 percent of lost deposits in liquidated MFIs, setting the precedence for full coverage.

Summary of the Priorities to the Sector

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

	Risk for Clients	AMIR	Financial/Technical Partners	Government/Supervisory Authorities
Fair and Respectful Treatment of Clients	HIGH	Drawing on the Smart Campaign indicators, develop a checklist or assessment tool to help members comply with the Code of Conduct. The checklist or tool could clarify specific activities to address gaps for each point on the list, such as staff training, policy adjustments, revised procedures manuals, and regular client satisfaction surveys.	Require that MFI partners report on compliance with the Code of Conduct on an annual/semi-annual basis, using a standardized checklist/assessment tool.	
Mechanisms for Complaint Resolution	HIGH	Drawing on tools from the Smart Campaign, equip MFI managers to set up effective mechanisms to handle clients' complaints. A simple, user-friendly toolbox with a sample complaints procedures manual, an Excel-based tracking tool, and a process flow chart could help microfinance institutions set up mechanisms to collect, analyze, and effectively respond to clients' complaints on a regular basis.	Drawing on tools from the Smart Campaign, support implementation of client complaints mechanisms.	
Transparency	HIGH	Lobby for regulation to standardize elements of product contracts —including savings—to ensure key information is provided, including the total amount paid by the client. This could take the form of a standardized first page, or key facts summary page, with clear descriptions of prices and other important conditions.		Consider introducing regulation to standardize product contracts for MFIs, which at the minimum could include a key facts summary page.
Prevention of Overindebteness	HIGH	Raise awareness and encourage MFIs to report systematically to the Credit Reference Bureau (CRB). AMIR could lobby for the reduction of the CRB subscription fee as an incentive for MFIs to report and use data from the CRB.	Verify that MFI partners have policies and procedures in place to ensure systematic reporting to the CRB, as well as a system to make sure reporting is happening (verification by internal audit or internal controls).	
Privacy of Client Data	MEDIUM	Disseminate examples of comprehensive and standardized privacy policies for MFIs based on tools from the Smart Campaign, such as the Client Welcome Kit.		Drawing on the model legislation tool from the Smart Campaign, consider introducing legislation regarding privacy of client data.
Mechanisms for Complaint Resolution	MEDIUM	Engage the government (BNR, MINICOM, RCA, the Ombudsman Office, and MINECOFIN) to explore the possibility of setting up a financial ombudsman in the Ombudsman Office, and research mechanisms to enforce consumer protection rules and principles.		Consider establishing a financial ombudsman to receive complaints or inquiries concerning an MFI.
Transparency	MEDIUM	In any self-assessment mechanisms on the Code of Conduct, include a verification that MFIs are complying with legal obligations for displaying interest rates and fees in the public domain, using the format provided in Directive 05/2012 on customer service delivery.		Continue to reinforce legal obligations regarding display of interest rates and fees in the public domain.
Prevention of Overindebteness	MEDIUM	Provide guidance to MFIs on how to develop incentive systems. Incentive systems are an important tool for motivating field staff to conduct good analyses and avoid over-lending, and should be crafted carefully. Incentive systems do not have to rely on quantitative data like portfolio volume or PAR. Incentives can be based on compliance with policies and procedures, as verified by an internal supervisory mechanism, such as internal audits, internal controls, or a compliance department. An incentive that encourages systematic reporting to the Credit Reference Bureau, for example, could be beneficial to the Rwandan sector.	Work with partners to ensure balanced incentive systems that support good repayment capacity analysis, compliance with policies and procedures, and fair and respectful treatment of clients.	
Appropriate Product Design and Delivery	MEDIUM	Help MFIs develop procedures to collect, analyze, and use client feedback. This could involve disseminating tools like an Excel-based file to collect reasons for client drop out or adding a few questions regarding client satisfaction with products to the internal audit's checklist. Another helpful tool is a draft protocol for how to analyze data on a regular basis, which specifies who will collect the data, who will analyze the data, how the data will be reported, and to whom.	Help MFIs develop procedures to collect, analyze, and use client feedback. This could involve disseminating tools like an Excel-based file to collect reasons for client drop out, or adding to the internal audit's checklist a few questions regarding client satisfaction with products. Another helpful tool is a draft protocol for how to analyze data on a regular basis that specifies who will collect the data, who will analyze the data, how the data will be reported, and to whom.	
Fair and Respectful Treatment of Clients	LOW	Explore the feasibility of a centralized database of staff employed by microfinance institutions who are involved in any malpractice, including corruption, fraud, and delinquency. The database should be accessible to each member who undertakes a recruitment process, to avoid recruiting people with this type of background. AMIR members should commit to updating the database on a regular basis.		
Transparency	LOW	Consider publishing relevant product and pricing information for each member to help clients make informed decisions.		Continue to reinforce legal obligations regarding display of interest rates and fees in the public domain.
Appropriate Product Design and Delivery	LOW	Offer training on the product development process. This could involve courses like MicroSave's Market Research for MicroFinance or other courses on product design and development.	Help partners strengthen product mix by working with them to develop a systematic product development process that includes market research.	
Responsible Pricing	LOW	Propose training on how to set interest rates to help MFIs understand the components of an interest rate calculation, including the impact of compulsory savings and cash collateral on the effective interest rate.	Work with partners to inform them on how to set interest rates, to help MFIs understand the components of an interest rate calculation, including the impact of compulsory savings and cash collateral on the effective interest rate.	

Conclusion

This review of the state of client protection in Rwanda demonstrates that that a **solid regulatory framework** is in place to encourage **transparency** and **credit information sharing**. There is also a legal basis for **depositor protection** for licensed MFIs. These regulations are complemented by robust self-regulatory standards promoted by AMIR, which address all seven principles of client protection, as well as **standards of good governance**. The AMIR Code of Conduct baseline survey shows that MFIs are, for the most part, aware of these standards, but results from the five client protection assessments indicate major gaps in implementation.

MFIs show **strongest practices in the principles addressed either directly or indirectly by regulation: prevention of over-indebtedness, transparency, and responsible pricing**.¹⁸ This suggests— unsurprisingly—that a strong regulatory framework is an effective way to promote application by providers and enforce compliance. It makes sense to legislate in these areas, as the lack of transparency—and its impact on prices—as well as ineffective credit information systems pose high risks to clients. Practices in these areas are strong compared to the other principles, but this does not mean there is not room to improve, especially when it comes to reporting to the Credit Reference Bureau and the use of transparent pricing methods and disclosure. However, the foundation for good practice is in place.

The **weakest practices are in principles where there is no regulatory text in place: fair and respectful treatment of clients, privacy of client data, and mechanisms for complaint resolution**. While the AMIR Code of Conduct has clear provisions in these areas, the uptake is still low and the level of implementation weak. This report makes specific recommendations to address these weaknesses, many of which can be implemented through sector-level adaptation and dissemination of existing tools made available by the Smart Campaign.

The level of implementation regarding **appropriate product design and delivery**, generally outside the purview of regulation, is fair, with room to improve product development and client feedback. Focus on this area is important from an institutional standpoint, but the weaknesses under this principle do not pose major risks to consumers.

In sum, client protection in Rwanda is a work in progress. The foundations for good practices are in place, thanks to the regulatory framework and the sector Code of Conduct, but there is still much to be done to achieve full compliance with all of the provisions. AMIR is actively working on building awareness, developing a Code of Conduct self-assessment tool, and promoting Smart Campaign Client Protection Assessments. The momentum is there but could be accelerated with greater stakeholder coordination. Client protection is an area where state prerogatives intersect with private initiatives; a multi-stakeholder approach that includes government players as well as technical and financial partners is therefore essential for achieving progress on a sector-wide scale.

¹⁸ While pricing transparency is not directly addressed by regulation, it is a pre-condition to responsible pricing and thus is indirectly addressed by the law.

About SEEP



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

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

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

About RFL



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

