TRAINER'S GUIDE

OFFERING YOUTH

FINANCIAL AND NON-FINANCIAL SERVICES

MODULE IV: CLIENT PROTECTION PRINCIPLES FOR YOUTH

The MasterCard Foundation

REACH GLOBAL

UNCDF Microfinance • Capital Development

July 2013

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This Trainer's guide is largely based on a training designed and delivered by Reach Global in March 2012. For information on Reach Global's programmes, training and curriculum design services, please contact:

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YouthStart, a UNCDF programme in partnership with The MasterCard Foundation, aims to reach 200,000 youth in sub-Saharan Africa with demand-driven financial services and non-financial services, in particular savings and financial education, by 2014. As of December 2012, US$7.8 million has been awarded to ten financial service providers. Of that amount, US$3.2 million has so far been disbursed to design, deliver and scale up demand-driven youth financial services and youth-centric programmes in partnership with youth serving organizations. For more information, visit http://www.uncdf.org/YouthStart/.

UNCDF is the UN's capital investment agency for the world's 49 least developed countries. It creates new opportunities for poor people and their communities by increasing access to microfinance and investment capital. UNCDF focuses on Africa and the poorest countries of Asia, with a special commitment to countries emerging from conflict or crisis. It provides seed capital—grants and loans—and technical support to help microfinance institutions reach more poor households and small businesses, and local governments finance the capital investments—water systems, feeder roads, schools, irrigation schemes—that will improve poor peoples' lives. UNCDF programmes help to empower women, and are designed to catalyze larger capital flows from the private sector, national governments and development partners, for maximum impact toward the Millennium Development Goals. For more information, see http://www.uncdf.org/.

The MasterCard Foundation is an independent, global organization based in Toronto, Canada, with more than $6 billion in assets. Through collaboration with partner organizations in 49 countries, mostly in Africa, it is creating opportunities for all people to learn and prosper. The Foundation's programs promote financial inclusion and advance youth learning. Established in 2006 through the generosity of MasterCard Worldwide when it became a public company, the Foundation is separate and independent from the company. Its policies, operations, and funding decisions are determined by its own Foundation Board of Directors and President and CEO. For more information on the Foundation, please visit www.mastercardfdn.org.

Reach Global equips millions of very poor girls and women with the knowledge and skills to activate their most powerful asset—themselves. Reach designs life changing education on health, livelihoods, and family finance, and replicates its delivery in the world's poorest communities. Today, Reach Global supports more than 1.5 million poor girls and women who come together regularly in savings groups to save and find solidarity and solutions to their daily problems. For more information, please go to www.reach-global.org.

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TRAINER'S GUIDE

PREFACE

UNCDF launched YouthStart with the support of The MasterCard Foundation in 2010. YouthStart supports strong financial service providers (FSPs) in developing, piloting and rolling out youth-focused financial products, especially savings, and non-financial services such as financial-literacy or reproductive-health education. Through YouthStart, UNCDF aims to increase financial inclusion for at least 200,000 youth, between 12 and 24 years of age, and to demonstrate that (a) when accessing the right combination of financial and non-financial services, youth—young women and girls in particular—are better equipped to make more informed financial decisions, build financial assets (e.g., savings), social assets (e.g., social networks) and human assets (e.g., skills and knowledge) for their futures and create sustainable livelihoods; and (b) youth financial services contribute to increasing outreach and sustainability of FSPs over time.

As of December 2012, UNCDF-YouthStart has awarded US$7.8 million (of which US$3.2 million have been disbursed) to ten FSPs in eight different countries in Africa. Through their pilot tests, these FSPs have provided financial services to 114,360 youth and financial education to 64,418 youth (of which 40 percent are young women and girls). These early and promising outreach figures position UNCDF to almost double the programme's initial outreach projections.

One of the key target outcomes of YouthStart is to strengthen the capacity of FSPs participating in the programme so that they are better equipped to serve the youth market. To this end, UNCDF-YouthStart delivers an annual training to address key technical assistance needs of the FSPs.

For the benefit of other FSPs and organizations interested in targeting youth, UNCDF-YouthStart decided to compile and publish this series of Trainer's guides. The goal is to facilitate the replication of the trainings and to help other FSPs understand key issues, train staff and launch youth-oriented services. Having satisfactorily tested the Trainer's guides with all ten YouthStart partners in eight different African countries, the team was reassured the guides would also be useful for a wider audience.

These Trainer's guides are specifically designed for:

- FSPs that may or may not be offering financial and non-financial services to young clients and that would like to explore an adapted approach to serving youth; and,
- Technical assistance providers supporting FSPs to start offering youth financial and non-financial services.

As of January 2013, this series of Trainer's guides comprised four modules, each covering an essential aspect of providing financial and non-financial services to youth.[1] Each module is relevant at a specific phase of product development, as described in the table 'Relevance of Trainer's guide series.'

1 UNCDF-YouthStart will continue providing annual training in 2013 and 2014. Therefore, this series of Trainer's guides will be further complemented with new modules related to future trainings.

RELEVANCE OF TRAINER'S GUIDE SERIES		
Phase	**Module**	**Purpose**
Start up	Youth Development Programming	To help FSPs to design specifically youth-oriented programmes
	Pilot Testing Youth Financial Services	To help FSPs to design and implement pilot tests for the youth financial services they will offer
	Integration of Youth Financial and Non-financial Services	To help FSPs to integrate financial and non-financial services for youth and to monitor the quantity and quality of the non-financial services being delivered by their institutions and/or partner institutions
Pilot test	Client Protection Principles for Youth	To equip FSPs to apply The Smart Campaign's client protection principles and the Child and Youth Finance International certification criteria to their products for young people
Roll out	Monitoring Quality[a]	To help FSPs to collect data to monitor and evaluate the roll out of their youth programmes

a this training is programmed for 2013 but has not yet been implemented.

Depending on its specific needs, an FSP can choose to train its staff in all four modules or on specific ones.

The ideal people from an FSP to participate in this series of trainings include, at least:

- An internal champion of youth financial services;
- A person from senior management; and,
- Heads of pilot test branches.

The ideal trainers to conduct this training, 'Client Protection Principles for Youth,' are those who:

- Have experience in youth programming and youth finance;
- Are committed to child/youth protection;
- Are comfortable with non-formal education methods and principles;
- Have experience in group facilitation; and,
- Will be able to deliver the content and methods contained in this Trainer's guide accurately and with confidence.

This training should preferably be conducted once the FSP has already started offering youth services. Although UNCDF encourages an institutional approach to client protection, it aims with this training to help the FSP intentionally targeting youth to apply The Smart Campaign's client protection principles and the Child and Youth Finance International (CYFI) certification criteria to its products for young people. This training covers the six original Smart client protection principles, rather than the seven updated Smart client protection principles. To help the FSP apply the principles and criteria, this training guides the FSP in using a self-assessment questionnaire—this is a first version of the tool, and a new version that is consistent with the seven principles and certification standards will be forthcoming.

Participation in this training assumes that the FSP already works with youth and has youth-focused products and services in its portfolio.

The content of the module should be adapted in advance to the specific context of the training audience to ensure it is relevant and easy to understand. Context matters.

OVERVIEW OF THE TRAINER'S GUIDE

This module, 'Client Protection Principles for Youth,' provides a user-friendly guide to equip FSPs to apply The Smart Campaign's client protection principles and the CYFI certification criteria to their products for young people. Through practical adult learning, trainees learn about the following principles, adapted by UNCDF-YouthStart, for use by FSPs offering youth financial services:

CLIENT PROTECTION PRINCIPLES FOR YOUTH[2]

1. Avoiding over-indebtedness

2a. Transparent pricing

2b. Responsible pricing

3. Appropriate collection practices

4. Ethical staff behaviour

5. Complaints handling and resolution

6. Privacy of client data

7. CYFI certification criteria

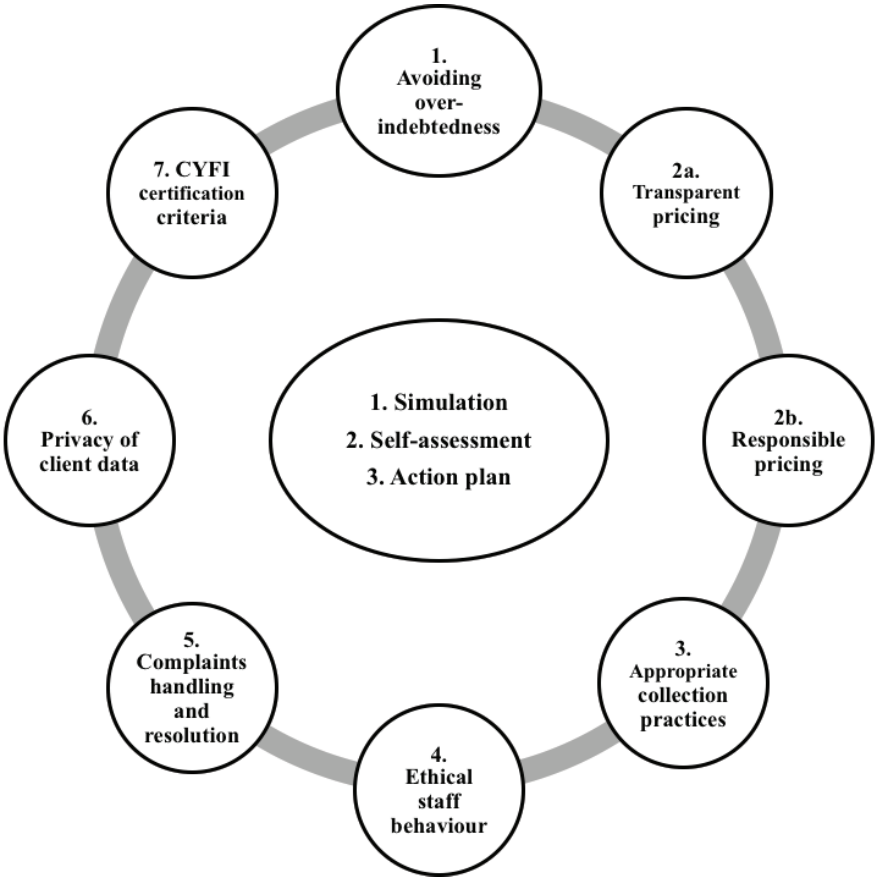
In particular, by the end of this training, trainees will have:

- Assessed pricing of their youth products and ensured they are aligned with The Smart Campaign's client protection principles and the CYFI certification criteria;
- Revised their youth products' promotion and sale processes to ensure they include The Smart Campaign's client protection principles and the CYFI certification criteria;
- Revised their account-opening processes and materials (e.g., application forms) to ensure alignment with The Smart Campaign's client protection principles and the CYFI certification criteria;
- Revised other procedures for all points of contact with youth clients (e.g., deposits, withdrawals, payments, complaints) and ensured alignment with The Smart Campaign's client protection principles and the CYFI certification criteria; and
- Developed an action plan to ensure that lessons and outcomes of the training are disseminated within participating FSPs and that The Smart Campaign and CYFI principles are applied throughout all points of contact with youth clients.

The sequence and broad structure of the training ensures participant engagement and provides practical tools and approaches for applying the content in the figure 'Workshop framework.'

2 This document covers the six original Smart client protection principles, rather than the seven updated Smart client protection principles. To help the FSP apply the principles and criteria, this training guides the FSP in using a self-assessment questionnaire—this is a first version of the tool, and a new version that is consistent with the seven principles and certification standards will be forthcoming.

WORKSHOP FRAMEWORK



The specific topics to be addressed during this module as well as the objectives of each topic are listed in the table 'Module IV: Client Protection Principles for Youth.' The activities are presented in a sequential way that takes into consideration adult-learning methodology and that simplifies each principle to ease understanding. A self-assessment questionnaire completed by the trainees throughout the activities mirrors each principle and enables trainees to assess the current performance of their FSP in the application of Client protection principles for youth.

MODULE IV: CLIENT PROTECTION PRINCIPLES FOR YOUTH	
Activity	**Objectives** *By the end of this activity, trainees will have:*
1. Introduction to the training	▪ Introduced themselves and their FSPs. ▪ Reviewed the expectations, objectives, framework and norms for the training.
2. Introduction to Client protection principles for youth	▪ Familiarized themselves with the Client protection principles for youth.
3. Client protection principle for youth 1—Avoiding over-indebtedness	▪ Identified causes and effects of over-indebtedness on youth clients. ▪ Assessed the application of principle 1 using a scenario. ▪ Assessed the application of principle 1 in their youth products.

MODULE IV: CLIENT PROTECTION PRINCIPLES FOR YOUTH	
Activity	**Objectives** *By the end of this activity, trainees will have:*
4. Client protection principle for youth 2a—Transparent pricing	▪ Discussed how a lack of transparency affects youth clients and FSPs.
5. Client protection principle for youth 2b—Responsible pricing	▪ Discussed implications of loan costing and pricing methods. ▪ Assessed the application of principles 2a and 2b using a scenario. ▪ Assessed the application of principles 2a and 2b in their youth products.
6. Client protection principle for youth 3—Appropriate collection practices	▪ Distinguished between good and bad collection practices. ▪ Assessed the application of principle 3 using a scenario. ▪ Assessed the application of principle 3 in their youth products.
7. Client protection principle for youth 4—Ethical staff behaviour	▪ Identified youth-specific best practices for ethical staff behaviour. ▪ Assessed the application of principle 4 using a case study. ▪ Assessed the application of principle 4 in their youth products.
8. Client protection principle for youth 5—Complaints handling and resolution	▪ Identified how dissatisfied youth clients affect the FSP and the importance of resolving client complaints. ▪ Assessed the application of principle 5 using a scenario. ▪ Assessed the application of principle 5 in their FSP.
9. Client protection principle for youth 6—Privacy of client data	▪ Identified good practices for maintaining privacy of client data. ▪ Assessed the application of principle 6 using a scenario. ▪ Assessed the application of principle 6 in their youth products.
10. Client protection principle for youth 7—CYFI certification criteria	▪ Familiarized themselves with the main themes of the CYFI certification criteria. ▪ Assessed the application of principle 7 using a scenario. ▪ Assessed the application of principle 7 in their youth products.
11. Action planning and wrap-up	▪ Developed an action plan for their FSP. ▪ Read and commented on the action plans of their peers. ▪ Revisited workshop objectives, framework, principles and indicators of good practice.

IMPLEMENTATION

This Trainer's guide contains 11 learning activities that are designed to be delivered together over a two-and-a-half-day or three-day period. Each activity takes between 35 and 115 minutes to complete and contains between two and four separate steps.

To facilitate scheduling, the activities can be paused after any step to allow for tea/coffee breaks, lunch breaks and for the end of the day.

WORKSHOP PREPARATION CHECKLIST

- ✔ Reliable electricity
- ✔ A U-shaped table for large-group activities
- ✔ Small tables (round or square) for break-out activities
- ✔ Ample wall space for flip charts and posters
- ✔ An LCD projector
- ✔ At least two flip-chart stands

The training was designed for 30 trainees, but it can easily be adapted for a smaller number. It is important to prepare the items listed in the box 'Workshop preparation checklist' in advance of the workshop to ensure that the workshop venue is effective for the training.

PREPARATION

Each activity begins with an information box that contains a summary of the objectives and necessary preparations to conduct the activities. Review this information carefully. The 'Preparation' section contains a list of materials needed for each activity. Have these materials ready before the activity begins.

Also note the following: two of the activities have instructions in the information box that prompt the trainer to contact the trainees several weeks before the training in order to complete a number of tasks. First, Activity 1 has instructions in the information box that prompt the trainer to contact the trainees several weeks before the training in order to distribute and collect the 'Learning needs and resources assessment (LNRA)' that is found in the 'Resource materials' section. The trainer should use the results of the LNRA to assess trainees' knowledge of the topic previous to the training and to modify the activities and/or materials in this Trainer's guide as appropriate. Second, Activity 10 has instructions in the information box that prompt the trainer to ask trainees to bring certain materials to the training.

Other important information about the Trainer's guide is as follows:

- Handouts are listed in the information box, and there are instructions in the text of each activity about when to distribute them. The handouts are located in the 'Resource materials' section. They are numbered first by activity and then by place in the activity (1.1, 1.2, etc.). For example, a handout labelled 3.4 is found in Activity 3 and is the fourth handout used in that activity.
- The detailed steps for each activity are listed following the information box. Please conduct the activity following the steps provided. Use your own words to explain each point, being careful to cover all of the steps in order, if possible.
- There are a variety of additional features written into the text and embedded in the format of each activity. The intention is to give the trainer written signals that make the delivery of the activity easier. The box 'Additional features of the Trainer's guide activities' summarizes the features.

ADDITIONAL FEATURES OF THE TRAINER'S GUIDE ACTIVITIES

- *Italic font* = instructions for the trainer. (Do not read this text to the trainees.)
- Regular font = specific information or instructions for the trainer to read or closely paraphrase to the trainees.
- Arrow (❯) = specific open questions for the trainer to ask trainees. (Deliver this text as it is written.)
- [Brackets] = suggested answers to questions.
- (Parentheses) = additional instructions or technical information for the trainer.

Finally, the box 'Important principles to remember' provides some important principles and practices of adult learning to keep in mind during each activity. It is important to use the interactive and fun games and activities outlined in the steps so that you can reinforce lessons and provide trainees with a model for when they deliver their own non-financial services.

IMPORTANT PRINCIPLES TO REMEMBER

- Create a safe learning environment where trainees are free to explore and test their ideas and attitudes, as well as practice new skills.
- Give feedback to the trainees and affirm their efforts.
- Ensure the relevance of the content by supporting trainees' efforts to link new content with their own knowledge and experience in the topics.
- Respect the trainees as equals who will draw their own conclusions, make their own decisions and solve their own problems with the training content.
- Let the trainees know that you are a learner with them.
- Ask open—not closed—questions to promote interaction and deep engagement with the content.
- Use small groups (as suggested in the guide). Small groups enable all trainees to engage in the learning tasks and materials.

ACTIVITY 1: INTRODUCTION TO THE TRAINING

OBJECTIVES

By the end of this activity, trainees will have:

1. Introduced themselves and their FSPs.
2. Reviewed the expectations, objectives, framework and norms for the training.

PREPARATION

- Prior to the training, distribute and collect responses for a 'Learning needs and resources assessment (LNRA),' found in the 'Resource materials' section of this module. Use the results to modify the activities and/or materials in this Trainer's guide as appropriate.
- Prepare a 'Workshop agenda' to include in the Trainee package.
- Flip charts:
  - Blank flip chart with the title: 'Learning needs and resources assessment (LNRA)'
  - Workshop objectives
  - Workshop framework
  - Blank flip chart with the title: 'Workshop norms'
  - Blank flip chart with the title: 'Parking lot'
- Handouts:
  - 1.1 Training plan (1 per trainee)
  - 1.2 Workshop objectives (1 per trainee)
  - 1.3 Workshop framework (1 per trainee)
- Other materials:
  - Trainee package: blank name tag, blank name sign, notebook and pen, all in a folder (1 per trainee)
  - Blank sticky notes or note cards, blank flip-chart paper, markers and tape (used for all activities)

TIME

35 minutes

STEPS

1. Facilitate introductions – 15 minutes

Welcome trainees to the 'Client Protection Principles for Youth' training for FSPs. Tell them to expect an interactive and practical learning experience over the three days.

Distribute a Trainee package to each trainee, and give them a minute to write their names on the name tags and the name signs and to display them.

Then say:

Imagine that you are invited to a party. Walk around the room and introduce yourself to two or three people you do not know. Mention the following:

- Your name and the name of your financial service provider, or FSP;
- What you do at your FSP and a short explanation of your background and work experience; and
- One thing you like to do during your free time.

You have 10 minutes.

After 10 minutes, randomly ask two or three trainees about a person they met. Encourage trainees to take time to interact and network with one another over the course of the workshop, as there is much to learn from one another.

2. Review LNRA responses – 5 minutes

Thank trainees for their responses to the LNRA. Review some of the responses submitted, particularly areas that were marked as 'high interest' and areas in which trainees did or did not have experience.

Then distribute a blank sticky note to each trainee and say:

You posed a number of valuable questions that you want addressed by this training. Take a minute or so to share one of your questions with your neighbour. Then write it down on a sticky note.

After 1–2 minutes, post the flip chart 'Learning needs and resources assessment (LNRA).'

LEARNING NEEDS AND RESOURCES ASSESSMENT (LNRA)

Invite two or three trainees to post and share their questions with the full group. Possible questions may include:

- *What client protection principles are specific to youth?*
- *What are some good practices and measurable indicators for youth client protection that can be institutionalized and measured?*
- *How are you institutionalizing youth service delivery with the best client protection principles to help reduce risks and harm to youth?*
- *How do we ensure that the FSP and its employees adhere to youth client protection principles throughout various processes and procedures?*
- *How do we integrate and promote client protection for youth and ensure institutional sustainability at the same time?*

Then say:

We want to assure you that this training was designed to address the issues and questions that you raised here and in the LNRA. Please post all of your questions on the flip chart so we can refer to them throughout the training.

***Note:** Keep the 'Learning needs and resources assessment (LNRA)' flip chart posted throughout the training.*

3. Review workshop objectives, framework and agenda and agree on workshop norms – 15 minutes

Post the flip chart and distribute Handout 1.2 'Workshop objectives' to each trainee. Ask a volunteer to read the objectives out loud:

WORKSHOP OBJECTIVES

By the end of this workshop, trainees will have:

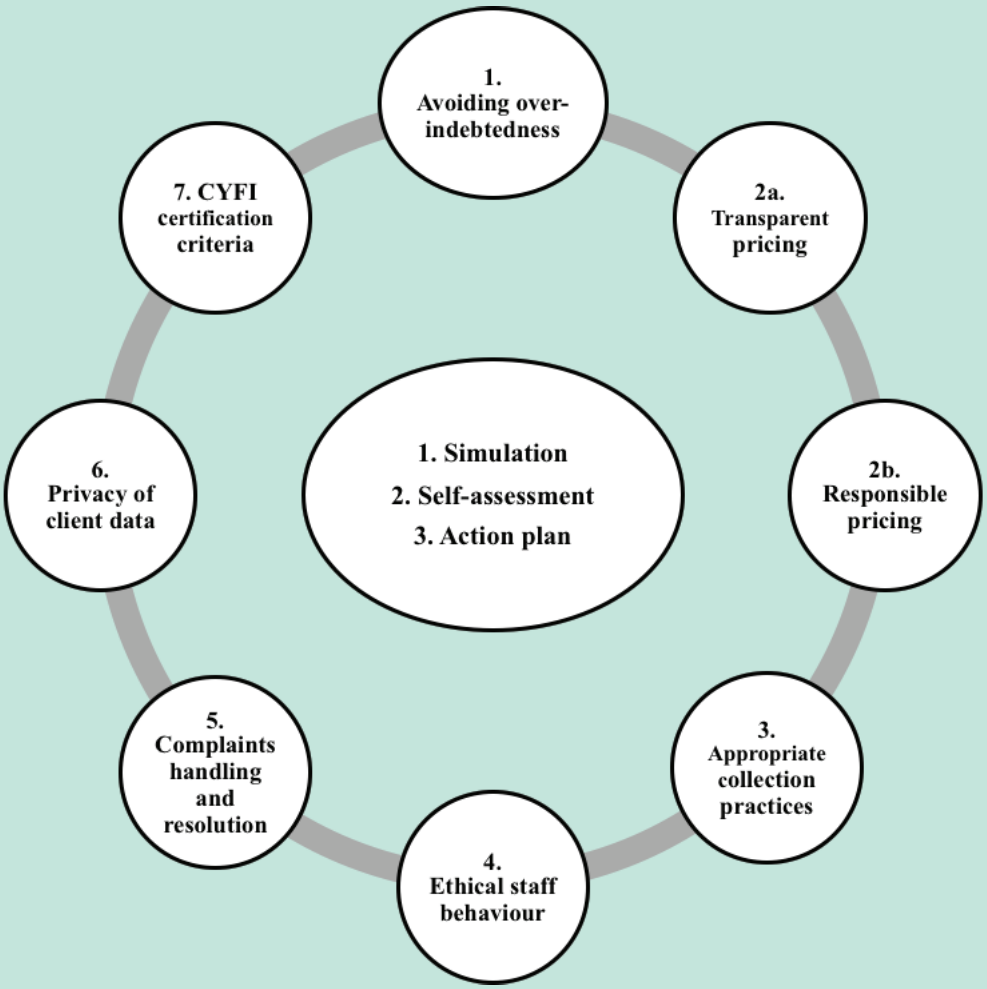
1. Assessed their youth products using The Smart Campaign's client protection principles and the Child and Youth Finance International (CYFI) certification criteria.
2. Developed a plan to ensure their youth products comply with the Client protection principles for youth.

Say:

We will use the following framework to achieve these objectives.

Post the flip chart 'Workshop framework' and distribute Handout 1.3 'Workshop framework' to each trainee. Take a few minutes to review each part of the framework:

WORKSHOP FRAMEWORK



Highlight the following:

The training will achieve the objectives through a step-by-step approach in which:

1. The Smart Campaign and CYFI principles will be introduced and examined in detail as they relate to youth.
2. A self-assessment tool, specifically adapted to youth products, will be introduced through simulation and applied during self-assessment exercises.
3. An action plan will be developed to institutionalize the Client protection principles for youth.

Next invite trainees to look at the 'Workshop agenda' in the Trainee package. Invite and address any questions on the workshop objectives, framework or training plan.

Say:

We will be together for the next three days. Let's quickly do some housekeeping. Because it is very important that we stay on time, let's review the schedule:

- Each day will begin at 9 a.m. and end at 5 p.m.
- Lunch will be served from _____ *(insert time)* to _____ *(insert time)*.
- Breaks will be held from _____ *(insert time)* to _____ *(insert time)* in the morning and _____ *(insert time)* to _____ *(insert time)* in the afternoon.
- Each night, you will be given materials to review for the next day. Please be sure to spend at least one hour reviewing these materials so that we can stay on task.
- Each person should have a notebook and pen or pencil. Be sure to write your name on your materials so that they can be easily located if you misplace them. Come to the training with all your materials every day!
- You will receive handouts that give you more information or guide you through the exercises.

Then post the flip chart 'Workshop norms.'

WORKSHOP NORMS

Say:

The success of this training depends on how well everyone is able to work together. Therefore, it is important that we set up some norms or rules from the beginning to help us better work together. Let me suggest the first one: turn off your cell phones.

Write the norm on the flip chart. Then ask:

› **What other rules would you suggest that we all follow during this training?**

As trainees make suggestions, list them on the flip chart. Add the following norms if they are not mentioned: stay on time and participate in discussions.

Next post the flip chart 'Parking lot.'

PARKING LOT

Say:

I will leave this flip chart, called the 'Parking lot,' along with blank note cards and tape here *(point to the place where you posted the 'Parking lot')*. If a question arises that I do not have time to answer, I will write it on a note card and post it in the 'Parking lot.' Likewise, if you think of a question during a break, lunch or after a day's training, you can write it down in whichever language you are most comfortable and post it on the 'Parking lot.' I will be sure to review it at the end of each day.

Be participative, honest and critical with yourselves. Remember that we are not here to judge what each of us is currently doing but rather to learn and to improve our practices. Try to give to and take the most from the training and your fellow trainees.

Note: *Keep the 'Workshop objectives,' 'Workshop framework,' 'Workshop norms 'and 'Parking lot' flip charts posted throughout the training.*

ACTIVITY 2: INTRODUCTION TO CLIENT PROTECTION PRINCIPLES FOR YOUTH

OBJECTIVES

By the end of this activity, trainees will have familiarized themselves with the Client protection principles for youth.

PREPARATION

- Have computers ready for the trainees to access the 'Youth client protection assessment tool.' Keep the tool accessible by computer for the duration of the training. Prior to the training, distribute the 'Youth client protection assessment tool' by email to all trainees. Additionally, save the tool on a USB device in case some trainees could not access the electronic file.
- Flip charts:
  - Blank flip chart with the title: 'Your ideas on client protection'
  - Client protection principles for youth
  - Dimensions of responsible finance
- Handout:
  - 2.1 Client protection principles for youth (1 per trainee)
- Other materials:
  - Cut apart copies of handout 2.1 'Client protection principles for youth' so that the name of each principle and the explanation of each principle is on a different slip of paper (1 set of principles per pair of trainees)

TIME

55 minutes

STEPS

1. Have trainees share their ideas on client protection – 10 minutes

Ask two or three trainees to define 'protection' and 'principles' in their own words. Then explain that client protection principles were formed based on the need to protect consumers from unintended consequences arising from the services of financial providers.[1] *Add that there is now broad recognition that client protection principles can help guide FSPs to 'do no harm.' Then say:*

- Youth—those between the ages of 12 and 24—today number 1.5 billion, which represents approximately 18 percent of the total population. More than 80 percent of those youth live in Africa, Asia and Oceania, and one in five lives on less than US$1 a day. To cope with the poor economic conditions, many youth turn to the informal market for work and financial services, however imperfect they may be. A better solution would be to provide more opportunities for formal financial services to youth by including youth in finance strategies and supporting them to become economically active members of their communities as they make the transition from childhood to adulthood.
- Youth represent the next wave of new clients for FSPs with expected population growth of 1 billion over the next decade—particularly in sub-Saharan Africa. While many low-income people in developing countries still cannot easily access financial services, youth in particular face many barriers to access. These barriers include age limitations to legally open an account, inappropriate and inaccessible products and services and low financial capability, to name a few.

With a growing focus on youth, responsible FSPs must promote good practices in youth client protection, in order to ensure true inclusion and avoid abuse resulting from their vulnerability.

1 Beth Porter, 'Introduction to The Smart Campaign Client Protection Principles,' Presentation at the UNCDF-YouthStart Client Protection Principles for Youth training, Addis Ababa, Ethiopia, March 2012.

Post the flip chart 'Your ideas on client protection'.

YOUR IDEAS ON CLIENT PROTECTION

Now, take a moment and think of yourself as a watchman or guard at your FSP.

› **What would you do to protect and safeguard clients and ensure that they are satisfied and happy with your services?**

Write trainees' responses on the flip chart.

2. Introduce the Client protection principles for youth – 15 minutes

Have trainees get into pairs. Distribute a set of cut-apart 'Client protection principles for youth' to each pair. Then ask:

› **Which principle is best explained by which statement?**
Take a few minutes to match each principle with a statement. Tape them together.

After a few minutes, post the flip chart 'Client protection principles for youth' and use it to ensure that the pairs correctly matched each principle with its explanation.

CLIENT PROTECTION PRINCIPLES FOR YOUTH

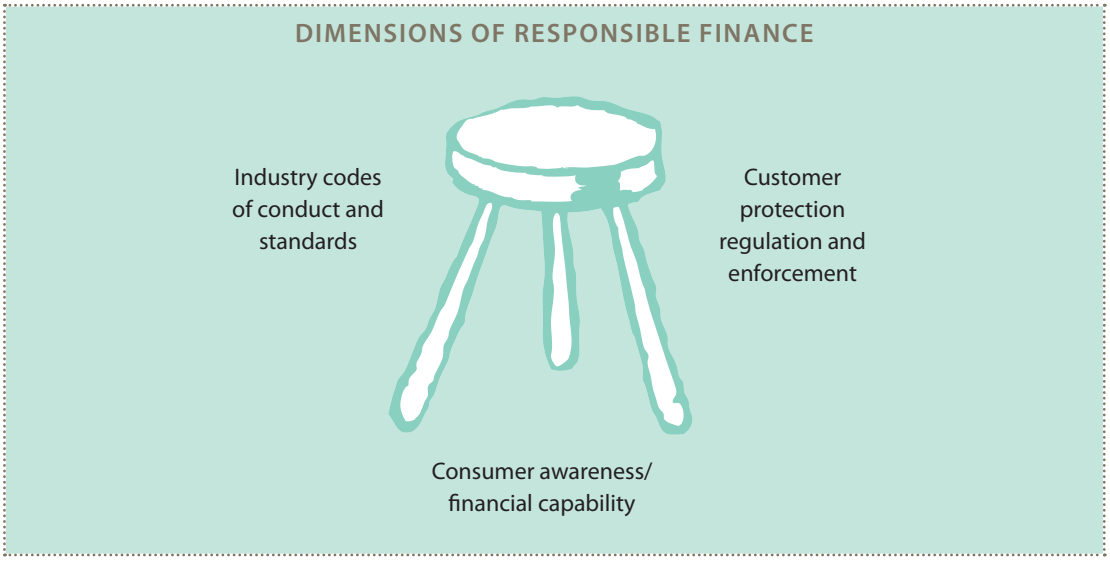
(Adapted from The Smart Campaign and Child and Youth Finance International)

Principle	Explanation
1. Avoiding over-indebtedness	An FSP applies this principle by carefully establishing the borrower's ability to afford the loan and repay it. The borrower should be able to handle debt service payments without sacrificing his/her basic quality of life.
2a. Transparent pricing	An FSP applies this principle by ensuring that complete information pertaining to pricing is made available to the client in clear language that is not misleading; the client must be able to understand it.
2b. Responsible pricing	An FSP applies this principle by offering quality services for the price, demonstrating its competitiveness in the marketplace and favouring a long-term beneficial relationship with the client over short-term profit maximization. Consistent practice of transparent pricing is a pre-condition to adequate implementation of this principle.
3. Appropriate collection practices	An FSP applies this principle by treating the client with dignity even when he/she fails to meet his/her contractual commitments.
4. Ethical staff behaviour	An FSP applies this principle by creating a corporate culture that values high ethical standards among staff and ensuring safeguards are in place to prevent, detect and correct corruption or client mistreatment.
5. Complaints handling and resolution	An FSP applies this principle by having a mechanism for collecting, responding in a timely manner and resolving problems for the client.
6. Privacy of client data	An FSP applies this principle by respecting the privacy of client data, ensuring the integrity and security of his/her information and seeking his/her permission to share information with outside parties prior to doing so.
7. CYFI certification criteria	An FSP applies this principle by focusing on developing products that are youth friendly, with the focus being on certifying savings and current accounts for children.

Then say:

During this workshop, we will examine each of these principles in greater detail and help you to assess the performance of your FSP against each principle.

Explain that the Client protection principles for youth also fit within the campaign to upscale financial capability and regulation. Post the flip chart 'Dimensions of responsible finance' and briefly explain each dimension, highlighting that the Client protection principles for youth are part of the 'leg' of Customer protection, regulation and enforcement.[2]



Next say:

Some of you may already be engaged in some of these dimensions. If so, then this workshop will help to bring the dimension of client protection into sharper focus.

› **What questions do you have at this point on the principles and the dimensions of responsible finance?**

Respond to any questions.

***Note:** Keep the 'Client protection principles for youth' flip chart posted throughout the training.*

3. Introduce self-assessment tool – 15 minutes

Say:

Now I am going to introduce a self-assessment tool that will be used throughout the training. It is an adaptation of The Smart Campaign tool made by UNCDF-YouthStart and includes the CYFI certification criteria. This tool helps FSPs critically examine and reflect on their client protection practices.

Guide the trainees through the process to access and save the tool by explaining:

- **Step 1.** Open the 'Youth client protection assessment tool' that you received via email. *(Note: Share the USB device that has the tool saved on it with anyone who cannot access the electronic file.)*
- **Step 2:** Save two copies of the tool on the computer. Name them 'CP simulation' and 'FSP own assessment.'

2 The Smart Campaign, 'The Seven Principles of Client Protection' (Washington DC: n.d.).

Take a few minutes to explain the tool's different sections and spreadsheets by saying:

- The questionnaire is structured around the Client protection principles for youth. There is a list of statements for each principle about the practices of an FSP. The statements are weighted differently depending on their importance.
- The questionnaire provides a framework for evaluating the practices of the FSP principle-by-principle, focusing on the five to ten practices that are most important for determining how effectively the FSP embodies the principles.
- There are five categories of possible responses: 'Strongly agree,' 'Agree,' 'Neutral,' 'Disagree' and 'Strongly disagree.' Institutional rating is on a scale from 1 to 5.
- For each statement, the practitioner or assessor needs to evaluate the evidence from the policies of the FSP and staff interviews and determine which category most accurately represents the embodiment of the statement at the FSP.
- Using this tool, FSPs and their networks can identify priorities for improving weak practices and capitalizing on areas of strength.
- All the sheets are interconnected. As a result, you only need to input data in the spreadsheet named 'Questionnaire input' and add the descriptions of exemplary practices and/or issues and challenges for each sub-principle.

Invite trainees to take 10 minutes to carefully examine the 'Questionnaire input' spreadsheet.

After 10 minutes, ask for and address questions on the self-assessment tool. Emphasize that trainees will get to use the tool more, as each principle is discussed.

4. Address the importance of sending the message on client protection for youth – 15 minutes

Say:

From the principles just introduced, it is obvious that you are carriers of an important message. Let's play a short game to help you gauge how you are carrying this message.

Have trainees form two circles and say:

I will tell the first person something. He or she will quickly whisper what I said—or what he or she THINKS I said—to the person next to him or her. This goes on until the last person gets the information. When the last person receives the message, we will check to see whether the statement is correct or distorted.

Note: *If necessary, start by demonstrating the game with just two trainees and a silly statement, to ensure understanding before facilitating it with the full group.*

Start the game by whispering one of the statements in the box to the first person:

IMPORTANT MESSAGES (USE ONLY ONE OF THE STATEMENTS BELOW)

- We have two ears and one mouth, to listen twice as much as we speak!
- Attentive listening is positive communication.
- Asking questions is effective when accompanied by carefully listening to the answer.

Debrief the game by posing the questions below:

- **What did you hear?**
- **Why did each of you hear the statement differently?**
- **How does this communication game relate to what we will learn about client protection?**

Have several trainees answer. Try to find out where the message changed. Then emphasize the following points:

- *People have various perceptions of what client protection entails, depending on their experiences and situations.*
- *It is necessary to use a standardized approach to minimize any potential distortions of the motive and spirit of client protection.*

Say:

Effective communication is the essence of our three-day workshop together. UNCDF is eager to ensure that we are all speaking the same language, as client protection comes at an important moment in the history of microfinance.

ACTIVITY 3: CLIENT PROTECTION PRINCIPLE FOR YOUTH 1—AVOIDING OVER-INDEBTEDNESS

OBJECTIVES

By the end of this activity, trainees will have:

1. Identified causes and effects of over-indebtedness on youth clients.
2. Assessed the application of principle 1 using a scenario.
3. Assessed the application of principle 1 in their youth products.

PREPARATION

- Flip charts:
  - Client protection principles for youth (posted in Activity 2)
  - Causes and effects of over-indebtedness
  - Indicators of good practice—Avoiding over-indebtedness
- Handouts:
  - 3.1 Role play—Avoiding over-indebtedness (1 per trainee)
  - 3.2 Causes and effects of over-indebtedness (1 per trainee)
  - 3.3 Indicators of good practice—Avoiding over-indebtedness (1 per trainee)
  - 3.4 Scenario—Avoiding over-indebtedness (1 per trainee)
- Other materials:
  - Role-play props: Fake bank notes, fake documents, full bags

TIME

1 hour 45 minutes

STEPS

1. Introduce principle of avoiding over-indebtedness – 15 minutes

Divide the trainees into four groups and say:

Each group is going to receive a scenario for a short, 2- to 3-minute role play. You will have a maximum of 10 minutes to prepare to present it.

Distribute Handout 3.1 'Role play—Avoiding over-indebtedness' to each trainee and role-play props to each group. While groups prepare, move around to make sure that the minimum time is used.

After a maximum of 10 minutes, invite groups to present the role play. (Note: If time is a concern, invite only a couple groups to present.) Then ask:

- **What happened in the role play?**
- **What did the officer do that was incorrect?**
- **Have you come across similar scenarios in your work? Please describe.**
- **Would you say that over-indebtedness is a widespread problem in your area? Why or why not?**

Allow a few trainees to respond.

Refer to the flip chart 'Client protection principles for youth' and ask a trainee to read principle 1 aloud:

> **1. AVOIDING OVER-INDEBTEDNESS**
>
> An FSP applies this principle by carefully establishing the borrower's ability to afford the loan and repay it. The borrower should be able to handle debt service payments without sacrificing his/her basic quality of life.

Ask:

- **What do you understand by 'ability to afford and repay?'**
- **How does over-indebtedness compromise the borrower's quality of life?**

After a couple responses conclude by saying:

Over-indebtedness is a problem in micro-lending today. This principle is particularly relevant for FSPs that focus on youth because youth are more likely to make quick and potentially uninformed decisions, without understanding the consequences. Because youth are still developing, they lack life experiences that teach them how to make good decisions. The pressure to get rich quickly and the desire for instant gratification make youth susceptible to FSPs that do not put this principle into practice.

2. Discuss causes and effects of over-indebtedness – 15 minutes

Organize the trainees into groups of two or three. Post the flip chart 'Causes and effects of over-indebtedness.'

> **CAUSES AND EFFECTS OF OVER-INDEBTEDNESS**
>
> - **What kinds of practices have you seen at your FSP or at other FSPs that may contribute to over-indebtedness, especially among youth?**
> - **What would you say is the effect of over-indebtedness on clients? And on youth clients?**
> - **What consequences have over-indebted clients had on your FSP?**

Say:

Take 10 minutes to discuss the questions on the flip chart in your group.

After 10 minutes, invite groups to share their responses to the questions. Distribute Handout 3.2 'Causes and effects of over-indebtedness' to each trainee. Highlight any points listed on the handout that were not already discussed.

3. Examine indicators of good practice for avoiding over-indebtedness – 15 minutes

Ask:

- **What in your opinion constitutes good practice in the offering of loan products to youth?**

Engage in a 5-minute discussion of the question. Then post the flip chart and distribute Handout 3.3 'Indicators of good practice—Avoiding over-indebtedness' to each trainee. Have several trainees read the indicators aloud for the group:

INDICATORS OF GOOD PRACTICE—AVOIDING OVER-INDEBTEDNESS

(Adapted from The Smart Campaign)

- **Borrower over-indebtedness monitoring:** Management regularly monitors youth portfolio quality and uses that information to improve products, policies and procedures.
- **Suitable products:** The FSP offers youth-sensitive and appropriate loan products integrated with non-financial services, in particular financial education, that address over-indebtedness and good use of financial services.
- **Repayment capacity evaluation:** The loan approval process requires evaluation of borrower repayment capacity and loan affordability. Loan approval does not rely solely on guarantees (whether peer guarantees, co-signers or collateral) as a substitute for good capacity analysis.
- **Debt threshold guidelines:** Credit approval policies give explicit guidance to both the youth and his/her guardian regarding borrower debt thresholds and acceptable levels of debt from other sources.
- **Credit history verification:** When available, the FSP checks a Credit registry or Credit bureau for current debt levels of borrower and repayment history. When not available, the FSP maintains and checks internal records and consults with competitors for the same.
- **Portfolio quality valued:** Productivity targets and incentive systems value portfolio quality at least as highly as other factors, such as disbursement or client growth. Growth is rewarded only if portfolio quality is high.
- **Internal audit monitoring:** Internal audits check household debt exposure, lending practices that violate procedures including unauthorized re-financing, multiple borrowers or co-signers per household and other practices that could increase indebtedness.

Emphasize the third indicator, 'repayment capacity evaluation,' which carries the most weight during self-assessment. Then ask:

› **What are the main indicators an FSP should evaluate before approving a loan for a youth client?**

› **What areas do you feel may have been overlooked in the evaluation of youth clients at your FSP that should in fact be emphasized?**

Allow a few minutes to discuss the questions. Conclude by saying that, to avoid over-indebtedness, an FSP should fine tune its assessment tools to measure the capacity of a borrower to repay by looking at additional areas like cash flow and loan history if available.

4. Conduct self-assessment for principle of over-indebtedness in FSP groups – 60 minutes

Say:

Now you will have an opportunity to practice using the self-assessment tool that was introduced earlier. Having discussed the first principle—from the causes and effects of over-indebtedness to indicators of good practice—let us use a scenario to practice scoring based on principle 1.

Have trainees sit in groups based on FSP. If there are trainees that are not part of an FSP, for example UNCDF staff, tell them to join any of the FSP groups to help them think through the exercise. Make sure each group has access to a laptop computer with the self-assessment tool downloaded. Distribute Handout 3.4 'Scenario—Avoiding over-indebtedness' to each trainee. Then say:

Take 5 minutes to read the scenario. Then, in your group, take 20 minutes to discuss it and score the FSP using the spreadsheet 'CP simulation.' Remember that you input data in the 'Questionnaire input' spreadsheet.

***Note**: If trainees show difficulties in understanding the tool, review it section by section together.*

While groups are working, move around to ensure that the exercise is progressing within the allocated time period.

After 20 minutes, invite one group to report how they scored the FSP in the scenario regarding:

- *Each indicator of good practice under Client protection principle 1, and*
- *Exemplary practices and challenges.*

Let other groups add to the discussion briefly and then say:

Now you will use the spreadsheet 'FSP own assessment' to score your own FSP. In your group, take 10 minutes to discuss and score the performance of your FSP for each indicator of good practice in regards to youth products.

Remember: the self-assessment tool is used internally—within the FSP—to gauge where you are currently and to lead to informed decision-making.

After 10 minutes, invite volunteers to share the strengths and weaknesses that emerged from assessing their youth products in regards to over-indebtedness. Allow trainees to ask for clarification as needed.

Conclude by noting that some of the indicators may require the evaluator to seek the opinion of other stakeholders within the FSP, as they themselves may not be aware of or be experts in some aspects. Successful self-assessment is the result of team effort.

ACTIVITY 4: CLIENT PROTECTION PRINCIPLE FOR YOUTH 2A—TRANSPARENT PRICING

OBJECTIVES

By the end of this activity, trainees will have discussed how a lack of transparency affects youth clients and FSPs.

PREPARATION

- Flip charts:
  - Client protection principles for youth (posted in Activity 2)
  - Indicators of good practice—Transparent pricing
- Handouts:
  - 4.1 What do you really see? (1 per trainee)
  - 4.2 Indicators of good practice—Transparent pricing (1 per trainee)
  - 4.3 Transparent pricing questionnaire (1 per trainee)

TIME

45 minutes

STEPS

1. Introduce principle of transparent pricing – 25 minutes

Distribute Handout 4.1 'What do you really see?' to each trainee. Ask whether trainees see a duck or a rabbit. Answers can vary, and the conclusion is that the image represents both a rabbit and a duck. Then say:

Now we will examine Client protection principle for youth 2—Transparent pricing.

› **What possible connection is there between the exercise we just completed and transparency in pricing?**
[Possible answer: Sometimes it is not easy for an FSP to clearly communicate pricing or for a client to understand it.]

Allow one or two trainees to respond. Then say:

Though each FSP must decide how it will price each product it offers, all FSPs have an ethical obligation to be as clear as possible about the price of each product it offers clients.

Refer to the flip chart 'Client protection principles for youth' and ask a trainee to read principle 2a aloud:

2A. TRANSPARENT PRICING

An FSP applies this principle by ensuring that complete information pertaining to pricing is made available to the client in clear language that is not misleading; the client must be able to understand it.

Say:

The key points for this principle are completeness of information and clarity in communication. Transparency in pricing is an important principle to consider as it can build or tarnish the reputation of an FSP.

› **How does a lack of transparency affect youth clients and FSPs?**

Facilitate a large-group discussion of this question. Share points in the box if they are not mentioned by trainees:

EFFECTS OF LACK OF TRANSPARENT PRICING

Effects on clients

- Contracting services that the youth does not need and/or goes against the youth's interests
- Over-indebtedness and inability to repay
- Negative perception of FSP as a thief
- Demoralization and mistrust of transactions with the FSP

Effects on FSP

- Loss of business and reputation risk when the word is spread
- Increase in portfolio at risk
- Does not benefit from investment in new technologies, if attrition is high
- Value-added products trigger the opposite effect if process is not transparent (e.g., provision of insurance)

2. Examine indicators of good practice for transparent pricing – 20 minutes

Ask:

› **In the interest of transparent pricing, what pricing issues are important for an FSP to consider?**

Allow a few minutes for discussion. Then post the flip chart and distribute Handout 4.2 'Indicators of good practice—Transparent pricing' to each trainee. Have several trainees read the indicators aloud for the group:

INDICATORS OF GOOD PRACTICE—TRANSPARENT PRICING

(Adapted from The Smart Campaign)

- **Disclosure of prices, terms & conditions:** Prices, terms and conditions of all financial products are fully disclosed to the youth and the co-signer (in the event client is a minor) prior to sale, including interest charges, insurance premiums, minimum balances, all fees, penalties, linked products, third-party fees, and whether those can change over time. It is important that the FSP ensures that its clients, youth in particular, understand the terms of the products they use. Financial education sessions may be designed and delivered to address this need.
- **Staff training:** Staff are trained on how to communicate with youth in particular, how to tailor interactions with new users of financial services, understanding likely youth sensitivities, and the rights of clients. Communication techniques address literacy limitations (e.g., contracts are read out loud, materials are in local languages), are youth sensitive and include financial education sessions.
- **Variety of disclosure mechanisms:** Multiple channels for disclosing clear and accurate information about the products are used, such as brochures, orientation sessions, meetings and posted information in branches and websites. Financial education sessions are also offered to youth, without the sessions being a 'marketing opportunity' for the FSP.
- **Total cost disclosure:** The FSP follows truth-in-lending laws and required calculation formulae for annual percentage rate (APR) or effective interest rate (EIR). In the absence of industry-wide requirements, information is provided that shows the total amount that the client pays (in case of a loan) or receives (in case of savings) for the product.
- **Loan contract & collection practices disclosures:** Loan contracts show an amortization schedule that separates principal, interest and fees; define the amount, number and due dates of instalment payments; and include fees and conditions for early repayment, late payments and default. Debt collection practices are revealed to the borrower prior to the time of sale.
- **Adequate time for client review:** Clients are given adequate time to review the terms and conditions of the product and have an opportunity to ask questions and receive information prior to signing contracts. For clients who are minors, terms also apply to co-signers.
- **Accurate and timely account information:** Clients regularly receive clear and accurate information regarding their accounts (e.g., account statements, receipts and balance inquiries). For clients who are minors, terms also apply to co-signers.

Emphasize the first two indicators, which deal with critical aspects of pricing and which carry the most weight during self-assessment. Highlight the issues of full disclosure, education regarding terms and conditions and creative communication techniques.

Distribute Handout 4.3 'Transparent pricing questionnaire' to each trainee and say:

Try to answer these questions from the perspective of a youth client of your FSP. After 5 minutes, we will review your answers together.

After 5 minutes, ask:

- **How many of you...**
  - **Answered 'Yes' to all questions?**
  - **Answered 'No' to all questions?**
  - **Agreed with some and disagreed with other questions?**
- **If you were the client, what pricing questions would you want answered by the FSP?**

After a few responses to the questions, discuss trainees' views on the perceived ability of their clients to understand what, how and why they are charged for the financial services offered by the FSP.

Conclude by advising that, if trainees believe their clients will likely disagree with them on any of the items listed, this is an indication that the FSP should review its transparency with regard to pricing. In particular, they should ensure that communication of pricing to clients is done in a way that clients understand rather than in a way that only the FSP, with trained, experienced and often literate staff, understands.

ACTIVITY 5: CLIENT PROTECTION PRINCIPLE FOR YOUTH 2B—RESPONSIBLE PRICING

OBJECTIVES

By the end of this activity, trainees will have:

1. Discussed implications of loan costing and pricing methods.
2. Assessed the application of principles 2a and 2b using a scenario.
3. Assessed the application of principles 2a and 2b in their youth products.

PREPARATION

- Prepare the MFTransparency APR Calculator spreadsheet so it is ready to show and use with trainees on a computer.
- Flip charts:
  - Client protection principles for youth (posted in Activity 2)
  - Indicators of good practice—Responsible pricing
- Handouts:
  - 5.1 Indicators of good practice—Responsible pricing (1 per trainee)
  - 5.2 Scenario—Transparent and responsible pricing (1 per trainee)
- Other materials:
  - Blank sheets of paper (1 per trainee)

TIME

1 hour 55 minutes

STEPS

1. Introduce principle of responsible pricing and examine indicators of good practice – 25 minutes

Ask:

› **When I mention the word 'price' in microfinance—specifically concerning loans—what am I referring to?**

Ensure that trainees mention different aspects of price including interest rate, insurance fees, ledger fees, withdrawal fees, training fees and application (or facility) fees.

Then distribute a blank sheet of paper to each trainee and say:

Think of one loan product in your FSP, especially one designed for youth. Take a minute to write down the various fees or costs associated with it on the piece of paper.

After a minute, ask:

› **What process did you follow and what considerations did you have, during the product development process, when determining the product's price?**

› **Was there a formal costing exercise resulting from calculations or was it done informally through general estimations?**
[Possible answers: Cost of funds, operating costs such as salaries of employees, travel, cost of loan processing, anticipated profit margin and competitions' rates.]

Note: *Depending on the level of difficulty or uncertainty trainees have answering these questions, it will be apparent whether the participating FSPs carried out a formal costing exercise. Most do not. Rather, many FSPs consider what others in the market are charging and set their price close to it.*

Refer to the flip chart 'Client protection principles for youth' and ask a trainee to read principle 2b aloud:

2B. RESPONSIBLE PRICING

An FSP applies this principle by offering quality services for the price, demonstrating its competitiveness in the marketplace and favouring a long-term beneficial relationship with the client over short-term profit maximization. Consistent practice of transparent pricing is a pre-condition to adequate implementation of this principle.

Ask:

› **What is your assessment of the following statements?**

- Quality services: FSPs should give value for money.
- Competitiveness: FSPs are not expected to offer services free of charge but to ensure sustainable provision of services.
- Long-term relationships with clients: Youth are a formidable client base for the future of any FSP that aims for long-term rather than short-term gains.

After discussing these statements with the trainees, emphasize that the consistent practice of transparent pricing, or principle 2a, is a precondition to adequate implementation of responsible pricing, or principle 2b. Then say:

› **What are the consequences for clients, for youth and for the FSP of not applying this principle?**

Facilitate a large-group discussion of this question. Share points in the box if they are not mentioned by trainees:

EFFECTS OF LACK OF RESPONSIBLE PRICING

Effects on clients

- Inability to accumulate assets/depletion of assets
- Over-indebtedness and inability to repay (and their related consequences)
- Negative perception of FSP as a thief

Effects on FSP

- Loss of market share in favour of other competitors with better prices
- Loss of reputation as the word is spread
- Over-indebtedness of clients (and their related consequences)

Say:

This principle mainly advocates for the alignment of product pricing with the following indicators of good practice adapted from The Smart Campaign.

Post the flip chart and distribute Handout 5.1 'Indicators of good practice—Responsible pricing' to each trainee. Have several trainees read the indicators aloud for the group:

INDICATORS OF GOOD PRACTICE—RESPONSIBLE PRICING

(Adapted from The Smart Campaign)

- **Competitive, unsubsidized pricing:** Prices are not subsidized, are market oriented and competitive within the country context. The FSP may cross-sell, cross-subsidize or otherwise subsidize products to youth as part of their long-term strategy to attract and retain youth as long-term clients.
- **Prices do not reflect inefficiency:** The FSP does not charge clients for its own inefficiency, as demonstrated by a comparison of efficiency and profitability ratios of similar competitors.
- **Reasonable rate of return:** The FSP earns a reasonable rate of return to support operations and to grow, while allowing youth to do the same and to receive a net positive return on savings.
- **Re-investment of profit benefits the clients:** The FSP invests a portion of its profits to increase value to youth clients, such as lowering interest rates or adding non-financial services such as financial education or improving products.
- **No excessive penalties or fees:** The FSP does not charge a penalty if a client withdraws savings. There is no minimum initial balance and deposit requirement.

Emphasize that the 'no excessive penalties or fees' indicator carries the most weight during self-assessment.

2. Introduce the APR calculator – 20 minutes

Say:

Principles 2a and 2b are interconnected. To wrap up our discussion of the two principles, let us now consider pricing method. In addition to operating costs, an FSP should also consider pricing method when setting interest rates.

› **Which method of calculating interest rates does your FSP use? Why?**

› **What are the current prevailing quoted interest rates for banks and FSPs?**

Allow a number of trainees to respond.

Then arrange trainees into random groups of two or three. Say:

Take a few minutes to consider both the flat rate method and the reducing balance method. Discuss in your groups the main considerations for each method.

After a few minutes, invite groups to share. Share points in the box if they are not mentioned by trainees:

FLAT RATE METHOD	REDUCING BALANCE/RATE METHOD
▪ Interest is calculated on the full amount of the loan for its full term. (That means that if you borrow $1,000 for six months, the interest charged to you will be calculated on $1,000 every month until you finish repaying the $1,000.) ▪ It is easy to calculate as one considers principle amount and interest rate charged per year [Principle*interest rate*period].	▪ The principal will decrease with each payment. This in turn will decrease the amount of interest due each payment. ▪ Interest is calculated on the remaining principal of the loan. Since the interest is calculated only on the balance owed, it will be less with each payment. ▪ It is complicated to calculate and relies on preset amortization tables.

Ask:

› **What other costs does a lender consider when setting the interest and choosing which method to use?**

[Possible answers: loan insurance, mandatory saving, administrative and other processing costs.]

Then say:

FSPs are obliged to ensure that all costs associated with a loan are clearly spelled out for the borrower to understand and to question, so that the borrower can make an informed choice. Quoting the interest rate is usually not sufficient, which is why sharing the annual percentage rate, or APR, is promoted under the principle of transparent pricing. This pricing method takes into consideration all costs associated with a loan product.

› **How many of you came across this method of calculating interest rate?**

After trainees respond, say:

As MicroFinance Transparency explains,

- The APR is used a lot in the United States. However, another common method is the effective interest rate, or EIR, and it is mainly used in Europe.
- These are the two most commonly quoted prices in microfinance because they are close to the 'portfolio yield' for the product. It provides a way of comparing all the costs of a loan.
- The APR takes into consideration various factors that influence the total cost of a loan and enables cost comparisons between loans with different fee structures.[3]

Show trainees the MFTransparency APR Calculator spreadsheet. Using the calculator and the information in the bullets below, calculate the interest rate and other fields.

- *Loan amount:$1,000*
- *Loan period:12 months*
- *Quoted interest rate:18 percent per annum flat rate*
- *Other costs:15 percent compulsory up-front savings, 2 percent per annum insurance payment and 1 percent loan processing fee*

3. Conduct self-assessment for principles of transparent and responsible pricing in FSP groups – 70 minutes

Invite trainees to get into their FSP groups. Distribute Handout 5.2 'Scenario—Transparent and responsible pricing' to each trainee. Say:

Now we will return to the self-assessment tool, this time looking at principles 2a and 2b.

Read the scenario. Then, in your group, discuss it and score the FSP using the spreadsheet 'CP simulation.' You have 40 minutes.

After 40 minutes, ask:

› **How did you score the FSP in the scenario for each indicator of good practice under Client protection principles for youth 2a and 2b?**

Invite a group that did not present previously to share their scores, and then let other groups briefly add to the discussion.

Give trainees another 30 minutes to score their FSP in the spreadsheet 'FSP own assessment.'

After 30 minutes, allow volunteers to share their strengths and weaknesses, particularly in regard to transparency. Ask for suggestions on how to solve or address the issues. Allow for about 10 minutes of discussion.

3 MicroFinance Transparency, 'FAQs,' accessed 27 August 2012, http://www.mftransparency.org/faqs/.

ACTIVITY 6: CLIENT PROTECTION PRINCIPLE FOR YOUTH 3—APPROPRIATE COLLECTION PRACTICES

OBJECTIVES

By the end of this activity, trainees will have:

1. Distinguished between good and bad collection practices.
2. Assessed the application of principle 3 using a scenario.
3. Assessed the application of principle 3 in their youth products.

PREPARATION

- Flip charts:
  - Client protection principles for youth (posted in Activity 2)
  - Indicators of good practice—Appropriate collection practices
  - Score sheet for scenario—Appropriate collection practices
- Handouts:
  - 6.1 Role play—Appropriate collection practices (1 per group)
  - 6.2 Indicators of good practice—Appropriate collection practices (1 per trainee)
  - 6.3 Scenario—Appropriate collection practices (1 per trainee)

TIME

1 hour 40 minutes

STEPS

1. Introduce principle of appropriate collection practices and examine indicators of good practice – 45 minutes

Say:

Let us talk about expectations in the field of lending. It is expected that the client will make good on his pledge to repay according to the schedule. It is expected that the FSP will thrive in ensuring that loan payments are completed as they fall due, and loan officers are employed to lend and collect by building a client base.

In some instances, however, delinquency and default occur—that is, a client either cannot pay or will not pay. Delinquency presents a challenge for the FSP, the officer and the client, and it can deteriorate into a nasty situation. Delinquency is an especially sensitive issue when dealing with youth, whose maturity and ability to handle difficult situations is questionable.

Client protection principle for youth 3 provides guidance to FSPs on collection, especially when things are not going as planned.

Have the trainees get into three or four new groups. Then say:

In your group, do the following:

- Find out which football team each group member supports. Choose one football team, and let this be the name of your group.
- Look at each other and, at the count of three, appoint a leader.
- As I give the leaders instructions, have the other group members get to know each other.
- Make sure everyone participates.

Distribute Handout 6.1 'Role play—Appropriate collection practices' to each group leader. Instruct them to take 10 minutes to prepare a 2- to 3-minute role play based on the scenario.

After 10 minutes, invite the groups to present their role plays. Afterwards, refer to the flip chart 'Client protection principles for youth' and ask a trainee to read principle 3 aloud:

3. APPROPRIATE COLLECTION PRACTICES

An FSP applies this principle by treating the client with dignity even when he/she fails to meet his/her contractual commitments.

Ask:

› **What did you notice in the role play?**

Allow one or two responses and then say:

The principle of appropriate collection practices provides that:

- The FSP treats clients with dignity even when they fail to meet their contractual commitments, and
- Debt collection practices are neither abusive nor coercive.

Invite two or three trainees to share an experience they had when collecting a loan, especially when it went 'bad.' Ask each of them:

› **What went well?**

› **What did not go well?**

› **What items were seized, if at all?**

Then ask the full group:

› **What are the consequences for clients, for youth and for the FSP of not adhering to this principle?**

Facilitate a large-group discussion of this question. Share points in the box if they are not mentioned by trainees:

EFFECTS OF BAD COLLECTION PRACTICES

Effects on clients

- Sense of humiliation and contempt among their families and communities
- Discouragement to work further with FSPs
- Additional effect on youth: Troublesome transition into adulthood

Effects on FSP

- Loss of reputation as the word is spread
- Loss of funds from donors if word is spread
- Loss of business if clients decide to leave the FSP

After some discussion, share that collection is often a challenging activity and that there is a thin line between doing the right thing or the wrong thing. Ask:

› **What do you believe are appropriate, or good, collection practices and what are inappropriate, or bad, collection practices?**

After some discussion of the question, post the flip chart and distribute Handout 6.2 'Indicators of good practice—Appropriate collection practices' to each trainee. Have several trainees read the indicators aloud for the group:

INDICATORS OF GOOD PRACTICE—APPROPRIATE COLLECTION PRACTICES

(Adapted from The Smart Campaign)

- **Practices written in manual:** Acceptable and unacceptable debt collection practices are clearly spelled out in a code of ethics, book of staff rules or debt collection manual.
- **Staff and third-party training:** Collection staff receives training in acceptable debt collection practices and loan recovery procedures. In-house and third-party collection staff is expected to follow the same practices.
- **Non-compliance disclosure and sanctions:** Staff is informed in advance of penalties for non-compliance with collection policies and violations are sanctioned.
- **Acceptable collateral policies:** The FSP follows a policy on acceptable pledges of collateral, including not accepting collateral that will deprive borrowers or their co-signers (in the event client is a minor) of their basic survival capacity, such as a house or essential business fixed assets.
- **Rescheduling policies and procedures:** Re-scheduling policies prevent automatic debt extensions and re-scheduling procedures follow written protocol.

Emphasize the first indicator, 'practices written in manual,' which carries weight during self-assessment. Ask:

› **How many of your FSPs documented debt collection practices in a manual?**

Emphasize that it is fine if the trainees' FSPs do not currently have their collection practices documented, as this discussion is part of the learning process. Then ask:

› **How many of those FSPs further adapted them for youth clientele?**

After a few responses, invite trainees to share good practices that they adopted at their FSPs for documenting collection practices.

Close Day 1

Announce the end of Day 1. Review the day by asking what the biggest eye opener was and what one thing they will try to change at their FSP as a result of what they learned.

2. Conduct self-assessment for principle of appropriate collection practices in FSP groups – 55 minutes

Begin Day 2

Welcome the trainees to Day 2 of the training. Ask trainees to call out the seven Client protection principles for youth, without referring to their notes. Add any principles that they miss by referring to the 'Client protection principles for youth' flip chart.

Say:

Yesterday we looked at Client protection principles for youth 1 to 3. Today we will begin by looking at a scenario and conducting a self-assessment in regards to principle 3, before moving on to principle 4.

Organize trainees into four groups. Distribute Handout 6.3 'Scenario—Appropriate collection practices' to each trainee. Say:

Take 5 minutes to read the scenario. Then, in your group, take 10 to 15 minutes to discuss it and score the FSP using the spreadsheet 'CP simulation.' Finally, have your group leader come to the front and write your scores for every indicator on the flip chart I will post.

Post the flip chart 'Score sheet for scenario—Appropriate collection practices' and give the groups 15– 20 minutes to work.

SCORE SHEET FOR SCENARIO—APPROPRIATE COLLECTION PRACTICES				
Indicator	Group 1	Group 2	Group 3	Group 4
Practices written in manual				
Staff and third-party training				
Non-compliance disclosure and sanctions				
Acceptable collateral policies				
Rescheduling policies and procedures				

After all the groups write their scores on the flip chart, examine how different groups scored the FSP. Invite several groups to explain their scores. Discuss in particular those indicators that:

- *Had diverse scores.*
- *Had very similar scores (e.g., if all groups scored an indicator '3,' find out why the groups think this was so).*

Next, invite trainees to get into their FSP groups. Ask them to carry out a self-assessment of their youth products by filling in the spreadsheet 'FSP own assessment.' After about 30 minutes, allow volunteers to share their strengths and weaknesses and give ideas of how they are planning to address the weaknesses. Allow for about 10 minutes of discussion.

ACTIVITY 7: CLIENT PROTECTION PRINCIPLE FOR YOUTH 4—ETHICAL STAFF BEHAVIOUR

OBJECTIVES

By the end of this activity, trainees will have:

1. Identified youth-specific best practices for ethical staff behaviour.
2. Assessed the application of principle 4 using a case study.
3. Assessed the application of principle 4 in their youth products.

PREPARATION

- Flip charts:
  - Client protection principles for youth (posted in Activity 2)
  - Indicators of good practice—Ethical staff behaviour
  - Blank flip chart with the title: 'Good practices for youth-specific ethical staff behaviour'
  - Blank flip chart with the title: 'Code of ethics'
  - Score sheet for case study—Ethical staff behaviour
- Handouts:
  - 7.1 Role play—Ethical staff behaviour (2 copies, 1 per volunteer)
  - 7.2 Indicators of good practice—Ethical staff behaviour (1 per trainee)
  - 7.3 Case study—Ethical staff behaviour (1 per trainee)

TIME

1 hour 40 minutes

STEPS

1. Introduce principle of ethical staff behaviour and examine indicators of good practice – 45 minutes

Ask for two volunteers to conduct a 2- to 3-minute role play. Give each volunteer a copy of Handout 7.1 'Role play–Ethical staff behaviour.' Give them a couple minutes to read through the role play and prepare to present it.

Invite the volunteers to present the role play. Afterwards, ask:

› **What did the officer want?**

› **What did the client 'understand' and agree to do?**

Make sure it is clear to trainees that the officer asked for a bribe to hasten the processing time of the loan. Then say:

Bribes and other similar practices are signs of corruption, which affect every sector including microfinance. They are unacceptable behaviour by staff. This role play serves as a good introduction to Client protection principle for youth 4—Ethical staff behaviour.

Refer to the flip chart 'Client protection principles for youth' and ask a trainee to read principle 4 aloud:

> **4. ETHICAL STAFF BEHAVIOUR**
>
> An FSP applies this principle by creating a corporate culture that values high ethical standards among staff and ensuring safeguards are in place to prevent, detect and correct corruption or client mistreatment.

Discuss issues around this principle and then ask:

› **What ethical issues does your FSP deal with, other than what you saw in the role play?**

Let one or two trainees share their experience. Then ask:

› **What are the consequences for clients, for youth and for the FSP of not adhering to this principle?**

Facilitate a large-group discussion of this question. Share points in the box if they are not mentioned by trainees:

EFFECTS OF UNETHICAL STAFF BEHAVIOUR

Effects on clients

- Mistrust of and discouragement to work further with FSPs
- Theft of assets
- Additional effect on youth: Observing bad behaviours that they may copy in their future adult lives

Effects on FSP

- Fraud
- Internal conflicts and lack of staff engagement
- Loss of reputation as the word is spread
- Loss of funds from donors if word is spread
- Loss of business if clients decide to leave the FSP

Then say:

Microfinance is maturing and one of the areas that needs attention is the institutionalization of ethical staff behaviour. However, it is not up to staff to determine what is right and what is wrong. Rather every FSP must be proactive in setting standards. The following indicators of good practice are a good guide and are embedded in the self-assessment tool.

Post the flip chart and distribute Handout 7.2 'Indicators of good practice—Ethical staff behaviour' to each trainee. Have several trainees read the indicators aloud for the group:

INDICATORS OF GOOD PRACTICE– ETHICAL STAFF BEHAVIOUR

(Adapted from The Smart Campaign)

- **Valued and rewarded:** The corporate culture of the FSP values and rewards high standards of ethical behaviour and client service.
- **Expressed in the code of ethics:** A written code of business ethics spells out organizational values and the standards of professional conduct expected of all staff.
- **Board approval and staff compliance:** The code of ethics has been reviewed and approved by the Board and is included in staff rule books or administrative policies.
- **Acceptable/Non-acceptable behaviour and reprimands:** Staff rules include specific provisions on what is considered acceptable and unacceptable behaviour. Provisions describe reprimands and actions that can result in termination of employment.
- **Alignment of Human resources practices:** Human resources procedures give attention to ethics, such as assessing new employees for compatibility with organizational values.
- **Staff training:** Staff receives orientation and refresher courses on the practicalities of following codes of conduct.
- **Ethics addressed in performance evaluations:** Managers and supervisors review ethical behaviour, professional conduct and the quality of interaction with clients as part of staff performance evaluations.
- **Detection systems for client mistreatment:** The FSP has a robust internal audit and fraud control system that detects client mistreatment, such as kickbacks, favours or coercion.

Say:

These indicators guide FSP managers in establishing a corporate culture of ethical behaviour. Note that the emphasis in this principle is not on good staff behaviour but institutional guidance and performance.

Emphasize the first indicator, 'valued and rewarded,' which carries weight during self-assessment.

Post the flip chart 'Good practices for youth-specific ethical staff behaviour.'

GOOD PRACTICES FOR YOUTH-SPECIFIC ETHICAL STAFF BEHAVIOUR

Ask:

› **What examples of good practices for promoting ethical staff behaviour—specific to youth clients—have you seen at your FSP?**

Refer to the different points covered by the flip chart 'Indicators of good practice—Ethical staff behaviour' to facilitate the discussion. Write trainees' answers on the flip chart. Then say:

It seems that already there are many good practices for promoting ethical staff behaviour, gauging by the examples you provided. But, it is important to always improve on what you have and to ensure that there is a documented code of ethics.

Post the flip chart 'Code of ethics.'

CODE OF ETHICS

Ask:

› **What is a code of ethics and what is it made up of?**

Write trainees' ideas on the flip chart. Add the following points if they are not mentioned by the trainees:

- *Institutional philosophy (i.e., mission and values)*
- *Ethical expectations*
- *Norms of conduct*
- *Enforcement methods*[4]

2. Conduct self-assessment for principle of ethical staff behaviour in FSP groups – 55 minutes

Invite the trainees to reassemble into the same four groups they were in earlier. Distribute Handout 7.3 'Case study—Ethical staff behaviour' to each trainee and then say:

4 Compartamos Banco, 'Código de Ética' (Code of Ethics), accessed 20 September 2012 via http://www.smartcampaign.org/tools-a-resources/2/96.

ASKI is an FSP that endorsed The Smart Campaign's client protection principles. It committed itself to practicing ethical staff behaviour and aligned its policies and practices accordingly. Take 5 minutes to read the case study. Then, in your group, take 10 minutes to discuss it and use the 'CP simulation' spreadsheet to rate its application of the principle. Finally have your group leader come to the front and write your scores for every indicator on the flip chart I will post.

Post the flip chart 'Score sheet for case study—Ethical staff behaviour' and give the groups 15 minutes to work.

SCORE SHEET FOR CASE STUDY—ETHICAL STAFF BEHAVIOUR				
Indicator	**Group 1**	**Group 2**	**Group 3**	**Group 4**
Valued and rewarded				
Expressed in the code of ethics				
Board approval and staff compliance				
Acceptable/Non-acceptable behaviour and reprimands				
Alignment of Human resources practices				
Staff training				
Ethics addressed in performance evaluations				
Detection systems for client mistreatment				

After all the groups write their scores on the flip chart, examine how different groups scored the FSP. Invite several groups to explain their scores. Discuss in particular those indicators that had diverse scores and very similar scores.

Next, invite trainees to get into their FSP groups. Ask them to carry out a self-assessment of their youth products by filling in the spreadsheet 'FSP own assessment.' After about 10 minutes, allow volunteers to share their strengths and weaknesses and give ideas of how they are planning to address the weaknesses. Allow for about 10 minutes of discussion.

ACTIVITY 8: CLIENT PROTECTION PRINCIPLE FOR YOUTH 5—COMPLAINTS HANDLING AND RESOLUTION

OBJECTIVES

By the end of this activity, trainees will have:

1. Identified how dissatisfied youth clients affect the FSP and the importance of resolving client complaints.
2. Assessed the application of principle 5 using a scenario.
3. Assessed the application of principle 5 in their FSP.

PREPARATION

- Flip charts:
  - Client protection principles for youth (posted in Activity 2)
  - Indicators of good practice—Complaints handling and resolution
  - Score sheet for scenario—Complaints handling and resolution
- Handouts:
  - 8.1 Indicators of good practice—Complaints handling and resolution (1 per trainee)
  - 8.2 Scenario—Complaints handling and resolution (1 per trainee)

TIME

1 hour 35 minutes

STEPS

1. Introduce principle of complaints handing and resolution – 20 minutes

Say:

Raise your hand if you ever complained of poor service from a service provider.

After trainees raise their hands, ask one trainee:

- **What happened?**
- **Was the issue resolved quickly, over a long period or never?**
- **What were your feelings over the course of the process, from complaint to resolution or non-resolution of the issue?**

After the trainee shares, explain that this discussion provides a good introduction to Client protection principle for youth 5, Complaints handling and resolution.

Refer to the flip chart 'Client protection principles for youth' and ask a trainee to read principle 5 aloud:

5. COMPLAINTS HANDLING AND RESOLUTION

An FSP applies this principle by having a mechanism for collecting, responding in a timely manner and resolving problems for the client.

Then say:

The key thing is to have a mechanism to respond to and resolve client complaints. Our own experiences as clients, either positive 'moments of magic' or negative 'moments of misery,' depended on the processes in place and their timelines.

› **What types of client complaints do you receive at your FSP?**

› **What are the consequences for clients of not having a complaint mechanism at their disposal?**

› **Why is it important for an FSP to resolve complaints in a proper manner?**

After a number of responses, say:

Effects on clients of not having a complaint mechanism at their disposal may include frustration, mistrust of FSPs and discouragement to work with them.

The importance of resolving complaints for the FSP can be explained as follows:

- 'A very satisfied client will talk about his/her experiences with three to four people, but a dissatisfied client will tell eight to nine people.
- When a dissatisfied client's complaints are received, answered, and solved, there is a 90 percent chance that he/she will return.
- Ninety percent of dissatisfied clients whose problems are not resolved will never return to do business with the institution again.'[5]

In other words, resolving client complaints is beneficial not only for clients but for the FSP itself! It is therefore important to take stock of how your FSPs currently deal with complaints and resolve any gaps or weaknesses. We can look at indicators of good practice for guidance to help you improve and apply this principle.

2. Examine indicators of good practice for complaints handling and resolution – 20 minutes

Ask:

› **If you were to assess an FSP for its performance in the area of complaints handling and resolution, what indicators would you consider?**

After trainees provide several suggestions, post the flip chart and distribute Handout 8.1 'Indicators of good practice—Complaints handling and resolution' to each trainee. Talk about any indicators not mentioned by the trainees:

INDICATORS OF GOOD PRACTICE – COMPLAINTS HANDLING AND RESOLUTION

(Adapted from The Smart Campaign)

- **Written complaint policy:** A written policy requires client complaints to be taken seriously, fully investigated and resolved in a timely manner without bias.
- **Active handling process:** A mechanism to handle client complaints is in place, has dedicated staff resources and is actively used. (Suggestion boxes alone are generally not adequate.) Specific recourse mechanisms that are accessible to youth may be needed, such as at schools or other places when they are used as delivery channels for financial services.
- **Resolution monitoring system:** Youth clients and their co-signers (in the event client is a minor) are informed of their right to complain and know how to submit a complaint to the appropriate person. Education sessions about clients' rights and responsibilities are delivered to both clients and staff.
- **Staff training:** Staff is trained to handle complaints and refer them to the appropriate person for investigation and resolution.
- **Resolution progress monitoring system:** Internal audit or other monitoring systems check that complaints are resolved satisfactorily.
- **Incorporation of feedback:** Information from complaints is used to improve products, sales techniques and other interactions with clients.

5 Rolando Virreira Centellas, 'Educación Financiera y Defensa del Consumidor,' Presentation at the I Congreso Latinoamericano de Acceso a los Servicios Financieros, Cartagena, Colombia, August 2009.

Emphasize the second indicator, 'active handling process,' which carries weight during self-assessment. Ask:

- **How many FSPs here have a mechanism to handle complaints for youth clientele?**
- **Based on the mechanisms you have in place, what good practices would you recommend in this area?**

Allow sharing of good practices by trainees. Then say:

It is important to have practical mechanisms to provide youth clients with a means to direct and report complaints since suggestion boxes may be inadequate.

It is also important to inform and educate clients of their right to complain.

3. Conduct self-assessment for principle of complaints handling and resolution in FSP groups – 55 minutes

Invite the trainees to reassemble into the same four groups they were in earlier. Distribute Handout 8.2 'Scenario—Complaints handling and resolution' to each trainee and then say:

Take 5 minutes to read the scenario. Then, in your group, take 15 minutes to discuss it and score the FSP using the spreadsheet 'CP simulation.' Finally have your group leader come to the front and write your scores for every indicator on the flip chart I will post.

Post the flip chart 'Score sheet for scenario—Complaints handling and resolution' and give the groups 20 minutes to work.

SCORE SHEET FOR SCENARIO—COMPLAINTS HANDLING AND RESOLUTION				
Indicator	Group 1	Group 2	Group 3	Group 4
Written complaint policy				
Active handling process				
Resolution monitoring system				
Staff training				
Resolution progress monitoring system				
Incorporation of feedback				

After all the groups write their scores on the flip chart, examine how different groups scored the FSP. Invite several groups to explain their scores. Discuss in particular those indicators that had diverse scores and very similar scores.

Next, invite trainees to get into their FSP groups. Ask them to carry out a self-assessment by filling in the spreadsheet 'FSP own assessment.' After about 10 minutes, allow volunteers to share their strengths and weaknesses and give ideas of how they are planning to address the weaknesses. Allow for about 10 minutes of discussion.

ACTIVITY 9: CLIENT PROTECTION PRINCIPLE FOR YOUTH 6—PRIVACY OF CLIENT DATA

OBJECTIVES

By the end of this activity, trainees will have:

1. Identified good practices for maintaining privacy of client data.
2. Assessed the application of principle 6 using a scenario.
3. Assessed the application of principle 6 in their youth products.

PREPARATION

- Flip charts:
  - Client protection principles for youth (posted in Activity 2)
  - Indicators of good practice—Privacy of client data
- Handouts:
  - 9.1 Indicators of good practice—Privacy of client data (1 per trainee)
  - 9.2 Examples of good practice—Privacy of client data (1 per trainee)
  - 9.3 Scenario—Privacy of client data (1 per trainee)
- Other materials:
  - Cut apart the handout 'Indicators of good practice—Privacy of client data' so each indicator is on a separate slip of paper

TIME

1 hour 25 minutes

STEPS

1. Introduce principle of privacy of client data – 10 minutes

Ask:

› **Have you ever shared something confidential with a close friend and then heard it mentioned somewhere else a few days later?**

› **If so, how did you feel?**

Allow one trainee to share. Then refer to the flip chart 'Client protection principles for youth' and ask a trainee to read principle 6 aloud:

> **PRIVACY OF CLIENT DATA**
>
> An FSP applies this principle by respecting the privacy of client data, ensuring the integrity and security of his/her information and seeking his/her permission to share information with outside parties prior to doing so.

Say:

In the same manner we expect confidentiality to be upheld in our own lives, so too do clients—especially youth clients. There are two important considerations in dealing with client data:

- Respecting the privacy of the data, and
- Ensuring the security of the data.

› **What are the consequences of not respecting the privacy of client data for clients, for youth and for the FSP?**

Facilitate a large-group discussion of this question. Share points in the box if they are not mentioned by trainees:

EFFECTS OF LACK OF PRIVACY OF CLIENT DATA

Effects on clients

- Subject to bribes, thefts or coercion
- Mistrust of and discouragement to work further with FSPs
- Additional effect on youth: Lack of independence and potential abuse if their financial information is provided to a relative who is not entitled to the information

Effects on FSP

- Material loss
- Loss of reputation as the word is spread
- Loss of business if clients decide to leave the FSP

Ask:

› **In what areas should an FSP show good practice in terms of privacy of client data?**

Allow several answers to the question. Make sure the following are mentioned: In collection practices (particularly when a client defaults) and in marketing activities (when pictures of clients are used in posters or flyers). Then ask:

› **What challenges do you experience in the area of privacy of client data, especially with youth clients?**

Allow several answers to the question. Make sure the following are mentioned: Denying information about a youth's account to relatives other than guardians, and ensuring mentors keep youth data confidential when they help youth conduct transactions.

2. Examine indicators and examples of good practice for privacy of client data – 20 minutes

Invite trainees to get into their FSP groups. Distribute a slip of paper containing one indicator from Handout 9.1 'Indicators of good practice—Privacy of client data' to each group. (Note: Some groups may receive two indicators.) Then say:

In your group, read the indicator of good practice you received and agree on what it means. Share examples of how your FSP is putting this indicator into practice, and discuss the challenges of applying it. You have 5 to 10 minutes.

After 5–10 minutes, ask every group to share their indicator and one example of practicing it. Post the flip chart and distribute Handout 9.1 'Indicators of good practice—Privacy of client data' to each trainee for their reference.

INDICATORS OF GOOD PRACTICE—PRIVACY OF CLIENT DATA

(Adapted from The Smart Campaign)

- **Written privacy policy:** A written privacy policy governs the gathering, processing, use and distribution of client information.
- **Secure systems and staff training:** Systems, including secure information technology systems, are in place and staff is trained to protect the confidentiality, security, accuracy and integrity of clients' and co-signers' (in the event client is a minor) personal and financial information.
- **Client understanding and consent:** Clients and co-signers (in the event client is a minor) know how their information will be used. Staff explains how data will be used and seeks permission for use. The client has the right to determine the use and transfer of the personal- and product-related financial data that is collected about him/her by the FSP.
- **Written consent required:** Written client consent is required for use of information in promotions, marketing material and other public information. Clients are asked to express their written agreement for sharing personal information with any external audience, including credit bureaux.
- **Client education**: The FSP offers information, orientation or educational sessions to clients on how to safeguard information, access codes or personal identification numbers.

Say:

Aligning institutional processes with this principle is a win-win for an FSP, since it will result in a good reputation with clients and loyalty from satisfied clients.

Emphasize the third indicator, 'client understanding and consent,' which carries weight during self-assessment. Then ask:

› **To what extent do you feel your FSP is able to apply this principle in relation to youth clients who are minors and who many times will be required to have a third party legally represent them?**

Allow several responses. Then say:

Even when serving youth, FSPs are obliged to ensure privacy of client data by dealing only with the people included in the contract. For minors, these people will include the guardians.

Distribute Handout 9.2 'Examples of good practice—Privacy of client data' to each trainee and go over any examples of good practice that were not previously mentioned.

3. Conduct self-assessment for principle of privacy of client data in FSP groups – 55 minutes

Ask the trainees to reassemble into the same four groups they were in earlier. Distribute Handout 9.3 'Scenario—Privacy of client data' to each trainee and then say:

Take 5 minutes to read the scenario. Then, in your group, take 15 minutes to discuss it and score the FSP in the spreadsheet 'CP simulation.' Afterwards, we will discuss your scores in the large group.

After 20 minutes, choose one group that has not presented much in the past to share their results. Invite additions from the rest of the groups. Allow for about 10 minutes of discussion.

Next, invite trainees to get into their FSP groups. Ask them to carry out a self-assessment of their youth products by filling in the spreadsheet 'FSP own assessment.' After about 10 minutes, allow volunteers to share their strengths and weaknesses and give ideas of how they are planning to address the weaknesses. Allow for about 10 minutes of discussion.

ACTIVITY 10: CLIENT PROTECTION PRINCIPLE FOR YOUTH 7—CYFI CERTIFICATION CRITERIA

OBJECTIVES

By the end of this activity, trainees will have:

1. Familiarized themselves with the main themes of the CYFI certification criteria.
2. Assessed the application of principle 7 using a scenario.
3. Assessed the application of principle 7 in their youth products.

PREPARATION

- Prior to the training, ask trainees to bring product materials that their FSP uses for youth, such as brochures, t-shirts, caps, posters and account-opening documents.
- Flip charts:
  - Blank flip chart with the title: 'Your ideas on child and youth products'
  - Client protection principles for youth (posted in Activity 2)
  - CYFI certification criteria
  - Score sheet for scenario—CYFI certification criteria
- Handouts:
  - 10.1 CYFI certification criteria (1 per trainee)
  - 10.2 Scenario—CYFI certification criteria (1 per trainee)
- Other materials:
  - Tables (enough for each participating FSP to lay out their product materials for the marketing event in Step 3)

TIME

1 hour 30 minutes

STEPS

1. Introduce the principle of CYFI certification criteria – 15 minutes

Say:

Close your eyes! Imagine that you are 16 years old. Remember how you dressed and walked. Remember your dreams and ambitions. What did you want to do and become? What disappointments did you have? What did you dislike most about adults?

After several trainees share, say:

It is important to provide children and youth with an environment in which they are empowered to make decisions. The CYFI certification criteria are embedded in the assessment questionnaire, and we will use them to gauge the products your FSP has for youth.

Post the flip chart 'Your ideas on child and youth products.'

YOUR IDEAS ON CHILD AND YOUTH PRODUCTS

Ask:

› **If you were to develop a product that is child and youth friendly, what issues would you consider?**

[Possible answers: Ensure access in terms of location, ensure the product is easy to use, ensure the product is easily understood by children and youth and educates them.]

Allow several trainees to share, as you write their ideas on the flip chart.

Then refer to the flip chart 'Client protection principles for youth' and ask a trainee to read principle 7 aloud:

7. CYFI CERTIFICATION CRITERIA

An FSP applies this principle by focusing on developing products that are youth friendly, with the focus being on certifying savings and current accounts for children.

Next post the flip chart and distribute Handout 10.1 'CYFI certification criteria' to each trainee. Review each criterion with the trainees, ensuring each is well understood:

CYFI CERTIFICATION CRITERIA

- **Availability and accessibility of financial products for youth:** The minimum age to open an account is not set higher than the legal age defined by the jurisdiction. The products are proactively offered to all youth, regardless of gender, age, race, ability, belief and socio-economic background.
- **Maximum control to youth:** The FSP allows ownership of an account by youth, in accordance with the local jurisdiction. The FSP allows youth to operate an account independently, in accordance with the local jurisdiction. Marketing of youth products promotes financial independence of youth.
- **Youth-friendly communication strategies:** The FSP uses a communication strategy that is designed specifically for youth. The FSP trains staff on how to interact with youth, uses understandable language in all written communication to youth and actively involves youth in improving its youth-friendly products.
- **Financial education:** The FSP actively supports the national strategy for financial literacy (where such a strategy exists), contributes to improving youth's awareness of youth financial services, and offers a financial-education component so that youth are better equipped to use youth financial services.
- **Youth satisfaction surveys**: The FSP has mechanisms in place to assess satisfaction of youth (such as surveys) and uses the results to improve its products.

Say:

The criterion 'maximum control to youth' is given the most weight.

› **How easy or difficult is it to provide maximum independence and control to youth?**

[The main difficulties are with minors, as regulatory frameworks generally require the presence of a guardian, and FSPs and families are concerned about whether youth have the maturity to manage their own money.]

› **What are ways difficulties can be dealt with?**

[Possible solutions for giving maximum independence to minors while maintaining adequate control include:

- *Allowing youth to withdraw money without the presence of a guardian only up to a certain amount within a certain period (e.g., monthly).*
- *Offering the guardian the possibility to sign a general authorization for the youth to manage his/her account, so that specific authorization for every single transaction is not needed.*
- *Including both the guardian and the minor as official holders of a cash card, with certain withdrawal limitations, so that the minor can use the card without the presence of the guardian.]*

Allow several trainees to respond. Make sure suggestions are made regarding how to provide accountability and oversight by an adult while at the same time allowing the youth financial independence. Then say:

The current focus of this certification process is on children's savings accounts. To apply this principle, your FSP needs to align its product development processes and final product attributes with the interest of child and youth clients.

2. Facilitate assessment of CYFI certification criteria using a scenario – 30 minutes

Ask trainees to get back into their discussion groups. Distribute Handout 10.2 'Scenario—CYFI certification criteria' to each trainee and say:

Let us look at a scenario for Maple Leaf Microfinance's youth saving account. Take 5 minutes to read the scenario. Then, in your group, take 15 minutes to discuss it and score the FSP using the spreadsheet 'CP simulation.' Finally, have your group leader come to the front and write your scores for every indicator on the flip chart I will post.

Post the flip chart 'Score sheet for scenario—CYFI certification criteria' and give the groups 20 minutes to work.

SCORE SHEET FOR SCENARIO—CYFI CERTIFICATION CRITERIA				
Indicator	**Group 1**	**Group 2**	**Group 3**	**Group 4**
Availability and accessibility of financial products for youth				
Maximum control to youth				
Youth-friendly communication strategies				
Financial education				
Youth satisfaction surveys				

After all the groups write their scores on the flip chart, examine how different groups scored the FSP. Invite several groups to explain their scores. Discuss in particular those indicators that had diverse scores and very similar scores.

Close Day 2

Announce the end of Day 2. Review the day with the trainees, making explicit reference to the principles seen, to the most important indicators and to the main challenges FSPs face in applying them. Tell them they will be asked to display the product materials that they brought from their FSP at the start of Day 3.

3. Facilitate an analysis of youth product materials and conduct self-assessment for criteria in FSP groups – 45 minutes

Begin Day 3

Welcome the trainees to the final day of the training. Show trainees the tables where they should display their youth product materials. After all the materials are set up, say:

Take about 15 minutes to go around the tables and see what materials each other uses as marketing and communication materials for youth products. As you move around, ask yourself the following:

- Which marketing materials use better youth-targeted language and techniques? Why?
- Which marketing materials and account-opening documents most represent principles 2a and 2b, transparent and responsible pricing?
- Which principles are best represented in the materials? Which principles need more attention and improvement in the materials?

After 15 minutes, discuss their answers to the questions.

Next, invite trainees to get into their FSP groups. Ask them to carry out a self-assessment of their youth products by filling in the spreadsheet 'FSP own assessment.' After about 10 minutes, allow volunteers to share their strengths and weaknesses and give ideas of how they are planning to address the weaknesses. Allow for about 10 minutes of discussion.

ACTIVITY 11: ACTION PLANNING AND WRAP-UP

OBJECTIVES

By the end of this activity, trainees will have:

1. Developed an action plan for their FSP.
2. Read and commented on the action plans of their peers.
3. Revisited workshop objectives, framework, principles and indicators of good practice.

PREPARATION

- Flip charts:
  - Workshop objectives (posted in Activity 1)
  - Workshop framework (posted in Activity 1)
  - Client protection principles for youth (posted in Activity 2)
  - Indicators of good practice (various flip charts posted in previous activities)
- Handouts:
  - 11.1 Action plan (1 per trainee)
  - 11.2 Module evaluation form (1 per trainee)
- Other materials:
  - Blank flip-chart paper (1 per group)
  - Blank sheet of coloured writing paper (1 per trainee) - Optional

TIME

50 minutes (1 hour 10 minutes if optional Step 4 is included)

STEPS

1. Guide trainees to develop an action plan – 20 minutes

Invite trainees to get into their FSP groups. Say:

We covered a lot of material together over the course of this training. We talked about the Client protection principles for youth, participated in self-assessment and learned from one another.

Refer trainees to the flip charts 'Workshop objectives' and 'Workshop framework' to remind them of the scope of the whole training. Then say:

Now is a good time to look beyond the workshop to the future: to harness strengths, to deal with weaknesses and to take advantage of any opportunities to grow your youth portfolio. We want to make sure you leave here with action plans that are relevant and actionable.

Distribute Handout 11.1 'Action plan' to each trainee. Go over the instructions at the top of the handout with the trainees to make sure they are clear.

Give groups 10–15 minutes to complete their action plans. Then give each group a sheet of blank flip-chart paper and 10 minutes to summarize their action plan on the flip chart.

After 10 minutes, invite each group to hang up their action plan.

2. Facilitate gallery walk to review action plans – 15 minutes

Say:

You have 15 minutes to go around the room and look at the action plans of your friends and neighbours.

While you circulate, think critically about the action plans. Ask yourself:

- How feasible is this plan?
- What, if anything, is missing?
- What advice would I give to this group about their plan?
- Does the plan make sense?

Release trainees to conduct the gallery walk of action plans.

Optional: *If you do not have time to complete the gallery walk, have each group share one or two action points with the full group instead.*

3. Review the objectives and principles and conduct evaluation – 15 minutes

Invite trainees to walk around and review the following flip charts: 'Workshop objectives,' 'Workshop framework,' 'Client protection principles for youth' and the various 'Indicators of good practice.'

Invite trainees to return to their seats. Pointing towards the 'Workshop objectives' flip chart, go through each objective and ask:

› **Have we achieved this objective? Through which activities?**

After discussing each objective, point towards the 'Client protection principles for youth' flip chart and ask:

› **What lingering questions do you have about any of the principles?**

Address any questions. Finally say:

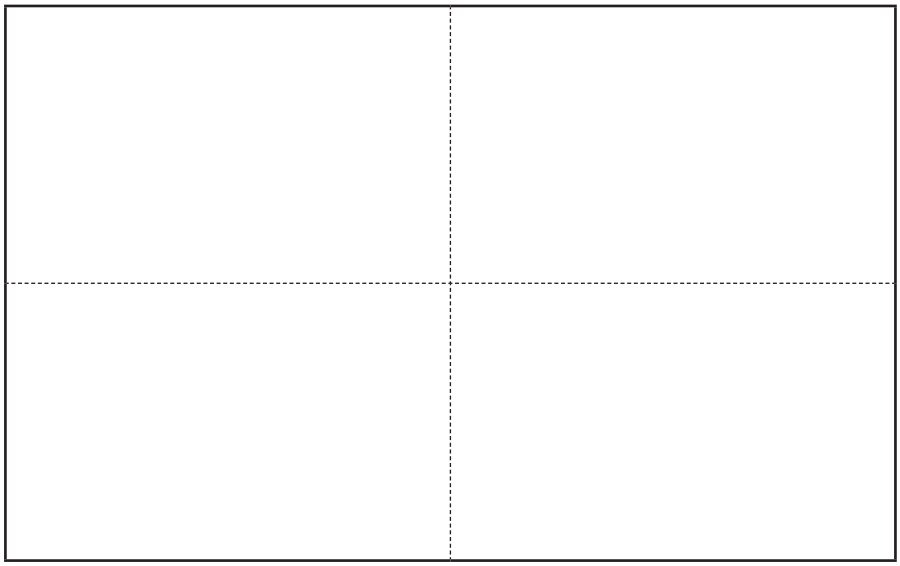
Thank you so much for your active participation in the training! We learned a lot together, and I hope that you will use the self-assessment tool and the materials to improve your financial services for youth.

Before you go, please take a few minutes to fill out an evaluation.

Distribute Handout 11.2 'Module evaluation form' to each trainee. Make sure to collect the completed evaluation form from each trainee.

4. Facilitate lavish affirmation exercise – 20 minutes (OPTIONAL)

Distribute a blank sheet of coloured writing paper to each trainee, and instruct them to fold it into quarters as shown in the figure:



Once trainees fold their paper, give everyone a piece of masking tape. Instruct them to tape the paper to the back of someone sitting near them. Demonstrate on yourself. Then say:

You have spent three days with the other trainees. You have done many activities together, helped each other and learned a lot about each other. What I want you to do now is go around and write a compliment on the back of four other trainees. PLEASE DO NOT USE MARKERS. Use a pen or pencil.

NOTE: BE SURE THAT TRAINEES DO NOT USE MARKERS FOR THIS ACTIVITY!

After each trainee has four compliments, bring everyone back together in a big circle. Invite trainees to remove the paper from their back. Allow everyone in the circle to share one compliment they received. Conclude by saying:

Our training has come to an end. We hope you have many tools and ideas to bring back to your respective FSPs and the youth you will serve. Congratulations on your hard work, and good luck in your next steps!

SECTION B
RESOURCE MATERIALS

Note: *Remember to update the Resource materials if you adapt the activities to a new context.*

LEARNING NEEDS AND RESOURCES ASSESSMENT (LNRA)

Please take a few minutes to fill out this assessment and return it before _____ *(date)*.
Your responses will help to inform the content and design of the training.

Note that if you do not currently work with youth, some questions may not be applicable. If so, please write 'n/a' in the space provided.

GENERAL QUESTIONS

1. Do you have any previous experience working with youth?
   If so, how much experience do you have? And what were some of the challenges you faced and opportunities you saw while working with youth?

Experience (years) working with youth		
Challenges	a)	
	b)	
	c)	
Opportunities	a)	
	b)	
	c)	

2. Do you have any previous experience working specifically with adolescent girls? If so, how much experience do you have? And what were some of the challenges you faced and opportunities you saw while working with girls?

Experience (years) working with girls		
Challenges	a)	
	b)	
	c)	
Opportunities	a)	
	b)	
	c)	

3. Please describe a) your target youth segment(s), including age range, gender, education level/ literacy, economic activities, and living environment (rural or urban); and b) the number of youth you are currently serving. If you serve more than one distinct target youth segment, please add extra rows to this chart as necessary. If you do not currently serve youth, please complete the chart based on your YouthStart Business Plan.

Programme or project name	Age	Gender	Education level / Literacy	Economic activities	Rural or urban?	Number of youth served

4. Please indicate your level of interest and familiarity with the topics to be covered in the training. Your responses will help the trainers to adjust their delivery appropriately. For each of the topics listed, check one box in column A and one box in column B.

Topics covered during the training on Client Protection Principles for Youth	A			B		
	How interested are you in this topic?			How much do you already know about this topic?		
	Not very interested	*Somewhat interested*	*Very interested*	*Not very much*	*Something*	*A lot*
1. Avoiding over-indebtedness						
2. Transparent and responsible pricing						
3. Appropriate collection practices						
4. Ethical staff behaviour						
5. Complaints handling resolution						
6. Privacy of client data						
7. Child and Youth Finance International certification criteria						

5. What three questions would you like to answer (or what specific problems would you like to solve) by the time you leave this training?

a)	
b)	
c)	

6. What other topics do you wish this training would address that do not appear in question 4?

a)	
b)	
c)	
d)	
e)	

TRAINEE PROFILE

Please complete the following self-evaluation by placing a checkmark in the column that best describes your demonstrated capacity or experience.

Foundational skills and knowledge	No capacity/ experience	Beginner capacity/ experience (<1–2 years)	Intermediate capacity/ experience (3–5 years)	Advanced capacity/ experience (5+ years)
Your functional domain _____ (*Insert*)				
Working with youth				
Working with adolescent girls				
Client protection principles				
Credit risk management				
Complaints handling and resolution				
Privacy of client data				
Codes of ethics				
Any other experience working in cross-functional teams _____ (*Insert*)				

Thank you for taking the time to help us adapt this training to meet your needs.

TRAINING PLAN

DAY	TIME	ACTIVITY
DAY 1	9:00 a.m.–9:35 a.m.	**1. Introduction to the training**
	9:35 a.m–10:30 a.m.	**2. Introduction to Client protection principles for youth**
	10:30 a.m–10:45 a.m.	*Break*
	10:45 a.m–12:30 p.m.	**3. Client protection principle for youth 1**
	12:30 p.m.–1:30 p.m.	*Lunch break*
	1:30 p.m.–2:15 p.m.	**4. Client protection principle for youth 2a**
	2:15 p.m.–4:10 p.m.	**5. Client protection principle for youth 2b**
	4:10 p.m.–4:25 p.m.	*Break*
	4:25 p.m.–5:10 p.m.	**6. Client protection principle for youth 3**
	5:10 p.m.	*Daily wrap-up*
DAY 2	9:00 a.m–9:15 a.m.	*Warm-up activity*
	9:15 a.m–10:10 a.m.	**6. Client protection principle for youth 3 (Continued)**
	10:10 a.m–10:55 a.m.	**7. Client protection principle for youth 4**
	10:55 a.m–11:10 a.m.	*Break*
	11:10 a.m–12:05 p.m.	**7. Client protection principle for youth 4 (Continued)**
	12:05 p.m.–12:45 p.m.	**8. Client protection principle for youth 5**
	12:45 p.m.–1:45 p.m.	*Lunch break*
	1:45 p.m.–2:40 p.m.	**8. Client protection principle for youth 5 (Continued)**
	2:40 p.m.–3:10 p.m.	**9. Client protection principle for youth 6**
	3:10 p.m.–3:25 p.m.	*Break*
	3:25 p.m.–4:20 p.m.	**9. Client protection principle for youth 6 (Continued)**
	4:20 p.m.–5:05 p.m.	**10. Client protection principle for youth 7**
	5:05 p.m.	*Daily wrap-up*
DAY 3	9:00 a.m–9:15 a.m.	**Warm-up activity**
	9:15 a.m–10:00 a.m.	**10. Client protection principle for youth 7 (Continued)**
	10:00 a.m–10:15 a.m.	*Break*
	10:15 a.m–11:05 a.m. (or 11:15 a.m.)	**11. Action planning and wrap-up**
	END OF TRAINING	

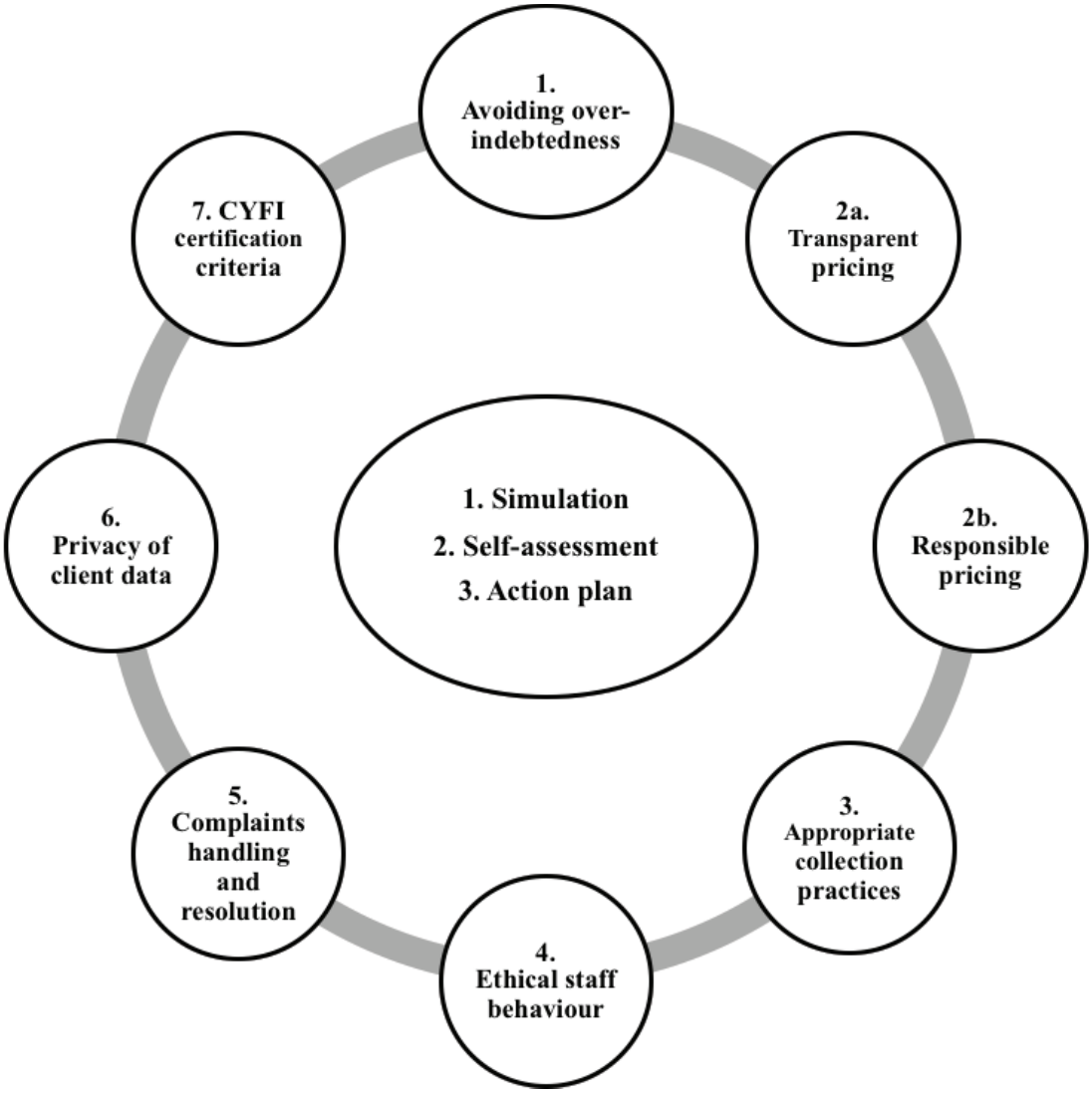
Handout 1.2

WORKSHOP OBJECTIVES

By the end of this workshop, trainees will have:

1. Assessed their youth products using The Smart Campaign's client protection principles and the Child and Youth Finance International (CYFI) certification criteria.
2. Developed a plan to ensure their youth products comply with the Client protection principles for youth.

WORKSHOP FRAMEWORK



Handout 2.1

CLIENT PROTECTION PRINCIPLES FOR YOUTH (Adapted from The Smart Campaign and Child and Youth Finance International)	
Principle	**Explanation**
1. Avoiding over-indebtedness	An FSP applies this principle by carefully establishing the borrower's ability to afford the loan and repay it. The borrower should be able to handle debt service payments without sacrificing his/her basic quality of life.
2a. Transparent pricing	An FSP applies this principle by ensuring that complete information pertaining to pricing is made available to the client in clear language that is not misleading; the client must be able to understand it.
2b. Responsible pricing	An FSP applies this principle by offering quality services for the price, demonstrating its competitiveness in the marketplace and favouring a long-term beneficial relationship with the client over short-term profit maximization. Consistent practice of transparent pricing is a pre-condition to adequate implementation of this principle.
3. Appropriate collection practices	An FSP applies this principle by treating the client with dignity even when he/she fails to meet his/her contractual commitments.
4. Ethical staff behaviour	An FSP applies this principle by creating a corporate culture that values high ethical standards among staff and ensuring safeguards are in place to prevent, detect and correct corruption or client mistreatment.
5. Complaints handling and resolution	An FSP applies this principle by having a mechanism for collecting, responding in a timely manner and resolving problems for the client.
6. Privacy of client data	An FSP applies this principle by respecting the privacy of client data, ensuring the integrity and security of his/her information and seeking his/her permission to share information with outside parties prior to doing so.
7. CYFI certification criteria	An FSP applies this principle by focusing on developing products that are youth friendly, with the focus being on certifying savings and current accounts for children.

ROLE PLAY—AVOIDING OVER-INDEBTEDNESS

Role-play props: Fake bank notes, fake documents, full bags

Scenario

Show a loan officer going to a community meeting where youth groups meet regularly. Have him flash bank notes around and announce that he has a lot of money to give to those who want to get rich quick. Have him talk about how the youth can borrow money to get out of poverty and be able to buy cars, furniture and the good things in life.

Show the officer convincing several youth to quickly sign documents without explaining them or answering their questions. Then have him give the youth bank notes. Create an atmosphere of excitement and happiness.

Next shift the scenario to show the officer collecting the first loan repayments from the youth. Make sure to show how the youth struggle to repay, acting sad and upset. Finally have the youth carry the full bags, as symbols of the burden and struggle to repay the loan money.

Handout 3.2

CAUSES AND EFFECTS OF OVER-INDEBTEDNESS[1]

Common causes of over-indebtedness

- A client is issued multiple loans at one or several FSPs because:
  - The FSP lacks information on the client's liabilities (e.g., non-existent credit bureaux), and/or
  - Loan officers are incentivized to oversell credit products.
- Repayment schedules do not match the client's business cycles (e.g., agriculture).
- The FSP relies on guarantees as a substitute for adequate capacity analysis.
- Of accidents, disease or natural disasters.

Effects of over-indebtedness on clients

- Work longer hours
- Reduce consumption
- Use savings for loan repayment
- Take new loans to pay off current debt
- Sell assets, including productive assets
- Invest less in productive assets and human capital
- Search for help from family, depleting relatives' assets
- Additional effects on youth: Increase dependence on family, abandon studies or training (worsening livelihood prospects), trap them in debt from an early age

Effects of over-indebtedness on FSP

- Increase in client delinquency
- Portfolio provisioning prevents the FSP from making other loans
- Unhealthy portfolio, a result of over-indebtedness among clients of the FSP
- Slow and costly legal proceedings for collections
- Damage to the image and portfolio of the FSP

1 Based on the following source: The Smart Campaign, 'Principle #1 – Avoid Client Over-indebtedness,' PowerPoint slides, accessed 9 August 2012, http://www.smartcampaign.org/storage/documents/Tools_and_Resources/Principle_1Training_Presentation_to_Post.ppt

INDICATORS OF GOOD PRACTICE—AVOIDING OVER-INDEBTEDNESS

(Adapted from The Smart Campaign)

- **Borrower over-indebtedness monitoring:** Management regularly monitors youth portfolio quality and uses that information to improve products, policies and procedures.
- **Suitable products:** The FSP offers youth-sensitive and appropriate loan products integrated with non-financial services, in particular financial education, that address over-indebtedness and good use of financial services.
- **Repayment capacity evaluation:** The loan approval process requires evaluation of borrower repayment capacity and loan affordability. Loan approval does not rely solely on guarantees (whether peer guarantees, co-signers or collateral) as a substitute for good capacity analysis.
- **Debt threshold guidelines:** Credit approval policies give explicit guidance to both the youth and his/her guardian regarding borrower debt thresholds and acceptable levels of debt from other sources.
- **Credit history verification:** When available, the FSP checks a Credit registry or Credit bureau for current debt levels of borrower and repayment history. When not available, the FSP maintains and checks internal records and consults with competitors for the same.
- **Portfolio quality valued:** Productivity targets and incentive systems value portfolio quality at least as highly as other factors, such as disbursement or client growth. Growth is rewarded only if portfolio quality is high.
- **Internal audit monitoring:** Internal audits check household debt exposure, lending practices that violate procedures including unauthorized re-financing, multiple borrowers or co-signers per household and other practices that could increase indebtedness.

Handout 3.4

SCENARIO—AVOIDING OVER-INDEBTEDNESS

Yusuf Dawood sat pensively in his office and gazed out the window, where he could see the city spread below the MicroTrust MFI head office. He looked at the audit report for the youth portfolio and thought about what he had just read.

His mind wandered back 18 months to when he had shaken hands with the chairman of Arion Group, an investment fund with whom he concluded negotiations for $500,000—money that was to go into growing MicroTrust's loan portfolio. He had committed the funds to penetrating the youth market, people between 18 and 35 years of age.

He thought back even further to two years ago. He had asked the marketing team to research youth as a target segment. Based on their report, he had recommended growth in that sector and suggested some initial products. However, he also remembered that he had disagreed with them on their proposed six-month pilot, which he thought was overly long. Within a month of pilot testing in one urban and three rural branches, he had decided to roll out countrywide…the portfolio showed signs of growth and he needed to invest the donor funding quickly! He recalled that he did so despite the credit manager's warning that the manual guiding the rollout was not yet finalized and that Human resources was not done hiring a specialist in agribusiness appraisal, an area where some of the money was being invested.

He looked at the audit report and noted several comments:

'Observation 3: …unrealistic growth targets may have caused aggressive growth of loans…a visit by our audit team to several youth groups revealed many business projects did not exist (e.g., $5,500 was disbursed to a group to keep sheep for shearing, but the business premise cited in the loan documentation belonged to a farmer who was unaware that a group met in the neighbourhood)…this, together with appraisal of loan documentation, shows inadequate assessment by the officer before disbursement…the loan assessment form currently in use…inadequate…to assess the youth client…'

On and on the report went, highlighting serious discrepancies with the credit appraisal process! Why was this information coming out now and in an audit report? He tried calling the business head, Miriam, but she was out for lunch. Something was not right. In the last three quarterly reports, there had been no indication that the portfolio at risk for youth loans was up to 15 percent. The audit report particularly highlighted growing disbursements and suggested that Human resources develop an incentive scheme to reward staff for growing business. In the back of his mind, Yusuf vaguely remembered telling Miriam to raise the targets of the officers in some of the branches, which seemed to be disbursing to youth quickly. One officer had proudly reported in one of his branch visits that his portfolio was up from 350 clients to 1,500 clients because of enrolling 20 youth groups. He had insisted on an individual product for youth, especially in towns that did not have groups 'to ensure that we capture the market.' He eventually disbursed to 50 individual youth.

Yusuf thought some more. Just when he was about to celebrate four years in the office, with a record of growing the business by four times in the last two years, an audit report was going to raise questions with the board. How would he deal with it?

He looked at recommendations in the audit report:

- 'Urgently reassess the credit appraisal process to include deeper evaluation of youth applicants' ability and willingness to repay due to the risks associated with them, by evaluating both financial and ratio analysis and non-financial issues, as opposed to the current appraisal that relies on group or individual guarantees alone.'
- 'Ensure compliance with credit processes that were introduced four weeks ago but were met with resistance by branch staff who claimed that the process slowed down disbursements.'

The audit report bore some hard facts. Yusuf sighed and wrote an email, calling for an urgent management meeting.

WHAT DO YOU REALLY SEE?[2]

A Rabbit or a Duck?

Hint: *The duck is looking to the left, the rabbit is looking to the right.*

2 The ambiguous figure of a duck-rabbit was first noted by American psychologist Joseph Jastrow in the following source: Joseph Jastrow, 'The Mind's Eye,' Popular Science Monthly 54 (1899): 299-312.

Handout 4.2

INDICATORS OF GOOD PRACTICE—TRANSPARENT PRICING

(Adapted from The Smart Campaign)

- Prices, terms and conditions of all financial products are fully disclosed to the youth and the co-signer (in the event client is a minor) prior to sale, including interest charges, insurance premiums, minimum balances, all fees, penalties, linked products, third-party fees, and whether those can change over time. It is important that the FSP ensures that its clients, youth in particular, understand the terms of the products they use. Financial education sessions may be designed and delivered to address this need.
- Staff are trained on how to communicate with youth in particular, how to tailor interactions with new users of financial services, understanding likely youth sensitivities, and the rights of clients. Communication techniques address literacy limitations (e.g., contracts are read out loud, materials are in local languages), are youth sensitive and include financial education sessions.
- Multiple channels for disclosing clear and accurate information about the products are used, such as brochures, orientation sessions, meetings and posted information in branches and websites. Financial education sessions are also offered to youth, without the sessions being a 'marketing opportunity' for the FSP.
- The FSP follows truth-in-lending laws and required calculation formulae for annual percentage rate (APR) or effective interest rate (EIR). In the absence of industry-wide requirements, information is provided that shows the total amount that the client pays (in case of a loan) or receives (in case of savings) for the product.
- Loan contracts show an amortization schedule that separates principal, interest and fees; define the amount, number and due dates of instalment payments; and include fees and conditions for early repayment, late payments and default. Debt collection practices are revealed to the borrower prior to the time of sale.
- Clients are given adequate time to review the terms and conditions of the product and have an opportunity to ask questions and receive information prior to signing contracts. For clients who are minors, terms also apply to co-signers.
- Clients regularly receive clear and accurate information regarding their accounts (e.g., account statements, receipts and balance inquiries). For clients who are minors, terms also apply to co-signers.

TRANSPARENT PRICING QUESTIONNAIRE

Source: www.smartcampaign.org

Instructions: Respond to the questions below from the perspective of a youth client.

1. I can easily understand the interest rate and compare it to the rates of other FSPs offering youth loans.

   Yes ☐ No ☐

2. I received the loan amount as stated in my contract.

   Yes ☐ No ☐

3. I know my instalment amounts and when payments are due.

   Yes ☐ No ☐

4. I have never had unexpected changes to late fees, early payment fees, account activity fees, interest rate, or loan terms.

   Yes ☐ No ☐

5. I understand my responsibilities for delinquent youth group members.

   Yes ☐ No ☐

6. I know my outstanding debt and the amount in my savings account.

   Yes ☐ No ☐

7. I always have the opportunity to ask questions during my interactions with my FSP.

   Yes ☐ No ☐

Handout 5.1

INDICATORS OF GOOD PRACTICE—RESPONSIBLE PRICING

(Adapted from The Smart Campaign)

- **Competitive, unsubsidized pricing:** Prices are not subsidized, are market oriented and competitive within the country context. The FSP may cross-sell, cross-subsidize or otherwise subsidize products to youth as part of their long-term strategy to attract and retain youth as long-term clients.
- **Prices do not reflect inefficiency:** The FSP does not charge clients for its own inefficiency, as demonstrated by a comparison of efficiency and profitability ratios of similar competitors.
- **Reasonable rate of return:** The FSP earns a reasonable rate of return to support operations and to grow, while allowing youth to do the same and to receive a net positive return on savings.
- **Re-investment of profit benefits the clients:** The FSP invests a portion of its profits to increase value to youth clients, such as lowering interest rates or adding non-financial services such as financial education or improving products.
- **No excessive penalties or fees:** The FSP does not charge a penalty if a client withdraws savings. There is no minimum initial balance and deposit requirement.

SCENARIO—TRANSPARENT AND RESPONSIBLE PRICING

Background

The journey to grow business at Maple Leaf Microfinance culminated six months ago when, in line with the company's strategic plan, a merger was finalized with a leading provider of financial services in the region. The merger led to a variety of activities to ensure that the new FSP that emerged aligned its operations to the newly created partnership.

One of the key activities was staff sensitization and training, to ensure that organizational direction was communicated to staff and to begin to mould staff to the required culture.

Machata, the business development manager, looked at the revised product portfolio on his desk. He was pleased with the results of the interventions in place to provide loan and savings products. He perused the youth loan and savings product profiles and rechecked the revised loan contract documents. It was only a matter of time before all staff fully complied with the revised processes. Only five branches seemed to have issues with compliance, while the rest were at various stages of ensuring that clients understood the new way of doing business. He was pleased that regular client satisfaction surveys had been institutionalized. He was also excited for the results of a recent youth product survey, to find out whether Maple Leaf was serving the market as it should or whether the FSP needed to realign its product processes further.

As he filed his copies, he decided to visit the lagging branches within the next month to ensure that all staff understood that changes were necessary to survive in this market.

Instructions

Study the attached product portfolio and loan agreement, which Machata was filing. Use the spreadsheet 'CP simulation' in the self-assessment questionnaire to assess how the FSP is performing in regards to the Client protection principles for youth.

Handout 5.2

MAPLE LEAF MICROFINANCE: PRODUCT PORTFOLIO

PART A: Client information pack

Note: This information will be inserted in youth marketing brochures.

Rallying cry: *Join Maple Leaf and succeed today!*
First 100 clients to register this month receive 10 percent interest rate.
Try us today. Talk to the officer in your nearest branch about our youth-friendly products.

MAPLE LEAF PRODUCT SUMMARY	
'Go far' youth business loan To boost and expand your business **Benefits** ▪ Grace period ▪ Interest reduction for clients with good repayment history ▪ No penalty for early repayment ▪ Loan graduation for clients with clean history ▪ Top-up facility available ▪ Loans from $60 to $2,000	**Junior savings account** To provide a savings account for young savers **Benefits** ▪ No account maintenance fee ▪ No withdrawal fee ▪ An affordable piggy bank for child's home savings ▪ Free bankers check for school fees

PART B: Staff information pack

Management guidance:

- Please note that these materials are for staff only. Staff to provide details on product pricing and features during client contact sessions.
- Pricing subject to change without notice.

'GO FAR' YOUTH BUSINESS LOAN	
Amounts under consideration	$60 to $2,000
Loan period	3 months to 2 years
Access requirements	▪ Citizen in youth group who is 18 to 35 years of age ▪ Identification papers ▪ Business set up at least six months ▪ 15% compulsory savings
Interest rate	Flat rate 22%
Other fees	▪ Facility processing fee 3% ▪ Loan insurance1% of loan face value
Processing time	12 hours
Penalties	Charged at interest rate on the weekly instalment

JUNIOR SAVINGS ACCOUNT	
Target segment	Youth under 18 years of age
Intended purpose	▪ To help youth save money in small amounts in order to accumulate savings in a secure place and ultimately achieve specific financial goals (e.g., saving for the holidays) and deal with emergencies ▪ To provide a savings account at an affordable cost, without stringent opening or maintenance requirements ▪ To avoid misuse of readily available cash and encourage a savings culture ▪ To provide financial services that are accompanied by fun, social-development activities and money-management training
Account operations	The account is opened and operated by the parent/guardian on behalf of the minor (person under 18 years old)
Opening balance	None required
Account opening fee	None
Minimum operating balance	$3
Ledger fee	None
Statement fee	▪ Two free statements can be requested per year ▪ Extra statements are charged as per tariff guide
Deposit fee	None
Withdrawal fee	Channels fees apply as per tariff guide
Account closing fee	$2
Deposit policy	▪ Any amount any time using any channel of their choice ▪ A piggy bank is given at account opening, at a cost of $4, for accumulation of monies
Withdrawal policy	▪ One free quarterly withdrawal ▪ Extra withdrawal cost is $3 per withdrawal over the counter ▪ To conduct transactions, minors must be accompanied by their parents or guardians who will use available stationery
Marketing communication	▪ Rallying cry: Join Maple Leaf and succeed today! First 100 clients to register this month receive 10% interest rate. Try us today. Talk to the officer in your nearest branch about our youth-friendly products ▪ Marketing campaign focus: Utilize youth artists and engage in a road show to position product ▪ Make appointments to visit schools and colleges to educate potential clients on saving as a lifestyle
Dormancy	▪ Dormancy declared on an account after 12 months of inactivity ▪ $4 charge on reactivation
Interest rate earned on savings	Up to 3% per annum on balances above $40, based on average balance per month
Value additions	▪ No ledger fees, maintenance fees or monthly charges ▪ One free bankers check per quarter for payment of school fees ▪ Free inter-account transfer ▪ Money-wise one-day camps ▪ Two free statements upon request ▪ Ability to deposit any amount ▪ Easy access to the account: can conduct transactions any time

Handout 5.2

MAPLE LEAF MICROFINANCE LOAN AGREEMENT

Serial no.

FOR OFFICIAL USE ONLY	
Branch Area	Product ID
Group no.	Client CID
Loan type	
Loan series	
Feeder account no.	
Contract no.	

Loan application

Name of borrower	
Postal address	
Telephone number	
Next-of-kin	Relationship
Number of people who depend on borrower	

AGREEMENT COVENANT

The Institution, a limited liability company, registered under the Companies Act and of address _____ is pleased to confirm its willingness to make available to the Borrower a credit facility (the 'loan') outlined below on the terms and conditions set out in this letter and subject to the satisfactory completion of any security documentation and in consideration of the loan extended to the Borrower and formalized in this Agreement the Borrower willingly enters into this Agreement.

1.0 Covenant to pay

The Borrower hereby pledges to repay the loan approved herein together with the interest, penalties (if any) together with other charges including but not limited to the registration fees and insurance in accordance with the terms and conditions.

2.0 Loan terms*

2.1 Loan amount: _____

2.2 Loan term (weeks/months): _____

2.3 Interest rate: _____ %

2.4 Grace period (weeks/months): _____

2.5 Total number of loan repayments: _____

2.6 Frequency of payment: _____

2.7 Set-up fees: _____

2.8 Penalty rate: _____ % above interest rate

*To be inserted upon approval of loan

The loan shall be repaid without arrears. A penalty, which will be an additional amount, will be applied after one day of arrears in the repayment of interest and capital, as scheduled.

3.0 Savings

The Borrower agrees to make deposits into the savings account during the entire term of the loan. Prior to accessing the loan, the Borrower shall have saved a minimum of 20 percent of the loan amount applied for. This sum is refundable upon completion of all obligations towards.

4.0 Group guarantee

4.1 The Borrower hereby represents that he/she is a member of _____ YOUTH Group (the 'Group') in order to guarantee and secure the repayment to the Institution of the entire loan together with interest and penalties (if any) as herein provided in the Group guarantee.

4.2 In the event of a default as herein defined on the part of any member of the Group the Borrower will be personally liable for the payment to the Institution of any and all principal, interest and penalties owing from the Group member. The Borrower agrees to be jointly and severally liable for any and all obligations to the Institution by any member of the Group.

5.0 Purpose of loan

Proceeds from the loan shall be used solely for purposes of the business described in the Loan application, which forms part and shall be read together with this Agreement.

6.0 Event of default

The following shall comprise an Event of default:

6.1 Not paying a scheduled loan payment, interest or any part of such payment;

6.2 Use of the loan proceeds for any purpose other than that described in the loan application;

6.3 Relocation of business location, or other substantial change to the business without the prior written notice and consent of the Institution and the Group.

7.0 Other covenants

7.1 In the event of the Borrower's death this Agreement shall be binding on the Borrower's heirs, executor(s), administrator(s), personal representatives and assigns.

7.2 The Borrower undertakes to procure the guarantee of this loan by the members of _____ Group up to a maximum principal sum of $_____ and the Guarantors shall be jointly and severally liable for the repayment of any outstanding loan upon the occurrence of an Event of default.

7.3 Any forbearance, indulgence or relaxation by the Institution shown or granted to the Borrower in enforcing any terms and conditions of this Agreement shall not in any way affect, diminish, restrict, waive or prejudice the rights or powers of the Institution under this Agreement.

7.4 In the Event of default the Borrower agrees to immediately pay the Institution the outstanding loan balance plus any service charge and/or penalties due together with all costs incurred by the Institution in enforcing this Agreement.

7.5 The Borrower hereby gives the Institution the absolute legal right and authority to draw from the Borrower's Loan security fund account balance which is then on deposit in order to satisfy any obligation of the Borrower described in this Agreement.

7.6 The Borrower agrees to abide by all policies, rules and regulations of the Institution.

Handout 5.2

GROUP GUARANTEE

1.0 In the Event of default on the part of the Borrower, the undersigned members of _____ Group (the 'Guarantors') jointly and severally guarantee and stand surety for the outstanding loan balance, interest and penalty (if any) and agree to be personally liable for the payment thereof. Each of the undersigned Borrowers hereby expressly authorize deductions from his/her savings balance in order to satisfy such obligations, in any amount and at any time that the Institution shall in its sole discretion determine to be in the best interest of the Institution.

2.0 The Guarantors further agree:

2.1 In the event of the Borrower's death, this Agreement shall be binding on the Guarantors' heirs, executor(s), administrator(s), personal representatives and assigns.

2.2 That any forbearance, indulgence or relaxation by the Institution shown or granted to the Guarantors in enforcing any terms or conditions of this Guarantee shall not in any way diminish, restrict, waive or prejudice the rights or powers of the Institution under this Agreement.

2.3 That during the duration of the loan the Guarantor will not offer the assets pledged by the Guarantor to as collateral security for this loan, for any other loan pledge, any other such facilities of a commercial nature or otherwise transfer title to the assets to a third party. Any deviation from this provision shall be treated as a breach of contract on the Guarantor's part and shall entitle the group to seize the assets without any notice.

Each of the undersigned individuals expressly warrant that they are members of the Group and that the execution of this Guarantee shall not be interpreted to nullify, void or cancel the Letter of offer or any similar agreement between the Guarantors and the Institution. Each of the undersigned youth group members has read, understood and agreed to abide by this Guarantee, which has been fully explained to each one.

1. Name _____ Signature: _____ Date: _____

2. Name _____ Signature: _____ Date: _____

3. Name _____ Signature: _____ Date: _____

4. Name _____ Signature: _____ Date: _____

Signed in the presence of the Institution's officer:

Name: _____ Signature: _____ Date: _____

ROLE PLAY—APPROPRIATE COLLECTION PRACTICES

A client missed two or three loan payments. The officer was asked to follow up with the client.

Have the group prepare and present a 2- to 3-minute role play that shows poor collection practices showing, among others, the following:

- A disrespectful interaction that deteriorates into an argument, threats and a strained relationship between the client, officer and group; and
- Collection or 'seizing of assets' that deprives the client of his or her dignity.

Handout 6.2

INDICATORS OF GOOD PRACTICE—APPROPRIATE COLLECTION PRACTICES

(Adapted from The Smart Campaign)

- **Practices written in manual:** Acceptable and unacceptable debt collection practices are clearly spelled out in a code of ethics, book of staff rules or debt collection manual.
- **Staff and third-party training:** Collection staff receives training in acceptable debt collection practices and loan recovery procedures. In-house and third-party collection staff is expected to follow the same practices.
- **Non-compliance disclosure and sanctions:** Staff is informed in advance of penalties for non-compliance with collection policies and violations are sanctioned.
- **Acceptable collateral policies:** The FSP follows a policy on acceptable pledges of collateral, including not accepting collateral that will deprive borrowers or their co-signers (in the event client is a minor) of their basic survival capacity, such as a house or essential business fixed assets.
- **Rescheduling policies and procedures:** Re-scheduling policies prevent automatic debt extensions and re-scheduling procedures follow written protocol.

SCENARIO—APPROPRIATE COLLECTION PRACTICES

Askat Finance has been in existence for the last eight years, operates in over ten provinces, has a staff force of over 250 and has a loan portfolio of $16 million. The management team is concerned by recent reports that three neighbouring branches are not complying with the credit policies. At the last management team meeting, the operations manager and the legal manager argued over where to draw the line with defaulting clients, especially with the Young and Alive Project recipients. The recipients, who received loans to finance start-up businesses, were in default after most of the businesses suffered setbacks. The operations manager requested that the loans be rescheduled, while the finance manager advised against it and asked for thorough discussions to agree on an acceptable policy. There was no solution reached at the time.

Now the managing director is meeting with the legal manager, Ms. Mali, who is briefing him on the litigation cases by clients in the three branches. During their meeting, a frantic call comes through the head office switch board and is directed to Ms. Mali. It is the manager of the northern branch, Siti. Here is their conversation:

Ms. Mali: Yes, can I help you?

Siti: Madam, all is not well. There are police officers at reception, and they insist that I must go with them to the police station. What do I tell them?

Ms. Mali: The police! What happened? I saw a complaint about your branch last week in a letter written to the managing director. I hope this is not because of that client!

Siti: No Madam, we sorted that case out. I explained to the officer that it is against company policy to bring goods collected from a non-paying client to the office. The group members refused to take custody of the items after the officer took them from the client, and he said he had no choice but to bring them to the office. The officer involved apologized. But, Madam?

Ms. Mali: Yes, Siti.

Siti: This case is worse. Two weeks ago I put pressure on my officers to collect all loans that had not been paid for the last four weeks. One of my officers accompanied the group to the home of a defaulter, a young man whose business was burnt down last week. He refused to part with the items he wrote on the loan form and the officer and group members engaged him in a physical fight. He ended up getting hurt. I hear that they fought him because he tried to lock the house and run away.

Ms. Mali: Do you not know that this kind of situation can cause problems? Even if the client is not cooperating, there is a process to follow.

Siti: No …Yes, Madam, but you see, the operations manager told us to use whatever means at our disposal to ensure repayments were made. The officer and group seized a mattress, household utensils and a dog, as the young man had only just started to live alone and did not have a lot. I am told that they sold those items on the way here, and the police caught up with them and arrested them. Now they have come to arrest me as well for issuing the seizing orders. What do we do?

Ms. Mali *(sounding depressed)*: Siti, you and I need to plan a visit to your branch very soon. In the meantime, there is little you can do to resist arrest. Go to the station and ensure that you and the officer are booked and establish what the formal offense is. Most likely the two of you will be charged with seizing items disallowed by law and not written in the loan documents. We will settle the cash bail and we will comply with the court's decision when the case goes to court.

Siti: Yes, Madam. I invite you to my branch next week to speak to my staff…you see…I am under pressure to collect, and it seems that we need to review what to do when faced with default and collections.

Ms. Mali puts the phone down and stares speechless at the managing director. It is time to take action to guard the institution and staff from an impending public relations disaster.

Handout 7.1

ROLE PLAY—ETHICAL STAFF BEHAVIOUR

Client: Sir, I came to your office because I have waited for my loan too long. It was approved by the group three weeks ago, but I have not seen the money.

Officer: Oh? *(Look unconcerned)* And did you think it would be easy to get a loan? You must be patient.

Client: True, Sir, but it has been three weeks! Please tell me whether there is anything wrong. What do I need to do to get my check?

Officer: Aaah, now you are talking. Let us go outside the office for a minute. *(Whisper)* You know, you may need to help make the process faster ….by providing a 'fast processing fee.'

Client: Fast processing fee? What is that? I paid all the required fees.

Officer: Yes, but the fast processing fee helps encourage me to release the check.

Client: *(Look like you understand)* Oh, then why didn't you say so? How much would it be?

Officer: *(Whisper a quote to the client)* It must be cash only.

Client: What?!? That is so much, and I need my check! Please process it and I will give you the amount you asked for when I receive my check.

(Client and Officer shake hands and sit down.)

INDICATORS OF GOOD PRACTICE—ETHICAL STAFF BEHAVIOUR

(Adapted from The Smart Campaign)

- **Valued and rewarded:** The corporate culture of the FSP values and rewards high standards of ethical behaviour and client service.
- **Expressed in the code of ethics:** A written code of business ethics spells out organizational values and the standards of professional conduct expected of all staff.
- **Board approval and staff compliance:** The code of ethics has been reviewed and approved by the Board and is included in staff rule books or administrative policies.
- **Acceptable/Non-acceptable behaviour and reprimands:** Staff rules include specific provisions on what is considered acceptable and unacceptable behaviour. Provisions describe reprimands and actions that can result in termination of employment.
- **Alignment of Human resources practices:** Human resources procedures give attention to ethics, such as assessing new employees for compatibility with organizational values.
- **Staff training:** Staff receives orientation and refresher courses on the practicalities of following codes of conduct.
- **Ethics addressed in performance evaluations:** Managers and supervisors review ethical behaviour, professional conduct and the quality of interaction with clients as part of staff performance evaluations.
- **Detection systems for client mistreatment:** The FSP has a robust internal audit and fraud control system that detects client mistreatment, such as kickbacks, favours or coercion.

Handout 7.3

CASE STUDY—ETHICAL STAFF BEHAVIOUR

Ethical Staff Behavior at Alalay Sa Kaunlaran, Inc. (ASKI):

AN INTERVIEW WITH MARY JANE MACAPAGAL, RESEARCH AND TRAINING DIRECTOR

With limited financial resources and few service options, microfinance clients are particularly vulnerable to corruption and unscrupulous business practices. The principle of ethical staff behavior aims to ensure that financial service providers maintain high ethical standards in their interactions with microfinance clients. Adequate safeguards must be in place to detect and correct corruption from staff or mistreatment of clients.

Developing and maintaining an ethical corporate culture requires that an organization clearly state its values and ethical standards through a Code of Conduct. Management and staff at all institutional levels must be trained on ethical behavior and receive appropriate rewards and sanctions for their ability or failure to comply.

Alalay Sa Kaunlaran, Inc. (ASKI), a microfinance institution in the Philippines, believes that ethical staff behavior is a critical component of both good customer service and human resources management. ASKI implements their written Code of Conduct and Discipline through staff training, staff performance reviews, client satisfaction surveys, and the ASKI Values Protocol—an established process for addressing staff violations of the Code.

Smart Campaign (SC): Thank you for taking the time to share ASKI's experience with us. How does ASKI define "ethical staff behavior?"

Mary Jane Macapagal (MM): It is behavior that ensures that clients are always treated fairly and with respect, so that they receive the best services possible. It is *very* important to uphold the right organizational values, attitude, and standard of service so that the customer knows that they are truly valued by the organization.

SC: How does ASKI promote a culture of ethical staff behavior?

MM: In addition to our operational policies and procedures, we have a Code of Conduct and Discipline, which explains what ASKI expects of each staff member. The code outlines the "dos" and "don'ts," of staff behavior—as well as the consequences of violating the code. For example, a loan officer is suspended for three days upon his third offense related to discourteous behavior toward a client.

All new staff members are trained on the code during their orientation. The training includes case studies to illustrate "real life" applications of the code. After staff and managers are trained, they must pass an exam that indicates their understanding of the code and its implications for their work. Additionally, in ASKI's performance reviews, staff are evaluated on their "soft skills," which includes ethical behavior.

SC: What is included in the Code of Conduct and Discipline?

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

SC: Who developed ASKI's Code of Conduct and Discipline?

MM: First, a Human Resources committee composed of senior managers and representatives from the Board of Directors developed a draft code. This initial draft reflected client feedback that ASKI had already collected using our customer complaint system. A draft of the document was then presented at our annual retreat. During a workshop breakout session, staff were able to review the code, comment on it, and ask any clarifying questions. For example, one question they asked was whether or not checking client credit history violated the principle of confidentiality. They also asked for specifics on how code violations would be punished.

After receiving staff feedback, the committee revised and finalized the code. ASKI also decided to review the code every five years, as we want it to reflect our ongoing learning about ethics and customer service. Our next review is scheduled for July 2011.

SC: How do you monitor the implementation of the Code among staff?

MM: We do this in several important ways:

1. Our internal audit team regularly checks staff compliance with anti-corruption policies and procedures as part of regular internal audits.

Aside from reviewing a client's credit documents (official receipts, collection report, loan repayment schedules, etc.), internal auditors interview clients, and use a process map and compliance checklist to ensure that correct processes have been followed.

2. ASKI informs employees on the proper procedure to report any workplace ethics violations that they observe or hear about.

3. In 2010, ASKI started conducting client satisfaction surveys through a research team. During these interviews, the team asks clients if they receive respectful and ethical treatment from ASKI loan staff. This report is given to branch and senior management who use it to check staff service performance and improve on any weaknesses.

4. To complement this feedback mechanism, we have a system called *Komento mo...I-TEXT MO!* ("Send us your comments by TEXT!"). This is another feedback system for clients to communicate with ASKI. We provide clients with a phone number, and they use it to send us text messages that include questions and complaints. Clients know that this is a confidential way for them to complain about employee behavior. Likewise, employees know that all clients are empowered to comment on staff behavior at any moment. Furthermore, with this system, ASKI can get immediate feedback and respond to problems within two weeks. In addition to providing better service to clients, the text system helps us to identify problems, enforce the Code of Conduct and Discipline and ensure that our employees keep their behavior in mind during all interactions with clients.

SC: What happens when a staff member is suspected of violating the Code of Ethics?

MM: When a violation on the Code of Ethics is suspected/identified through a report from coworkers, clients, supervisors, or internal auditors, we follow a set procedure. We call the process the ASKI Values Protocol.

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

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SC: How are staff rewarded and punished?

MM: A staff member who receives any disciplinary action is ineligible for promotion for one year. Of course, more serious offenses may result in employee probation or termination. On the other hand, positive feedback is reflected in the employee's performance evaluation. The regular staff performance appraisal report includes an item relating to staff policy compliance. ASKI also recognizes outstanding staff members and uses compliance on Code of Ethics policies as indicator for this award.

SC: This sounds like a lot of work—is it worth it?

MM: It is worth it, because it benefits our employees and clients. First, staff want to know what is expected of them; since they understand what ethical standards they are expected to uphold, they are more composed and productive. Secondly, our clients get better service. A third-party evaluation conducted last year showed that one of the top reasons our customers choose ASKI over competitors is that our staff treats them well and fairly.

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Keeping clients first in microfinance

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Handout 8.1

INDICATORS OF GOOD PRACTICE—COMPLAINTS HANDLING AND RESOLUTION

(Adapted from The Smart Campaign)

- **Written complaint policy:** A written policy requires client complaints to be taken seriously, fully investigated and resolved in a timely manner without bias.
- **Active handling process:** A mechanism to handle client complaints is in place, has dedicated staff resources and is actively used. (Suggestion boxes alone are generally not adequate.) Specific recourse mechanisms that are accessible to youth may be needed, such as at schools or other places when they are used as delivery channels for financial services.
- **Resolution monitoring system:** Youth clients and their co-signers (in the event client is a minor) are informed of their right to complain and know how to submit a complaint to the appropriate person. Education sessions about clients' rights and responsibilities are delivered to both clients and staff.
- **Staff training:** Staff is trained to handle complaints and refer them to the appropriate person for investigation and resolution.
- **Resolution progress monitoring system:** Internal audit or other monitoring systems check that complaints are resolved satisfactorily.

SCENARIO—COMPLAINTS HANDLING AND RESOLUTION

The newly-recruited client service manager of Uhoto Microfinance, Liz Marende, just received the monthly client complaints file for her review and comments. She noted the various complaints that clients made, compared them with those in the previous month's report and noted the common complaint issues.

She was impressed that Uhoto had a simple way of identifying, documenting and responding to client issues: all staff members were told to document client complaints monthly and forward them to the head office. She was encouraged that most staff members were very dedicated to dealing with client complaints and issues. The only concern she had was that branch staff directed client issues to anyone who would listen: Human resources, Audit or those managers who were known to resolve issues quickly.

Didn't they know what the process was, and what to do when? She decided to review the Client care manual and realign the complaints resolution process. As she sat in her cubicle and listened to her staff members taking client calls, she wondered whether they had ever undergone formal training on client care in general. She bent down to review the complaints file again, to get an idea of where to start.

DOCUMENTED CLIENT COMPLAINT	DOCUMENTED RESOLUTION
My loan officer has not attended the group meeting for the last four weeks.	Referred to branch manager
I have been waiting for three months for my savings to be returned to me after I left my group. What is happening?	Not resolved—pending
I did not get sick the whole year. Can I get a refund of the money I used to purchase my health insurance?	Referred to branch officer
I opened a Junior savings account for my daughter, and I have not received the card. When should I get it?	Referred to marketing
I joined the group three months ago and was told I would be given money that the government is giving youth. I still have not received the check.	Referred to branch officer
The bank's records and my records in my passbook are not tallying and I think someone has stolen my money.	Resolved—branch manager attended to this
During the marketing campaign, I was promised a t-shirt and $50 for opening a Junior savings account for my daughter. It has been two months now, and I have nothing!	Referred to marketing department
I sent a message, as directed, to a number in order to enquire about my savings balance and was told to wait 10 minutes. It has been 24 hours and I have heard nothing.	Resolved—system delay sorted and message sent

Handout 9.1

INDICATORS OF GOOD PRACTICE—PRIVACY OF CLIENT DATA

(Adapted from The Smart Campaign)

- **Written privacy policy:** A written privacy policy governs the gathering, processing, use and distribution of client information.
- **Secure systems and staff training:** Systems, including secure information technology systems, are in place and staff is trained to protect the confidentiality, security, accuracy and integrity of clients' and co-signers' (in the event client is a minor) personal and financial information.
- **Client understanding and consent:** Clients and co-signers (in the event client is a minor) know how their information will be used. Staff explains how data will be used and seeks permission for use. The client has the right to determine the use and transfer of the personal- and product-related financial data that is collected about him/her by the FSP.
- **Written consent required:** Written client consent is required for use of information in promotions, marketing material and other public information. Clients are asked to express their written agreement for sharing personal information with any external audience, including credit bureaux.
- **Client education**: The FSP offers information, orientation or educational sessions to clients on how to safeguard information, access codes or personal identification numbers.

EXAMPLES OF GOOD PRACTICE—PRIVACY OF CLIENT DATA

ENSURING PRIVACY OF CLIENT DATA	ENSURING SECURITY OF CLIENT DATA
▪ Employees sign a confidentiality agreement at the same time as their employment contract. ▪ Clients give written permission before the FSP can use their image and/or story in marketing materials. ▪ The FSP has a periodic programme for clients to update their data and provides incentives for them to participate. ▪ Information about collections can only be accessed by the collections agent, branch manager and the Collections department at headquarters.	▪ Physical copies of client data are secured in branch locations and digital information is in a secure database. ▪ The FSP uses a power-sharing system: only the branch can change client information, while headquarters can access data from all branches. ▪ Institutional information available on the intranet cannot be printed or downloaded for use outside the office.

Handout 9.3

SCENARIO—PRIVACY OF CLIENT DATA

Orange Microfinance conducted a survey on the preparedness of microfinance operations to safeguard client data and privacy. The following critical incidents, which occurred in the past nine months, were documented in the survey report. These incidents show the need for the FSP to better apply the principle of privacy of client data.

Critical incident 1

Orange Microfinance rolled out a brand-positioning campaign for its youth product, Early bird account. The marketing manager, Nandi, collected proposals and fee quotes from various marketing agencies. He realized that, because of the high costs, it was preferable to use photographs and testimonials from an internal case study they completed a year ago based on their database of young savers.

Nandi looked for the best three photos and stories and submitted them for use. The campaign was a great success, and the marketing staff congratulated themselves on a job well done. But, a week later, one of the clients' mothers came to the office and asked for the managing director. She asked: 'Why was I not told that you would use my baby's photo when your people visited me and took my story?'

Critical incident 2

Following the incident above, Orange Microfinance hired a team of 12 microfinance officers. During their orientation training, the new staff went on a field trip to the branches, where they spent three days visiting groups and clients with loan officers.

After coming back from their trip, they met with the Human resources officer so that he could review company policy and staff documentation with them. During the meeting, the new staff described their time in client training sessions, group meetings and markets and shared lessons learned from their trip. Here is part of their conversation:

Human resources officer: How was your field visit?

Maria: I enjoyed visiting the clients with the officer. We visited some clients at their businesses. The officer I was with talked to one client who had not paid for four weeks. The officer told the client that he would forward his name for action by the Credit department. I learned a lot from the interaction about how to deal with defaulting clients, and I think I will enjoy working as an officer.

Officer: Hmm, that was a good experience. I hope you are all clear on staff policy and will do your best to comply with the various requirements.

Daudi: Sir, I did not understand the confidentiality form that we signed yesterday. Can you explain that a bit more? It made me feel like I am not trusted by Orange.

Officer: Oh, not at all. We value you as an employee and want to ensure you feel valued. The form is part of our commitment to be accountable for our actions. We expect that you will treat any information you come across with a lot of care to ensure we continue to serve our clients well.

Critical incident 3

Meanwhile, in Mawingu branch, the loan officer just finished his day's work and was headed home. He looked forward to spending time with his family and decided to purchase meat at the nearby market.

He talked with the trader who was weighing and wrapping the meat and noticed Orange's logo on several sheets of paper. After looking more closely, he asked the trader in astonishment where he got the paper. The trader said that he purchases paper from a collector who goes around buying paper from different organizations.

Speechless, the officer took his wrapped meat and walked home. His meat was wrapped in a computer printout that had client names, loan amounts and balances belonging to his branch. He determined to pick the matter up with his manager the following day.

CYFI CERTIFICATION CRITERIA

- **Availability and accessibility of financial products for youth:** The minimum age to open an account is not set higher than the legal age defined by the jurisdiction. The products are proactively offered to all youth, regardless of gender, age, race, ability, belief and socio-economic background.
- **Maximum control to youth:** The FSP allows ownership of an account by youth, in accordance with the local jurisdiction. The FSP allows youth to operate an account independently, in accordance with the local jurisdiction. Marketing of youth products promotes financial independence of youth.
- **Youth-friendly communication strategies:** The FSP uses a communication strategy that is designed specifically for youth. The FSP trains staff on how to interact with youth, uses understandable language in all written communication to youth and actively involves youth in improving its youth-friendly products.
- **Financial education:** The FSP actively supports the national strategy for financial literacy (where such a strategy exists), contributes to improving youth's awareness of youth financial services, and offers a financial-education component so that youth are better equipped to use youth financial services.
- **Youth satisfaction surveys**: The FSP has mechanisms in place to assess satisfaction of youth (such as surveys) and uses the results to improve its products.

Handout 10.2

SCENARIO—CYFI CERTIFICATION CRITERIA

JUNIOR SAVINGS ACCOUNT	
Target segment	Youth under 18 years of age
Intended purpose	▪ To help youth save money in small amounts in order to accumulate savings in a secure place and ultimately achieve specific financial goals (e.g., saving for the holidays) and deal with emergencies ▪ To provide a savings account at an affordable cost, without stringent opening or maintenance requirements ▪ To avoid misuse of readily available cash and encourage a savings culture ▪ To provide financial services that are accompanied by fun, social-development activities and money-management training
Account operations	The account is opened and operated by the parent/guardian on behalf of the minor (person under 18 years old)
Opening balance	None required
Account opening fee	None
Minimum operating balance	$3
Ledger fee	None
Statement fee	▪ Two free statements can be requested per year ▪ Extra statements are charged as per tariff guide
Deposit fee	None
Withdrawal fee	Channels fees apply as per tariff guide
Account closing fee	$2
Deposit policy	▪ Any amount any time using any channel of their choice ▪ A piggy bank is given at account opening, at a cost of $4, for accumulation of monies
Withdrawal policy	▪ One free quarterly withdrawal ▪ Extra withdrawal cost is $3 per withdrawal over the counter ▪ To conduct transactions, minors must be accompanied by their parents or guardians who will use available stationery
Marketing communication	▪ Rallying cry: Join Maple Leaf and succeed today! First 100 clients to register this month receive 10% interest rate. Try us today. Talk to the officer in your nearest branch about our youth-friendly products ▪ Marketing campaign focus: Utilize youth artists and engage in a road show to position product ▪ Make appointments to visit schools and colleges to educate potential clients on saving as a lifestyle

JUNIOR SAVINGS ACCOUNT	
Dormancy	▪ Dormancy declared on an account after 12 months of inactivity ▪ $4 charge on reactivation
Interest rate earned on savings	Up to 3% per annum on balances above $40, based on average balance per month
Value additions	▪ No ledger fees, maintenance fees or monthly charges ▪ One free bankers check per quarter for payment of school fees ▪ Free inter-account transfer ▪ Money-wise one-day camps ▪ Two free statements upon request ▪ Ability to deposit any amount ▪ Easy access to the account: can conduct transactions any time

Handout 11.1

ACTION PLAN

- Take time as a group to go through the self-assessment questionnaire.
  - Look at the score that you got after the assessment, the bar graph and the summary chart. What do they tell you about your best and worst areas of application of the Client protection principles for youth?
  - From the list of exemplary practices (strengths) and challenges/gaps (weaknesses), agree on a list of two to three institutional strengths and weaknesses. Discuss what opportunities you have as an FSP to correct any weaknesses, particularly as a result of attending this workshop. From the envisioned opportunities, select three to four action points you feel you should attend to first.
- Use the template below to help you think through actions you need to take to embed the Client protection principles for youth institutionally.

Name of FSP: _____

Name of person completing form: _____

PROPOSED ACTION (based on observed strengths, weaknesses and upcoming opportunities)	SUPPORT REQUIRED	BY WHOM?	BY WHEN?

MODULE EVALUATION FORM

Please rate the following aspects of this module on a scale of 1 to 5, with 1 being 'Very poor' and 5 being 'Excellent.' Please provide comments on all aspects that you really liked or that you think could be improved.

Module activities

ACTIVITY	SCALE: 1 TO 5	COMMENTS
1. Introduction to the training		
2. Introduction to Client protection principles for youth		
3. Client protection principle for youth 1—Avoiding over-indebtedness		
4. Client protection principle for youth 2a—Transparent pricing		
5. Client protection principle for youth 2b—Responsible pricing		
6. Client protection principle for youth 3—Appropriate collection practices		
7. Client protection principle for youth 4—Ethical staff behaviour		
8. Client protection principle for youth 5—Complaints handling and resolution		
9. Client protection principle for youth 6—Privacy of client data		
10. Client protection principle for youth 7—CYFI certification criteria		
11. Action planning and wrap-up		

Trainers' effectiveness

TRAINERS' EFFECTIVENESS	SCALE: 1 TO 5	COMMENTS
Trainers were well prepared		
Trainers were knowledgeable about the topics		
Trainers clearly presented information and activities		
Trainers introduced/summarized each activity		
Trainers encouraged trainees' participation		
Trainers managed time well		
Trainers facilitated trainees' application of knowledge gained		

Attainment of learning objectives

LEARNING OBJECTIVES	SCALE: 1 TO 5	COMMENTS
▪ Introduced themselves and their FSPs. ▪ Reviewed the expectations, objectives, framework and norms for the training		
▪ Familiarized themselves with the Client protection principles for youth.		
▪ Identified causes and effects of over-indebtedness on youth clients. ▪ Assessed the application of principle 1 using a scenario. ▪ Assessed the application of principle 1 in their youth products.		
▪ Discussed how a lack of transparency affects youth clients and FSPs.		

LEARNING OBJECTIVES	SCALE: 1 TO 5	COMMENTS
▪ Discussed implications of loan costing and pricing methods. ▪ Assessed the application of principles 2a and 2b using a scenario. ▪ Assessed the application of principles 2a and 2b in their youth products.		
▪ Distinguished between good and bad collection practices. ▪ Assessed the application of principle 3 using a scenario. ▪ Assessed the application of principle 3 in their youth products.		
▪ Identified youth-specific best practices for ethical staff behaviour. ▪ Assessed the application of principle 4 using a case study. ▪ Assessed the application of principle 4 in their youth products.		
▪ Identified how dissatisfied youth clients affect the FSP and the importance of resolving client complaints. ▪ Assessed the application of principle 5 using a scenario. ▪ Assessed the application of principle 5 in their FSP.		
▪ Identified good practices for maintaining privacy of client data. ▪ Assessed the application of principle 6 using a scenario. ▪ Assessed the application of principle 6 in their youth products.		
▪ Familiarized themselves with the main themes of the CYFI certification criteria. ▪ Assessed the application of principle 7 using a scenario. ▪ Assessed the application of principle 7 in their youth products.		
▪ Developed an action plan for their FSP. ▪ Read and commented on the action plans of their peers. ▪ Revisited workshop objectives, framework, principles and indicators of good practice.		

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