



The Client Protection Principles in Microfinance

The Client Protection Principles for microfinance and the accompanying Campaign for Client Protection in Microfinance are part of a collaborative initiative endorsed and led by a broad coalition of microfinance institutions (MFIs), networks, funders, and practitioners. The purpose of the Campaign, which is housed at the Center for Financial Inclusion, and the Principles is to ensure that providers of financial services to low-income populations take concrete steps to protect their clients from potentially harmful financial products and ensure that they are treated fairly. There is now broad consensus that it is critical for the industry to join together and proactively safeguard the interests of microfinance clients through appropriate policies, practices, and products. As the Campaign gains momentum, MFIs that have embedded the principles into their core business activities will have a competitive advantage—not just with clients but with investors, donors, governments, and policy makers.

What are the Client Protection Principles?

The Client Protection Principles describe the minimum protection microfinance clients should expect from providers. These Principles are distilled from the path-breaking work of providers, international networks, and national microfinance associations to develop pro-consumer codes of conduct and practices. While the Principles are universal, meaningful and effective implementation will require careful attention to the diversity within the provider community and conditions in different markets and country contexts. Over the past several years, consensus has emerged that providers of financial services to low-income clients should adhere to the following six core principles:

- **Avoidance of Over-Indebtedness.** Providers will take reasonable steps to ensure that credit will be extended only if borrowers have demonstrated an adequate ability to repay and loans will not put borrowers at significant risk of over-indebtedness. Similarly, providers will take adequate care that noncredit, financial products (such as insurance) extended to low-income clients are appropriate.
- **Transparent Pricing.** The pricing, terms, and conditions of financial products (including interest charges, insurance premiums, all fees, etc.) will be transparent and will be adequately disclosed in a form understandable to clients.
- **Appropriate Collections Practices.** Debt collection practices of providers will not be abusive or coercive.
- **Ethical Staff Behavior.** Staff of financial service providers will comply with high ethical standards in their interaction with microfinance clients and such providers will ensure that adequate safeguards are in place to detect and correct corruption or mistreatment of clients.
- **Mechanisms for Redress of Grievances.** Providers will have in place timely and responsive mechanisms for complaints and problem resolution for their clients.
- **Privacy of Client Data.** The privacy of individual client data will be respected, and such data cannot be used for other purposes without the express permission of the client (while recognizing that providers of financial services can play an important role in helping clients achieve the benefits of establishing credit histories).

What does endorsement mean?

Institutions and individuals that endorse the Client Protection Principles are committing to be a part of an industry-wide process to translate the Principles into standards, policies, and practices appropriate for different types of microfinance clients, products, providers, and country contexts.

By endorsing these Principles, **providers of financial services, networks, and individuals working in microfinance** are committing to a process of implementation of the principles into their own organization's operations and institutional culture. For MFIs, it begins with an examination of their own practice to identify areas for improvement and active promotion of the principles to staff. For networks, endorsement is a commitment to engage with its affiliated organizations to promote and support the Campaign and Coalition and to implement the principles. Individuals endorsing the Campaign are signaling their intention to honor the principles personally and to work within their own organizations to implement them.

Donors and investors also play an important role in ensuring the success of this initiative. By endorsing the principles, investors and donors commit to work to support providers that adequately protect their low-income clients, and to identify practical ways of incorporating the Client Protection Principles into their due diligence, monitoring, and governance roles.

To learn more about the Campaign for Client Protection in Microfinance, visit www.campaignforclientprotection.org where you can become an endorser of the Principles and sign up for email updates on the Campaign.

For additional information:

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