



MEMBERS' SELF-ASSESSMENT OF COMPLIANCE WITH CODE OF CONDUCT

2019 Report



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Introduction

The Association of Microfinance Institutions in Rwanda (AMIR), is an umbrella of microfinance institutions in the country. Its mandate includes capacity building for its members and the promotion of responsible finance.

AMIR brings together 343 out of 459 licensed institutions, with the purpose of facilitating a vibrant microfinance industry that contributes to poverty reduction and financial inclusion. AMIR is also leading a market process to develop a healthy sector, driven by ethical and consumer-oriented practices. In that regard, an industry Code of Conduct (CoC) was developed and endorsed by AMIR members in 2013; and revised in 2017. The new version of the Code of Conduct was endorsed by AMIR members during the General Assembly Meeting of November 2017.

AMIR's members have committed to reporting out annually on the extent to which they comply with the letter and spirit of the industry Code of Conduct. AMIR has developed a compliance assessment tool that can be used by members to check their own compliance with the Code of Conduct and report back to the association. This report summarizes key findings from the self-assessment exercise conducted in December 2018 and compares this information with data collected by AMIR during mystery shopping exercises conducted quarterly at various MFI branches.

Methodology

To facilitate member reporting and in order to have a high rate of report submission, AMIR visited a sample of members to interview them and obtain their perspective on their compliance with the Code of Conduct. AMIR opted to use a group of graduates from the University of Rwanda-College of Economics and Business studies (UR-CBE) to conduct the interviews of managers and chief executive officers using the self-assessment tool. The data collectors were trained on the Code of Conduct for a half day, and were previously trained on consumer protection principles, as well as mystery shopping techniques. The data collectors did not perform any review of documents or processes, rather they only recorded the responses provided by the institutions visited.

The tool used identified different levels of compliance dealing with a range of possibilities from awareness about the provisions in the code of conduct to full implementation of those provisions, using a scale of 1 to 5 for all the 37 indicators included in the tool. A copy of the tool can be found in Annex 1.

Table 1: Compliance scoring scale

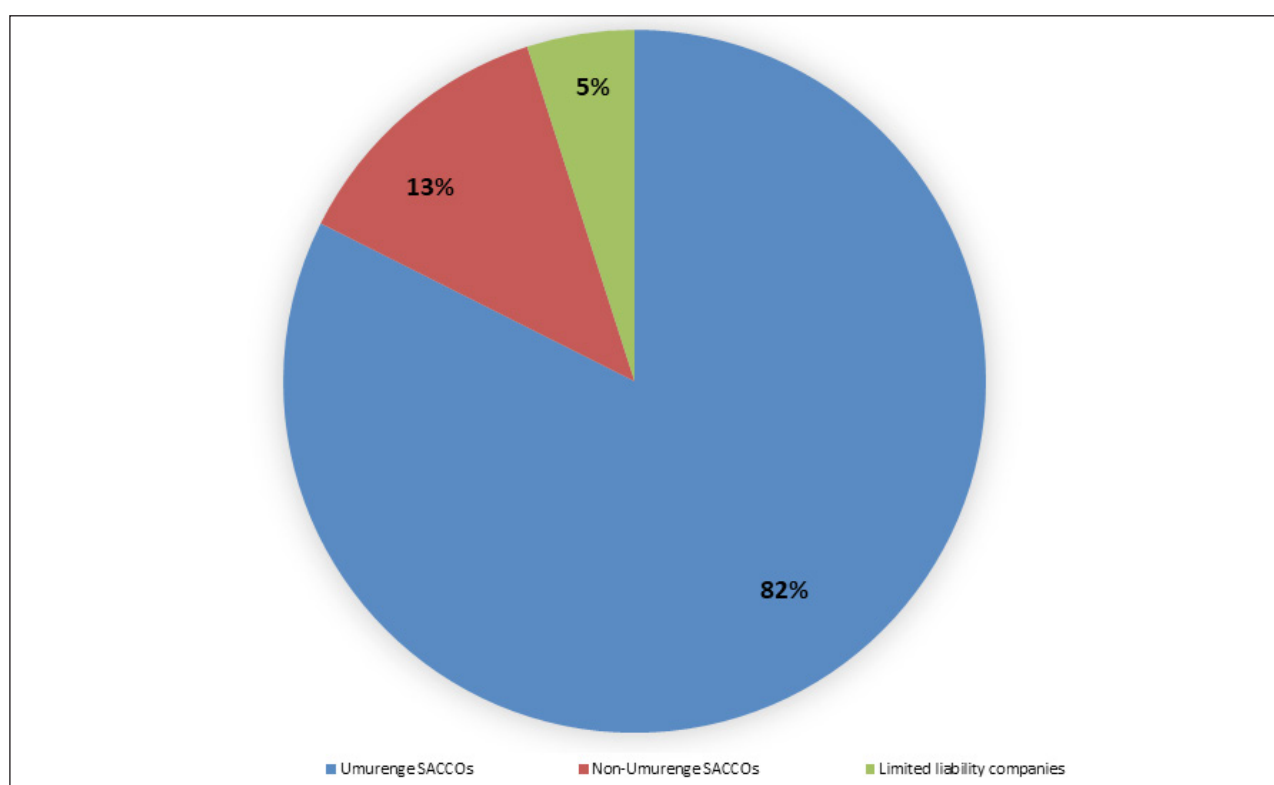
| Level of implementation | Score |
|---|-------|
| The institution is not aware of this requirement in the code of conduct | 0 |
| The institution is aware of the requirement but will not implement this clause of the CoC. | 1 |
| The institution sees the value to implement this clause of the CoC, but has no clear plan to do so (the institution has not yet considered how to implement this clause of the CoC) | 2 |
| The institution has already begun planning for or piloting the implementation of this clause of the CoC (e.g., a strategy exists) but it is still far from full compliance. | 3 |
| The institution partially implements this clause of the CoC (some components are not yet in place, or there is no documentation/evidence about how it is implemented). | 4 |
| The institution currently implements all the components of this clause in the CoC, and this implementation is well documented and verifiable. | 5 |

Data entry was conducted by two of the data collectors, using a simple Excel spreadsheet. The analysis was performed by AMIR staff.

The sample

All types of institutions were included in the sample. The team sampled 186 institutions (53% of AMIR membership and 40% of the microfinance sector) around the country, using purposeful sampling method: Umurenge SACCOs were selected per district (5 SACCOs per district); while all other institutions were directly targeted by data collectors. As a result, 24 non-Umurenge SACCOs were sampled (100%), and only 9 limited companies accepted to be interviewed (45% of the total market segment). A list of participating MFIs can be found in Annex 2.

Figure 1: Sampled institutions per legal status category (n=186)



Findings

1. Overall Self-reported Performance

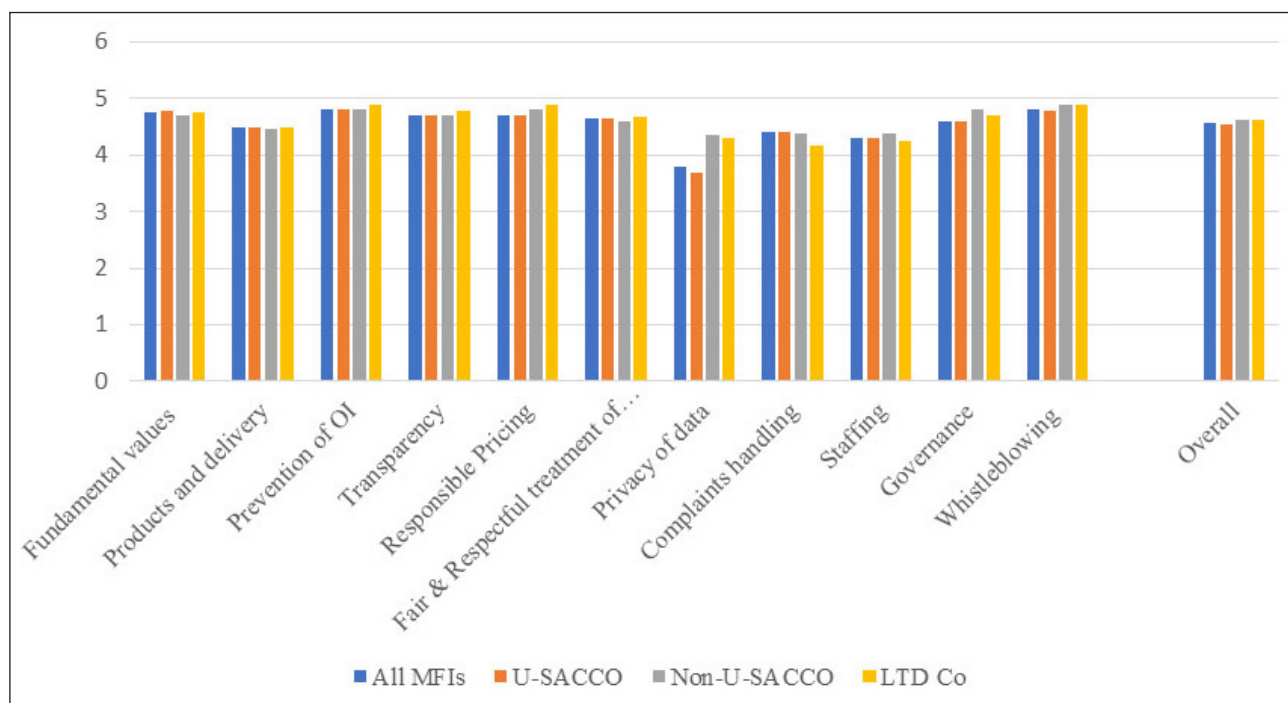
All the scores in the reports are self-reported, without any verification or assessment by a third party. The overall average score derived from MFI responses was 4.56 over 5, showing MFIs high confidence that they are compliant with the industry code of conduct. MFIs indicated however that privacy of client data, more specifically putting in place policies and mechanisms to protect client's data, was the area that they were having the biggest challenge. Figure 3 below summarizes some key scores and areas where the different types of MFIs felt they were the strongest and the weakest, in terms of CoC implementation. All scores are out of 5.

Table 2: Summary self-assessment results

| Performance | Overall | Umurenge SACCOs | Non-Umurenge SACCOs | Microfinance Companies (Ltd CO) |
|------------------|-------------------------------|--|-------------------------------|--|
| Average score | 4.56 | 4.54 | 4.63 | 4.62 |
| Weakest (Area) | 3.8 Privacy | 3.7 Privacy | 4.35 Privacy | 4.17 Complaints handling |
| Strongest (Area) | 4.8 Whistle-blowing policy | 4.8 Prevention of Over-indebtedness | 4.9 Whistle-blowing policy | 4.89 Prevention of Over-indebtedness Responsible pricing Whistle-blowing policy |

Ninety seven percent (96.7%) of the MFIs in the sample claimed achievements that correspond to reaching more than 75% of the total possible points¹, with 90% of the institutions having total points larger than 148 (the range between partial and full compliance with all the indicators, i.e., a score of 4 or more). For only 13 institutions (all of which are Umurenge SACCOs) did we have self-reported achievements that have led to an average score lower than 4.

Figure 2: Average score per CoC component and per MFI category (n=186)



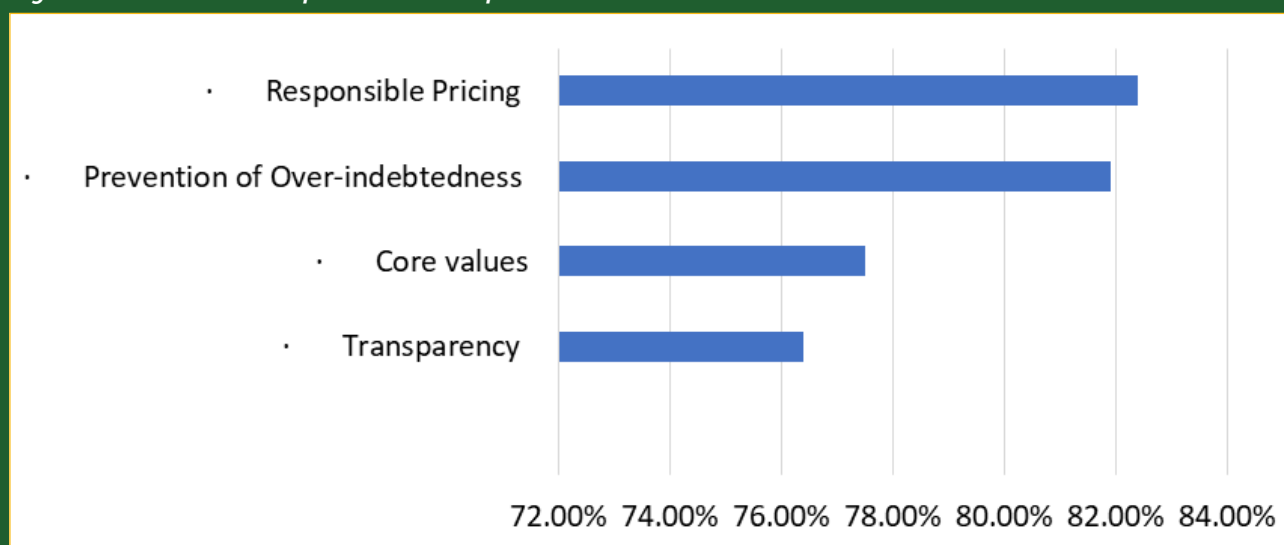
1 The maximum score is 185, i.e., 37 (number of indicators) * 5.

2. Strengths and weaknesses

Areas of the CoC where many of the sampled institutions self-reported to be fully compliant with the clauses include:

- Responsible Pricing (150 institutions or 82.4%)
- Prevention of Over-indebtedness (149 institutions or 81.9%)
- Core values (141 institutions, or 77.5%)
- Transparency (139 institutions, or 76.4%)

Figure 3: Areas of self-reported full compliance



MFIs recognized lower levels of achievement in the area of privacy of clients' data (particularly on "privacy policy and appropriate technology systems for gathering, processing, using and storing client information in a secure manner"), where the average score was 3.8 out of 5. Indeed, only 80 MFIs reported to be fully compliant with this requirement (44%). Many MFIs, including 24 Umurenge SACCOs, reported that they did not know how to comply, while many others have not yet planned to comply with this requirement (e.g. 67 Umurenge SACCOs -37% of the sample-reported that they did not have a plan to comply with the requirement).

From MFI responses, we can see the following other areas where improvement is needed for better compliance with the CoC:

- training staff on complaints handling, putting in place complaints resolution systems and ensuring that they are actively used and effective (average score:3.9).
- putting in place human resources and financial procedure manuals to regulate and guide staff recruitment, evaluation, salaries, retention and dismissal so that both parties (employer and employee) are at the same level of understanding on the purposes and consequences of application of those procedures (average score: 3.9).

The following sections provide a detailed analysis by category of institution in the sample.

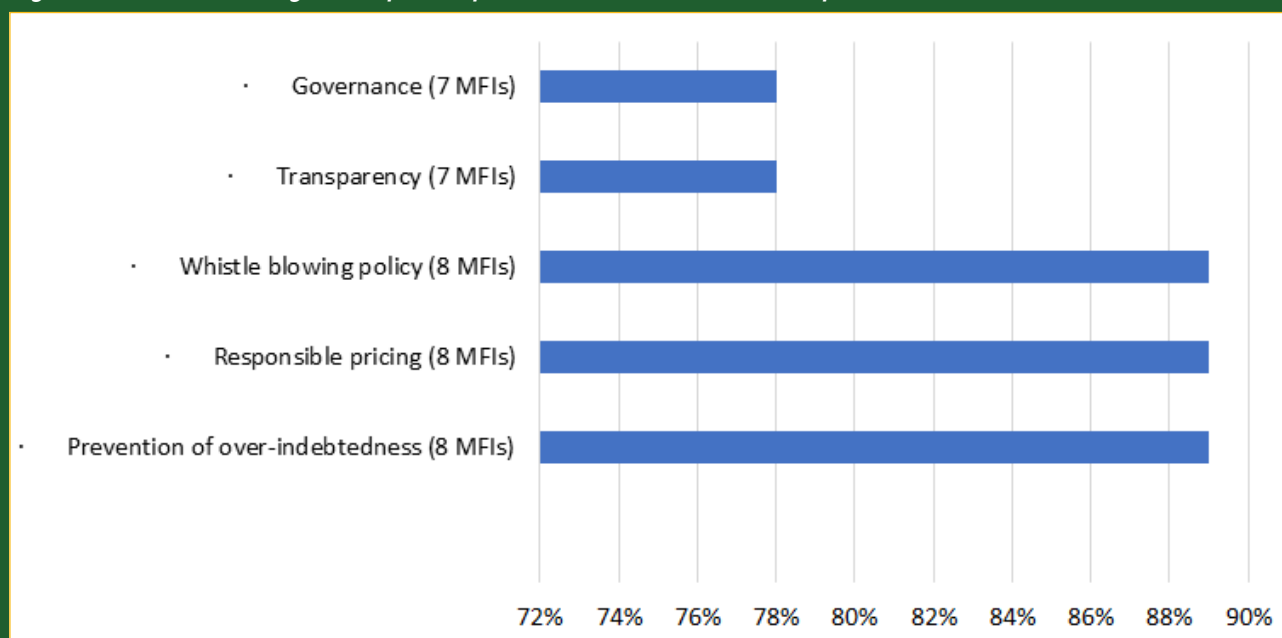
2.1. Microfinance companies

The average score per institution in the Limited liability company category is 4.62 out of 5. The lowest score is 4.35, while the highest is 4.92. All the institutions in this category have provided responses that led to scores that put them above the 75% threshold set by AMIR as a target.

From their self-assessment, areas of strengths that microfinance companies reported include:

- Prevention of over-indebtedness (8 MFIs, 89%);
- Responsible pricing (8 MFIs, 89%);
- Whistle blowing policy (8 MFIs, 89%);
- Transparency (7 MFIs, 78%);
- Governance (7 MFIs, 78%).

Figure 4: Areas of strong self-reported performance for Limited companies.



The companies' self-assessment shows them as being on top of most of the requirements in the CoC. Only one institution reported that they had not yet planned to put in place mechanisms that ensure that they comply with all laws and regulations, including AMIR CoC.

Areas in which microfinance companies reported being less compliant include staffing practices (only 4 institutions report full compliance-44%); and complaints handling (only 3 institutions report full compliance =33%).

In a nutshell, there is a need to push for full compliance in all microfinance companies in the following areas:

- put in place human resources and financial procedure manuals to regulate and guide staff recruitment, evaluation, salaries, retention and dismissal so that both parties (employer and employee) are at the same level of understanding on the purposes and consequences of application of those procedures (only 1 MFI reports full compliance);

- ensure that clients are aware of their right to complain and give feedback and know how to file complaints (only 2 MFIs report full compliance);
- train staff on complaints handling, put in place complaints resolution systems and ensure that they are actively used and effective (only 2 MFIs report full compliance).

2.2. Non-Umurenge SACCOs

The average score in this category is 4.63. Individual scores per MFI range from a low of 3.49, and a high of 5, based on statements made by MFIs during the interviews. Only one institution is under AMIR's threshold of 75% compliance target with a score of 3.49.

Non-Umurenge SACCO viewed themselves as having high levels of compliance in the areas of governance and whistle blowing policy (22 report full compliance in each, or 96%). They said they were also doing well in prevention of over-indebtedness and responsible pricing, with 20 institutions or 87% reporting full compliance with the indicators in those components.

However, non-Umurenge SACCOs responses show that they need to improve on the following areas:

- train staff on complaints handling, put in place complaints resolution systems and ensure that they are actively used and effective (only 10 MFIs report full compliance -43%);
- explore other unserved and underserved areas for expansion, avoiding areas that are already adequately served (only 11 MFIs report full compliance -48%);
- put in place human resources and financial procedure manuals to regulate and guide staff recruitment, evaluation, salaries, retention and dismissal so that both parties (employer and employee) are at the same level of understanding on the purposes and consequences of application of those procedures (only 11 MFIs report full compliance -48%).

2.3. Umurenge SACCOs

The average score derived from responses in this category is 4.54; from a low of 3.38 and a high of 5. In this category, 13 institutions (8.8%) did not meet AMIR target of 75% compliance.

From their responses, areas where Umurenge SACCOs' efforts should be concentrated in terms of improvement include:

- a privacy policy and appropriate technology systems for gathering, processing, using and storing client information in a secure manner (score:3);
- train staff on complaints handling, put in place complaints resolution systems and ensure that they are actively used and effective (score: 3.9);
- put in place human resources and financial procedure manuals to regulate and guide staff recruitment, evaluation, salaries, retention and dismissal so that both parties (employer and employee) are at the same level of understanding on the purposes and consequences of application of those procedures (3.85).

Comparing to Mystery Shopping

Mystery shopping is a tool used externally by market research companies and watchdog organizations, or internally by companies themselves, to measure quality of service or compliance with regulation, or to gather specific information about products and services. It involves sending customers to a business (in our case a financial service provider) to simulate a typical customer inquiry in order to determine whether customers' actual experiences are as intended. It thus helps measure the true experiences and challenges consumers face in acquiring quality services and whether employees are following company procedures or compliance practices, and according to customer expectations.

AMIR has been conducting quarterly mystery shopping exercises using local graduates that have been trained as mystery shoppers, to conduct onsite visits at branches of various AMIR members. AMIR issues semiannual reports on finding from these exercises.

AMIR's mystery shopping covers less areas than the CoC compliance self-assessment tool, dealing with 5 out of the seven CPPs: prevention of overindebtedness, transparency, fair treatment, data privacy, and complaint resolution mechanisms.

For the semester closest to the MFIs reporting on compliance with the code of conduct, i.e., October 2018 to March 2019, AMIR's mystery shopping shows much lower achievements than those claimed by the MFIs in the areas they have in common, as can be seen in the following figures. Since the CoC compliance tool scores out of 5 while the mystery shopping tool scores out of 4, we are converting the scores to percentages in order to be able to compare the results (e.g.: 3.4 out of 5= 68% and 3.4 out of 4 = 85%).

Also, the mystery shopping included one bank. We excluded its scores in our analysis in order to compare similar institutions.

Table 3: Comparison of self-reported and mystery shopping results

| | Overall | |
|---------------------------------|-------------------|------------------|
| | CoC Self-reported | Mystery Shopping |
| Prevention of overindebtedness | 96% | 58% |
| Transparency | 94% | 64% |
| Fair treatment | 93% | 58% |
| Data privacy | 76% | 66% |
| Complaint resolution mechanisms | 88% | 69% |

We can see a big gap between what MFI leaders believe is happening within their institutions (self-reported column) and what customers are experiencing when they seek services from the institutions. This could mean that the leaders are overstating their achievements when they report to AMIR or that the instructions they have given to their employees and colleagues and the rules of the institutions are not being followed to the letter.

An analysis of discrepancies between self-reporting and mystery shopping shows that they exist in all types of institutions, not just the smallest ones.

Table 4: Comparison of self-reported and mystery shopping results per category of MFIs

| CoC Self-reported | | | |
|---------------------------------|-----------------------|---------------------------|-------------------------------|
| | Umurenge SACCO | Non-Umurenge SACCO | Microfinance Companies |
| Prevention of Over-Indebtedness | 96% | 96% | 98% |
| Transparency | 94% | 94% | 96% |
| Fair Treatment of Clients | 93% | 92% | 93% |
| Privacy | 74% | 87% | 86% |
| Complaints Resolution | 88% | 88% | 83% |
| Mystery Shopping | | | |
| | Umurenge SACCO | Non-Umurenge SACCO | Microfinance Companies |
| Prevention of Over-Indebtedness | 57% | 46% | 70% |
| Transparency | 63% | 64% | 65% |
| Fair Treatment of Clients | 63% | 53% | 58% |
| Privacy | 65% | 60% | 74% |
| Complaints Resolution | 63% | 72% | 72% |

Way Forward

This survey pinpointed areas where AMIR needs to strengthen communication with members to increase awareness, and possibly provide technical assistance in implementing some provisions in the code of conduct. In general, there is a need to strengthen:

- Capacity of staff to be able to understand the content of the CoC and comply with it. This includes putting in place human resource development policies and training staff.
- Understanding of the industry code of conduct compliance self-assessment exercise, in order to ensure that MFIs provide accurate information, thus helping AMIR decide on necessary products and services to offer member in order to help them comply better with the endorsed code of conduct;
- Privacy of client’s data, particularly in SACCOs;
- Mechanisms for complaints handling;

Any intervention to improve compliance with the code of conduct should be tailored to the needs of the target institutions, as the analysis demonstrated that SACCOs, non-Umurenge SACCOs and limited companies have each their own challenges, different from those of the other categories.

The next survey will take place in 2020, to compare with results in this report, which is considered a baseline.

Annex: Tool Used for Data Collection

| | | The institution is not aware of this requirement in the code of conduct (0) | The institution is aware of the requirement but will not implement this clause of the CoC (2) | The institution sees the value to implement this clause of the CoC, but has no clear plan to do so (3) | The institution has already begun planning for the implementation of this clause of the CoC but it is still far from full compliance (4). | The institution partially implements this clause of the CoC (4) | The institution currently implements all the components of this clause in the CoC, and this implementation is well documented and verifiable (5). |
|---|----|---|---|--|---|---|---|
| | | | | | | | |
| | | | | | | | |
| We are committed to being honest and ethical in our relationships with customers and other stakeholders | 1 | | | | | | |
| We provide to low income customers—women, men, boys and girls—financial and non-financial services that are demand-driven, properly addressing their needs and enhancing their wellbeing. | 2 | | | | | | |
| We provide to our clients complete and accurate information. | 3 | | | | | | |
| We are committed to fair practices, which balance respect for clients' dignity and an understanding of their vulnerable situation. | 4 | | | | | | |
| We safeguard clients' personal information | 5 | | | | | | |
| We provide to our clients formal and informal channels for their feedback and suggestions and consistently assess the impact of their services | 6 | | | | | | |
| | | | | | | | |
| We design products that are appropriate to clients' needs and do not harm. | 7 | | | | | | |
| We proactively seek client feedback on products and delivery channels, investigate drop-outs. | 8 | | | | | | |
| We use that information to develop new products or to improve existing ones. | 9 | | | | | | |
| We do not use aggressive sales techniques | 10 | | | | | | |
| | | | | | | | |
| We conduct appropriate client repayment capacity analysis before disbursing a loan | 11 | | | | | | |
| We systematically report to and use data from the credit bureau. | 12 | | | | | | |
| We make sure that the management and Board are aware of and concerned about the risk of over-indebtedness and monitor it. | 13 | | | | | | |
| | | | | | | | |
| We fully disclose to clients cost and non-cost information. | 14 | | | | | | |
| We raise the client's awareness of the options, choices and responsibilities in financial relations with other MFIs. | 15 | | | | | | |
| We use a variety of disclosure mechanisms, to communicate clear and accurate information about our products. | 16 | | | | | | |

| | | | | | | | |
|--|----|--|--|--|--|--|--|
| We offer market-based, non-discriminatory pricing. | 17 | | | | | | |
| We strive to have efficiency ratios aligned with our peers. | 18 | | | | | | |
| We do not charge excessive fees and we strive to maintain our pre-payment penalties, account closure fees, transaction fees or other penalties at a reasonable level. | 19 | | | | | | |
| We implement policies to promote ethics and prevent fraud and make efforts to inform clients of their rights. | 20 | | | | | | |
| We define in specific details what we consider to be appropriate debt collection practices to avoid endorsing a policy of zero tolerance for PAR. | 21 | | | | | | |
| Our human resources policies are aligned around fair and responsible treatment of clients. | 22 | | | | | | |
| We implement policies to promote ethics and prevent fraud including staff, performance evaluation procedures, describing sanctions in case of violations of the code of conduct, and putting in place mechanisms to monitor practices. | 23 | | | | | | |
| We make necessary efforts to inform clients of their rights. | 24 | | | | | | |
| We have a privacy policy and appropriate technology systems for gathering, processing, using and storing client information in a secure manner. | 25 | | | | | | |
| We inform clients about when and how their data is shared and get their consent. | 26 | | | | | | |
| We ensure that our clients are aware of their right to complain, give feedback and how to file complaints. | 27 | | | | | | |
| We train our staff on complaints handling | 28 | | | | | | |
| We put in place complaints resolution systems and ensure that they are actively used and effective. | 29 | | | | | | |
| We use client feedback to improve practices and products. | 30 | | | | | | |
| We strive to ensure that we recruit skilled and qualified personnel | 31 | | | | | | |
| We have a framework of procedures and management controls to ensure employee adherence to AMIR code of conduct. | 32 | | | | | | |
| We continuously build the capacity of our staff to enable them to effectively implement and abide by the letter and spirit of AMIR Code of Conduct. | 33 | | | | | | |
| We strive to ensure that we are never at fault with the laws and regulations related to microfinance, or other laws that are in force in Rwanda, including AMIR Code of Conduct. | 34 | | | | | | |
| We observe high standards of governance, ensuring fairness, integrity and transparency by inducting persons with good and sound reputation and understanding of microfinance as members of the Board of Directors. | 35 | | | | | | |
| We maintain transparency in keeping our books of accounts and reporting/presentation and disclosure of financial statements by qualified auditor(s). | 36 | | | | | | |
| We ensure that any person or AMIR member is entitled to report an incident of improper conduct by us or any other AMIR member to AMIR Reconciliation Committee. | 37 | | | | | | |



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