



European Code of Good Conduct for Microcredit Provision

Provider Guidelines – Update 2021

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under a contract signed with the European Commission
March 2021



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MANCHESTER

EUROPEAN COMMISSION

Directorate-General for Employment, Social Affairs and Inclusion
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Unit E1 – Job Creation

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B-1049 Brussels*

European Code of Good Conduct for Microcredit Provision

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Manuscript completed in March 2021

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PDF/Volume_01

ISBN 978-92-76-27754-5

doi: 10.2767/46546

KE-04-20-294-EN-N

Luxembourg: Publications Office of the European Union, 2021

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1. Introduction

These provider guidelines are intended to support microcredit providers (henceforth, ‘the providers’) wanting to implement the **European Code of Good Conduct for Microcredit Provision** (henceforth, ‘the Code’). The guidance is aimed at management and staff of microcredit providers, but stakeholders and the Code evaluators may also find it useful.

The main purpose of the document is to give a clear overview of the Code and the Code evaluation process, and to offer guidelines for implementing the Code and assessing applicability of and compliance with the clauses of the Code.

The guidelines are organised into five chapters:

- Chapter 1: Introduction
- Chapter 2: About the Code and the evaluation process: This section provides some background information about the Code, including its development and purpose, and describes how providers can go about making enquiries about and signing up to the Code. It also provides an overview of the evaluation process.
- Chapter 3: Before the evaluation: In this section, providers are given tips and guidance on how they can go about assessing how far they are from complying with the required number of clauses and how they can plan for implementation.
- Chapter 4: During the evaluation: This section explains how providers can request the external evaluation of compliance.
- Chapter 5: After the evaluation: This section provides information and guidance on how providers can address the issues raised by the evaluators and where they might get support with making the changes recommended by the evaluators.

Reporting formats, letter and form templates, and other supporting documentation can be found in Appendixes A and B and in the [Code webpage](#) under “Related Documents”:

- Appendix A: Glossary: The glossary consists of two parts. One contains the definitions of the terms used in the evaluation. The other provides a more technical glossary (e.g. definition of related-party transactions etc.).
- Appendix B: Implementation order: This table lists the clauses in a logical order in which they should be implemented and is intended to support providers in the implementation of the Code.

In addition, the following tools and documents can be found in the [Code webpage](#): under “Related Documents”

- Sign-up form: This form will be used by the providers wanting to sign up to the Code.
- The Self-Assessment Tool: See chapter 3.1.2.
- Business Model Description Form: Providers will be asked to fill in and submit this form before the evaluation, together with the Self-Assessment Tool. The form asks for information about the institution, the business model and the portfolio.
- MicPro online form: The data that providers should disclose in the MicPro application as part of the Code evaluation is detailed in this form (spreadsheet).

- Mid-term progress form: Providers awarded the Code will be asked to submit this form two years into the four-year award period. This form asks providers to indicate if there has been significant change in different areas of business since the award decisions, and about the steps the institution has taken in response to the recommendations made by the evaluator or the Code Steering Group.

2. About the Code and the evaluation process

The first step for a provider is to learn about the Code and, if appropriate, sign up to it. This section provides a brief overview of the Code, its development and role. The section also describes each step in the process and details what is expected by the providers, the evaluators and other relevant parties in the course of the step.

2.1. About the Code

On 13 November 2007, the Commission adopted a communication on a European initiative for the development of micro-credit¹. This communication identified four priority areas for action, the last two of which were addressed by JASMINE, a joint initiative from the European Commission and the European Investment Bank group to support the development of microcredit providers in the European Union. The four priority areas were identified as the following:

- improving the legal and institutional environment in the Member States,
- changing the climate in favour of employment and entrepreneurship,
- promotion of best practice and,
- providing additional financial capital for new and non-bank microcredit finance institutions.

The communication recognised that a "**code of good conduct**" would be an excellent way to spread customer-friendly good practice among microcredit providers. It further stated that making available consistent guidelines for microcredit providers should help establish business standards, streamline practices, provide lending security, and last but not least, reinforce the operational efficiency of the technical assistance of the EaSI programme.

It was against this backdrop, and following a competitive tendering process where the European Commission selected Community Finance Solutions, a research centre at University of Salford, to draft the European Code of Good Conduct for Microcredit Provision in close consultation with stakeholders and experts.

A key element of this consultation was the incorporation of the contributions of individuals and organisations with expertise in the field of microcredit in Europe. This was done through a series of six stakeholder workshops held in Brussels between October 2010 and April 2011. The workshops were attended by microcredit providers, trade associations, academic experts and regulators, who played an important role in shaping the final document. In

¹ Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions A European initiative for the development of microcredit in support of growth and employment: <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A52007DC0708>

addition, six online stakeholder questionnaires were circulated requesting input and comments, two draft versions of the Code were circulated asking for comments, and additional meetings were held with European microfinance networks.

Hence, the development of the Code has been informed by recognised best practice in the microfinance sector and been conducted in close consultation with the microcredit sector in the EU and its stakeholders. The development of the Code was guided by the following principles:

- An emphasis on incorporating specific and measurable content on the basis of which microcredit provider managers and boards can take action to enhance their organisations.
- An emphasis on developing a Code that is adjusted to the diversity of microcredit providers in the EU in terms of market conditions, institutional forms and legal frameworks.
- An emphasis on raising standards by balancing the need for introducing best practice with realistic operational expectations of the providers.

The development of the Code was based on the recognition that, in light of the disparate regulatory frameworks in which microcredit providers in the EU operate, there was a need for a unifying set of expectations and standards that was common to the sector for the benefit of the sector itself as well as its funders, investors, customers, owners, regulators and partner organisations. The Code sets out good practice guidelines that will better enable the sector to face the challenges of accessing long-term finance, maintaining and raising the quality of services and moving towards sustainability. The purpose of the Code is not to introduce nor replace existing regulation of microcredit providers. Rather it is intended to detail a set of common standards in terms of the operation of and reporting by microcredit providers.

The implementation of the Code was tested as part of a pilot phase between the end of 2013 and early 2017. Based on the lessons learned from the pilot phase, the European Commission deemed that an **update of the Code** was necessary to reflect the changing market realities and capture the diversity of the microfinance sector. An update was especially important since endorsing or complying with the Code is a precondition for microcredit providers seeking to benefit from EU support under the EaSI Microfinance and Social Entrepreneurship axis in line with article 28.4 of the legal basis (Regulation 1296/2013), amended by Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council of 18 July 2018. Respect of the Code will continue to be a key requirement for implementing EU financial instruments in support of microfinance in the programming period 2021-2027.

In 2018, following a competitive tendering process, Community Finance Solutions at the University of Salford was selected to facilitate the update of the Code. This was done through five stakeholder workshops held in Brussels between December 2018 and May 2019, which were attended by practitioners, the microfinance networks, EU institutions, banks, experts and investors. The recommendations of this group were tested with 24 European microcredit providers not involved in the workshops. The Steering Group of the European Code of Good Conduct for Microcredit Provision (hereafter referred to as the Code Steering Group) **formally adopted the updated Code in October 2019**.

In addition, in November 2020, the Steering Group agreed to the following updates regarding the Code evaluation and award process:

- extending the award period from three to four years and adding a mid-term progress reporting requirement for awarded providers two years into the four-year award period in exchange for the extended award period;

- adding mechanisms for appealing award decisions and reporting of non-compliance among awarded institution.

The microcredit sector in Europe is diverse in terms of size, institutional set-up and the markets in which they operate. Consequently, not all practices can be considered good practice or even possible for all microcredit providers. In some cases, regulation may already exist which covers certain domains and practices. The Code recognises this and, where applicable, it specifies the type of institutions not covered by the clause in question.

The Code is intended for microcredit provider managers, directors, customers, investors, funders, owners, regulators and partner organisations. It is designed to be a tool for microcredit provider board members, stakeholders and managers in improving the operation of the sector.

- For customers, it is a tool to ensure that they are treated in a fair and ethical way
- For investors and funders, it ensures that the sector operates with transparent and pan-European reporting standards
- For regulators, it gives some reassurance that the sector operates according to sound business practices and principles, and that it is well governed.

The box below provides further resources on the Code.

Further resources on the Code

- [The European Code of Good Conduct for Microcredit Provision – Update 2021](#)
- [The Code webpage with related documents](#)
- [MicPro application](#)
- [Helpdesk](#)

2.2. Evaluation process

The evaluation of compliance plays a central role in underpinning the Code. Without a robust framework to evaluate the extent to which providers comply with the clauses, the Code would lack the required credibility. The box below provides an overview of the parties involved in the evaluation and their roles.

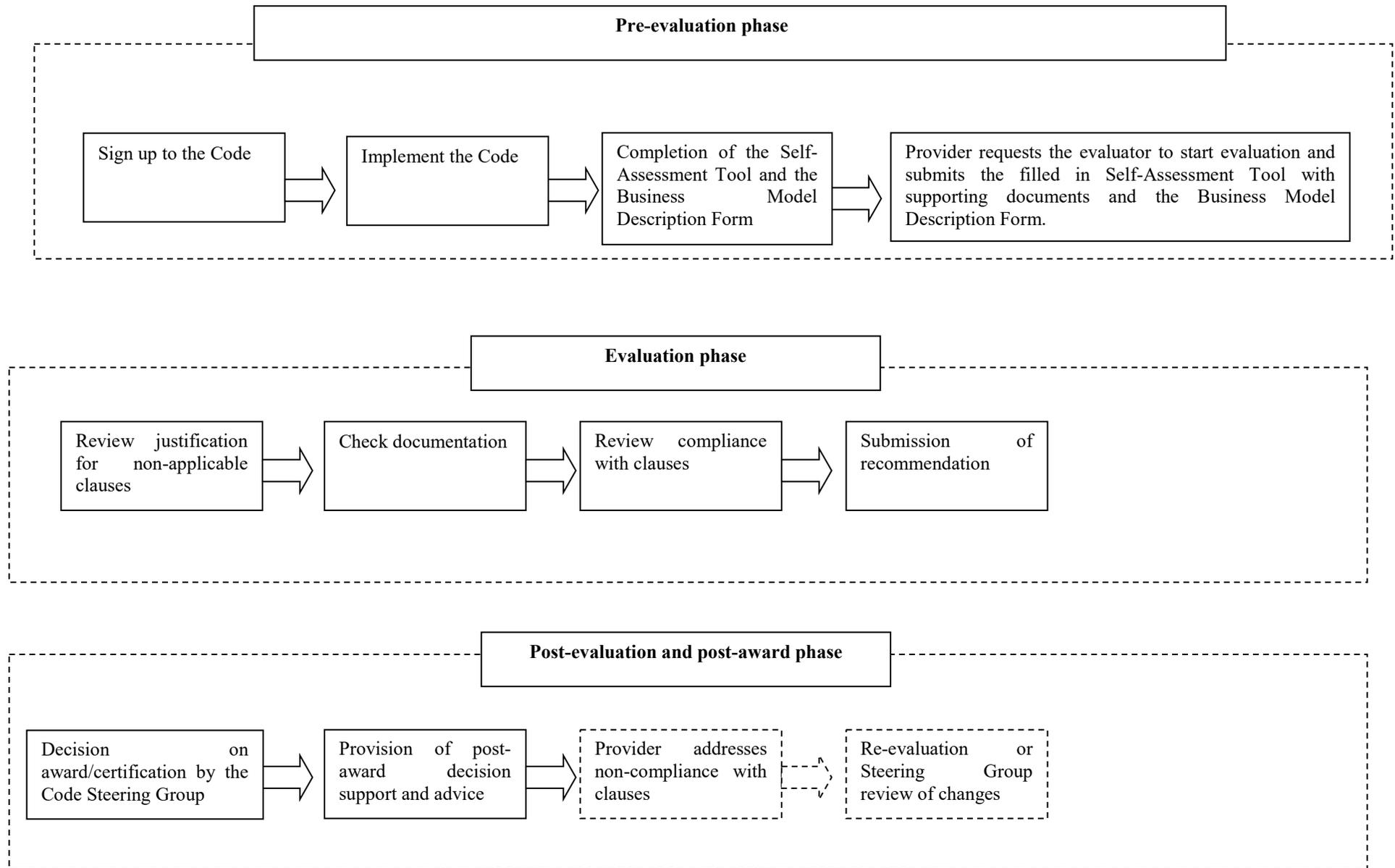
A who's who in the Code evaluation

- **Provider:** The provider is short for the microcredit provider and applies to any organisation that expresses an interest to sign up to the Code.
- **Evaluator:** The evaluator is responsible for evaluating compliance with the Code of individual providers. The evaluator makes a recommendation on the outcome of the Code award/certification, whereas the Code Steering Group makes the final decision.
- **Code Steering Group:** The Code Steering Group is composed of industry experts as well as representatives from the Commission and the lead organisation of the evaluators. The purpose of the Steering Group is to decide on the award/certification based on the recommendation of the evaluator. The group will also consider any appeals and complaints received about evaluations.
- **Designated contact:** The designated contact is Directorate-General for Employment, Social Affairs and Inclusion (DG EMPL) of the European Commission and it serves as the first point of contact for organisations wanting to sign up to the Code.

The entire process from signing-up to the Code until award and post-award support consists of three phases: a pre-evaluation phase, an evaluation phase, and a post-evaluation and post-award phase.

This is illustrated in Figure 1 below. The boxes and arrows drawn with a stippled line indicate that these stages will not necessarily take place. The last two stages of the post-evaluation and post-award decision phase are only required where a provider fails to meet the minimum global marking to comply with the Code or where it wants to increase its level of compliance and undergo a Code re-evaluation.

Figure 1: Overview of sign-up, evaluation and post-evaluation processes



At the very first stage of the process the provider will submit a sign-up form signed by its legal representative to DG EMPL (See the [Code webpage](#), under “Related Documents”). DG EMPL will notify the EaSI Technical Assistance consortium of the submission of the sign-up form, who in turn notifies the evaluator.

Designated contact for the Code sign-up forms

- E-mail: EMPL-MICROFINANCE@ec.europa.eu

Then, the provider will assess current level of their compliance by filling in the Self-Assessment Tool (See the [Code webpage](#), under “Related Documents”). Based on the results of the self-assessment, the provider will have to plan and implement changes to comply with a number of Code clauses to reach the minimum global marking required for the Code award.

Weighting, global marking and compliance

- The clauses in the Code are weighted according to their importance. In order to comply with the Code, providers must be complying with all of the priority clauses and 80% of the clauses that are applicable to the provider. This minimum threshold is referred to as the global marking. Further details on the weighting and the global marking can be found in Section 3.2.
- Additionally, the Code Steering Group retains the right not to grant the award where the business model of the provider relies on assumptions that are manifestly unrealistic or inadequate, raising strong doubts about the viability of the provider in the short-term.

The provider is given 18 months to implement the clauses once it has submitted the Sign-Up Form. Greenfield microcredit providers – providers that have been operating for less than three years – are given 36 months. If the provider believes it already complies with a sufficient number of the Code clauses to reach the global minimum marking, it may want to start the evaluation sooner than 18 months after the submission of the sign-up form.

Once the provider is convinced that it has made the necessary changes to comply with the Code and filled-in the Self-Assessment Tool and the Business Model Description Form (See the [Code webpage](#), under “Related Documents”), it will submit them to the evaluator together with the request to start the evaluation.

The provider will also submit the supporting documentation linked to the Self-Assessment Tool. This will include justification for the clauses that the provider believes should not apply to their organisation. Before verifying compliance, the evaluators will review the justification provided to ensure that

- a) the justification for non-applicable clauses is reasonable
- b) the evaluation focuses only on the applicable clauses.

The next stage will be to check that the necessary documentation has been submitted. The evaluator may at this stage contact the provider with further questions or comments. The

evaluator will, at the end of this stage, inform the provider if any of the clauses claimed to be non-applicable by the provider are deemed applicable by the evaluator.

Finally, once it has been checked that the appropriate documentation has been submitted, the evaluator can start reviewing compliance with the relevant clauses using the Self-Assessment Tool.

At the end of the review of compliance, the evaluator will submit a recommendation concerning whether to award the provider or not. The Code Steering Group will make a decision on the award based on the recommendation of the evaluator. The provider will be informed about the decision and given feedback from the evaluation process (e.g. implementation of remaining clauses etc.)

Providers not awarded the Code will be given support, advice and feedback concerning steps it needs to take to increase its compliance. The nature and extent of support offered to providers may range from recommendations from the evaluators and the Code Steering Group to technical assistance. The Code Steering Group will decide on the next steps for these providers depending on the change required to reach compliance and the associated need for support. They may have to take a full re-evaluation or implement and document changes in practice, reviewed by the Code Steering Group at a future meeting.

The Code award is valid for four years. Providers awarded the Code are required to submit a Mid-Term Progress Form (See the [Code webpage](#), under “Related Documents”), two years into the award period. The providers are notified about the date to submit this report in the award letter.

3. Before the evaluation

Once the provider has signed up to the Code and before the evaluation of compliance can take place, the provider has to start to implement the Code clauses. Before considering which clauses to implement and how to implement them, the provider has to consider some aspects of their compliance. Provider has to assess how far they are from complying, determine which clauses they are going to implement to comply, and plan and execute their implementation. In addition, the provider can inquire the technical assistance [service provider](#) the possibility to receive training that is specifically designed to prepare for the code evaluation. This section provides some tips and advice on how providers can go about this.

3.1. Documents and tools to have at hand before starting

The provider will be assessing their compliance using the Self-Assessment Tool and therefore needs to be familiar with this tool. In addition, the provider should be familiar with and have the following documents and tools at hand when starting the self-assessment:

- The European Code of Good Conduct for Microcredit Provision: The providers should have an electronic version or hardcopy of the Code at hand as this is the core document. It lists all the clauses with further guidance and has a useful glossary.
- Glossary: There is a glossary of technical terms used in the evaluation process in Appendix A.
- Evaluator methodology: Although primarily aimed at the evaluators, the evaluator methodology may contain additional useful information for providers, especially for more technical staff.

In addition to these resources, the provider may find it useful to have the following documents at hand when completing the Self-Assessment Tool:

- Strategic documents (e.g. business plan, strategy, operational plan);
- Credit or lending policy;
- Human resources or staff manuals or policies;
- Governance policies and documents;
- Risk management framework and policy;
- Customer and investor policies and documents; and
- Monitoring and reporting documentation

3.1.1. Business Model Description Form

The providers are requested to submit their filled in Business Model Description Form to the evaluators before the start of their evaluation (See the [Code webpage](#), under “Related Documents”). The form should be submitted together with the Self-Assessment Tool (see chapter 3.1.2.). The form contains three sections

- Information about institution: This section asks for information about the type, regulatory status, how it lends (directly or in partnership with a bank) and if it is a Greenfield institution.
- Information about business model: This section asks about how the provider covers its operating costs and its funders and shareholders, which are important indicators of viability.
- Information about loan portfolio: This section asks for historical data for the last 3 years on the portfolio of the provider. This includes outstanding and disbursed loans and the proportion of the portfolio dedicated to microcredit. The form also asks for data on portfolio quality (PAR30 or alternative measure).

In addition, the evaluators may ask providers for explanation regarding why they believe they are ready for the Code Evaluation (e.g. in reference to the Code Training and the work done afterwards, if any; or the providers’ perception of compliance to priority clauses).

3.1.2. Self-Assessment Tool

The Self-Assessment Tool is intended to assist both providers and evaluators in assessing compliance by detailing what constitutes compliance with individual clauses and the weighting attached to individual clauses. The tool also enables providers and evaluators to calculate the proportion of clauses the provider complies with in relation to the global marking.

The Self-Assessment Tool consists of three sheets. The first sheet, entitled ‘**About provider**’, contains information about the provider that is used to determine the size of the organisation and by the evaluator to contact the provider. The sheet contains the following fields:

- Provider name: In this field, providers should fill in the full name of the legal entity that constitutes the provider.

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- Country: Providers should indicate the country in which the provider is registered and operates. If a provider operates in more than one country, it should detail this separately, including countries it operates and legal arrangements (e.g. if regulated in all countries etc.).
 - Institutional form: This field is a drop-down menu that should be used by the provider to indicate the legal and institutional form of the organisation (e.g. cooperative, bank, non-bank provider, foundation etc.). Where there is an exact definition of such an institution and its regulation, the provider should include such details in the field other comments.
 - Short description of provider: This field should be used to give a brief description of the provider. This may include the services it offers, its target groups, the sectors it covers (i.e. personal microcredit, business microcredit etc.) and the age of the provider.
 - Website of organisation: The provider should fill in the website of the provider using this field.
 - Number of staff: The provider should use this field to detail the number of staff members, full and part-time. This should include all staff, including those involved in non-microcredit activity, unless such activities are separated out and have separate management and governance structures.
 - Number of staff (expressed as Full Time Equivalent): Here the providers should detail the number of staff as Full Time Equivalent.
 - Number of active borrowers: The providers should use this field to indicate the number of active borrowers. Active borrowers are defined as individuals who currently have outstanding loan balance with the microcredit provider or are primarily responsible for repaying any portion of the gross loan portfolio. Borrowers with multiple loans should be counted as a single borrower.
 - Size category: The provider will be automatically assigned to a size category on the basis of the number of staff and number of active borrowers.
 - Self-assessment completion date: This field should be used to indicate when the Self-Assessment Tool was completed.
 - Contact person for evaluation: The provider should nominate a person to be the main contact for the evaluation. This person would deal with any enquiries and queries from the evaluators.
 - Contact details email: The provider should use this field to provide contact details for the nominated contact. This should include both a telephone number and email address.
 - Contact details telephone: The provider should use this field to provide contact telephone number.
 - Languages spoken by contact person: The provider should indicate which languages the nominated contact person speaks and indicate which language he or she would prefer to communicate in.
 - Other comments: Here the provider can make any other comments pertinent to the evaluation.

The second sheet, entitled '**Self-assessment**', is used for the self-assessment and the evaluation itself. The sheet contains the following columns:

- Clause number: This column lists the number of the clause (e.g. 1.1, 5.12 etc.)
- Priority: This column indicates if the clause is a priority clause.
- Large only: This column indicates if the clause is for large providers only.
- Clause: This column lists the short description (as listed in the overview matrix in the Code) of the clauses.
- Comments/minimum content: The column entitled 'Comments' provides, where appropriate, additional comments to specify or clarify aspects of the clause, including examples of practice constituting compliance, exceptions and possible ways of evidencing compliance. This is intended to serve as guidance on what constitutes compliance.
- Suggested evidence of compliance: This column suggests documents that may provide evidence of compliance. It must be stressed that the documentation of compliance is likely to vary from provider to provider. Thus the documents listed only constitute suggestions.
- Weighting: This column indicates the weighting of the clause, which can be 0.75, 1 or 1.25.
- Provider – Applicable to institution: The provider should use this column to indicate if the clause is applicable (Yes or no).
- Provider – reason clause not applicable: Where providers have indicated that a clause is not applicable, they should use this column to suggest reasons for why the clause in question is not applicable. This may include contravening national regulation, not material or relevant or other reason.
- Provider comment – applicability: Where providers have indicated that a clause is not applicable, they should use this field to provide further comment and direct the evaluators to supplementary documentation. See Section 3.3. for guidance on non-applicability.
- Provider – Compliance: The provider should use this column to indicate if they are complying with the clause or not by selecting Yes or No from the drop-down menu.
- Provider – Source document: The provider should use this column to indicate documents and page number for evidence of compliance.
- Provider comments – compliance: The provider should use this field to comment on how they comply with this clause and refer to supporting documentation.
- Evaluator – Applicable to institution: This column contains a drop-down menu with the options 'Yes' and 'No'. The default setting is 'applicable.' The evaluator will use this drop-down function to indicate clauses that are not applicable to the provider.
- Evaluator – applicability: Where providers have indicated that a clause is not applicable, they should use this field to provide further comment and direct the evaluators to supplementary documentation. See Section 3.3 for guidance on non-applicability.
- Weighting: This column details the weighting attached to the clauses.
- Applicability (Evaluator): Where providers have indicated that a clause is not applicable, the evaluators should verify or reject this by selecting 'Applicable (verified)' or 'Not applicable (verified)' from the drop down menu.
- Evaluator comment applicability: Where evaluators deem, contrary to the judgement of a provider, that a clause is indeed applicable, they should comment on the reason for the decision using this column.

- Compliance (Evaluator): Where providers have indicated that they comply with clause, the evaluators should verify or reject this by selecting 'Yes' or 'No' from the drop down menu.
- Evaluator comment compliance: Evaluators can use this column to comment on the compliance of the provider with the clause in question. This is particularly important in cases where evaluators – contrary to the judgement of a provider – deem that the provider is not complying with the clause.
- Weighting (Evaluator): This column will generate the weighting for the clauses that the evaluator has verified that the provider is complying with.

The third sheet is entitled '**Compliance report**' and provides summary statistics of the level of compliance of the provider. There are two sections indicated by the underlined subheadings in the sheet. One is entitled 'Provider's self-assessment'. The fields under this heading are generated based on the information filled in by the provider as part of its self-assessment, but it has not been verified by the evaluators. The other is titled 'Evaluator's assessment' and contains fields that have been generated on the basis of the information that has been verified by the evaluator. All fields are calculated automatically.

Both sections contain the following fields:

- Total number of clauses complied with: These fields show the total number of clauses the provider complies with and the total number of clauses in the Code broken down by chapter.
- Total number of priority clauses complied with: These fields show the total number of priority clauses in the Code and the total number of priority clauses the provider complies with broken down by chapter.
- Weighted total of the clauses complied with: These fields calculate the weighted total of the clauses that the provider is complying with and the weighted total of the clauses it should be complying with broken down by chapter.
- Global marking: These fields show the global marking (percentage of weighted total of clauses complied with) achieved by the provider for all the clauses and the priority clauses. The provider needs to achieve a global marking of 80% for all the clauses and 100% of the priority clauses
- Compliance with the Code: This field will indicate (Y for Yes or N for No) if the provider has surpassed the global marking and complied with all the priority clauses.

When requesting an evaluation from the evaluator, the provider submits the filled in Self-Assessment Tool and supporting documentation together with the filled in Business Model Description Form.

3.2. Definition of Compliance

The Code consists of **a total of 161 clauses** covering Customer and Investor Relations, Governance, Risk Management, Reporting Standards, and Management Information Systems (MIS). Out of these, **33 are priority clauses**. There are three types of clauses: main clauses, sub-clauses and overhead clauses (Table 1).

Table 1
Types of Clauses

Total number of clauses	161
Main clauses	100
Sub-clauses	54
Overhead clauses	7

There are 7 overhead clauses. These are not stand-alone clauses, but contain a number of sub-clauses that require implementation. This means that there are **154 clauses that the providers can implement**. Of these, 54 are sub-clauses and 100 are main clauses.

In addition, the clauses are weighted according to the importance of the clause (Table 2).

Table 2
Weighting of Clauses

Weighting level	Medium	High	Priority
Weighting	0.75	1.00	1.25
Clauses	Sub-clauses	Main Clauses Priority sub-clauses	Priority main clauses
Number of Clauses	37	101	16

There are three levels of weighting: medium, high and priority. These are attached a weighting of 0.75, 1.00 and 1.25 respectively. Sub-clauses are classed as medium unless they are priority clauses, in which case they are classed as high. Main clauses are high unless they are priority clauses, in which case they are assigned to the priority weighting level. Overhead clauses are not assigned any weighting.

The weighted total of all the clauses is 148.75. In order to comply with the Code, providers must comply with **all the priority clauses** and **80% of the weighted total of the clauses**. This is referred to as the global marking.

The weighting is calculated automatically by the Self-Assessment Tool. The weighting is calculated by multiplying each clause by the weighting attached. The weighted total of all the applicable clauses is calculated as follows:

Sum applicable clauses = (Applicable sub-clause x 0.75) + (Applicable main clauses & priority sub-clauses x 1.00) + (Applicable priority main clauses x 1.25)

The weighted total of all the clauses complied with is calculated as follows:

Sum clauses complied with = (Sub-clause complied with x 0.75) + (Main clauses & priority sub-clauses complied with x 1.00) + (Priority main clauses complied with x 1.25)

The percentage of clauses complied with is then calculated as follows:

$$\frac{(\text{Sum clauses x 100})}{(\text{Sum applicable clauses})}$$

3.3. Determining applicability

In order to assess the extent to which a provider is complying with the Code, it will have to determine the clauses that are applicable to the institution. There are only three valid reasons for not applying a clause:

- There are 12 clauses that only apply to **large providers**. If the provider falls under this threshold, the clause is not applicable. Large institutions are here defined as providers that have more than 7,000 active borrowers and more than 70 employees. In the further guidance to the clauses, references are also made to small and medium providers. Small providers refer to organisations with fewer than 4,000 customers and 35 employees, while medium providers have 4,000-7,000 customers and 35-70 employees. The self-assessment template automatically assigns the provider to one of these categories based on the data it inputs on the first page.
- A provider may be precluded from implementing a clause because it contravenes the national regulatory or legal framework. Examples of such barriers would include legal restrictions on providers to their own lending (i.e. Germany) and the governance structures of mutual and cooperative providers (preventing the implementation of some clauses in the governance section). National regulatory frameworks may also affect the extent to which clauses can be implemented. For example, the extent to which pricing can reflect risk may be curtailed by national restrictions on interest rates. Providers must refer to the specific laws and clauses within it that preclude the provider from implementing the clauses in question.

- A clause may not apply because it is not material or relevant to the provider. For example, a provider does not collect data on the percentage of female customers because it is not relevant for its mission, or it does not have documented processes to ensure retail investor understanding of risk because it does not receive investment from individuals. Where this applies, the provider must document that the clause is not material or relevant to the provider. The provider may do this by referring to annual reports, governance documentation, external audits or other formal or externally verified documents.

The first reason for non-applicability of clauses is validated through the verification of the size of the provider. This only applies to clauses clearly marked as only applying for large institutions. For the two other reasons for non-applicability, the onus is on the provider to document where clauses are not applicable. The provider must direct the evaluator to the specific and relevant segments of the law or legislation that precludes the provider from implementing the clause in question, or it must document that the clause concerns an aspect that for some reason is not material to or relevant for the provider.

3.4. Assessing Compliance

Having determined the clauses that apply to the provider, the next step for the provider will be to assess the current level of compliance with the applicable clauses. The Self-Assessment Tool (See the [Code webpage](#), under “Related Documents”) details what constitutes compliance with each clause. The definition of compliance falls into a number of categories including: the existence and content of certain documents (e.g. business plan addressing certain aspects); the existence of processes and procedures to prevent or promote certain practices (e.g. assess repayment capacity to prevent over-indebtedness); existence and documentation of rights for customers and investors (e.g. right of customer to early repayment enshrined in credit agreement); and the disclosure of certain information or practices (e.g. disclose mission). Based on the responses of the provider, the Self-Assessment Tool will indicate the percentage of the clauses that the provider is complying with and thus indicating the distance to the global marking of 80%.

There are also some crosscutting issues concerning compliance that the provider will have to consider, namely:

- National context: It is important to consider the national context when assessing compliance. On the one hand, there may be different definitions of good practice in different countries. Good practice refers to practice that is recommended by regulators, trade bodies or other recognised organisations. On the other hand, the systems and processes put in place by the provider will and should reflect the environment in which it operates. For example, providers in countries with limited infrastructure to support electronic payments may need to put greater emphasis on client visits as part of internal audit to verify that the loan officers collect the appropriate amount in repayments compared with providers in countries with highly developed financial infrastructure.
- Type of institution: Compliance will also depend on the type of institution the provider is. Larger providers operating with multiple offices or branches will require more formalised procedures, training and systems compared with small single-office providers.
- Compliance for non-microcredit activities: Many providers will deliver services or engage in activities not directly related to microcredit as per the definition of the European Commission programmes, including larger loans, personal microcredit, housing loans and social enterprise loans. This raises the question of which part of

the provider the clauses should apply to. This depends on the type of clause. For clauses directly relating to the provision of the loan (i.e. provision of info, right to early repayment, assessment repayment capacity etc.), it is sufficient for the providers to prove that they apply these clauses to their microcredit portfolio, though they may choose to apply them to their other products as well. In terms of the clauses relating more broadly to the structure, management and governance of the provider, it is recognised that it may not be practical or desirable to have separate structures for the microcredit portfolio. As long as the board, management and processes enable the effective management and governance of the microcredit activities (as per the Code), the providers do not need to have separate structures, management or board for these activities. The same applies to the external audit, MIS and risk management. For the clauses relating to disclosure, the provider must disclose portfolio-specific data for the microcredit portfolio only. In terms of the organisation-wide indicators relating to operational and financial costs and revenue, the provider may rely on data for the whole organisation, including non-microcredit activity. However, where the microcredit activity is a minor part of the overall activity, it is advisable to try and separate out the costs related to the provision of microcredit. In any case, the provider should specify where the indicators relate to microcredit only and where they concern the overall organisation.

3.5. Planning and executing implementation of the Code

Having identified the clauses with which it does not comply, and how far it is from the global marking, the provider has to plan the implementation. This involves:

- setting an aim (i.e. does provider aim to reach 100% or just reach the global marking);
- prioritising which clauses to implement (i.e. all clauses, most relevant clauses for provider, most important clauses for customer group etc.);
- determining resources and support required to implement clauses; and
- identifying sequencing and timing of implementation of clauses (i.e. how long it will take to implement clause, the order in which clauses need to be implemented etc.)

It is recommended that the providers implement all the clauses in the Code. To assist providers in the implementation, these guidelines suggest an order in which the clauses are to be implemented.

Table 3 below divides the clauses into three categories that are relevant to the order in which providers should implement the clauses. First, there are **base clauses** without which providers cannot implement other clauses. Second, there are clauses that require base clauses to be in place prior to their implementation. Finally, there are clauses that can be implemented independently of other clauses in the Code.

Table 3

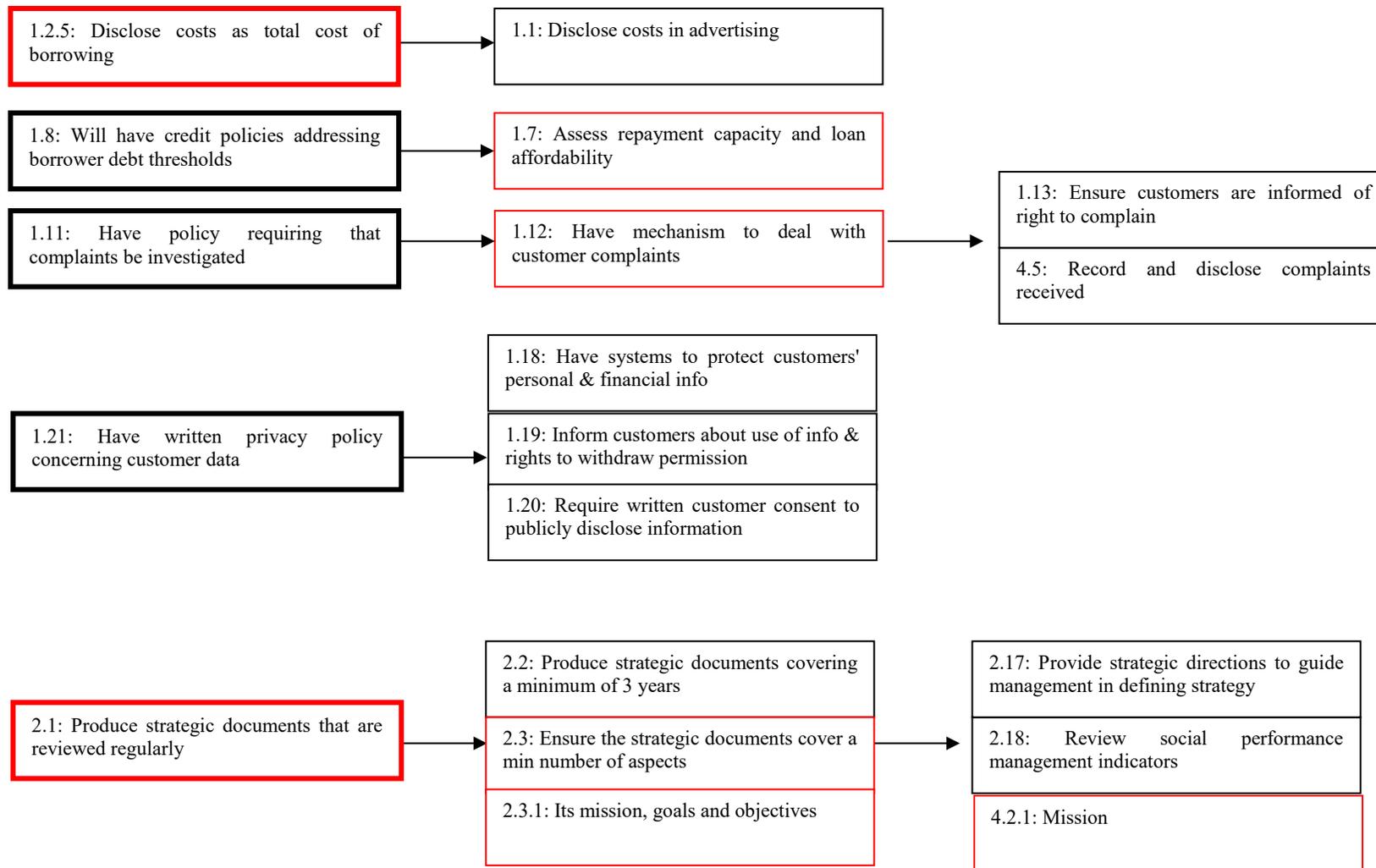
Clauses in order in which they should be implemented

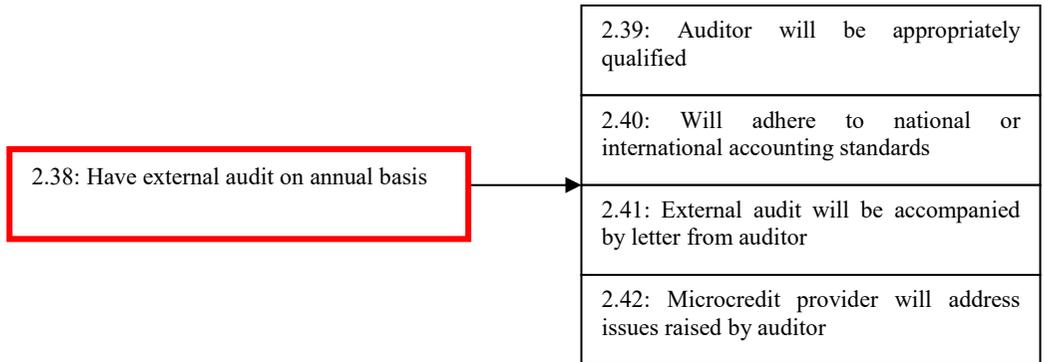
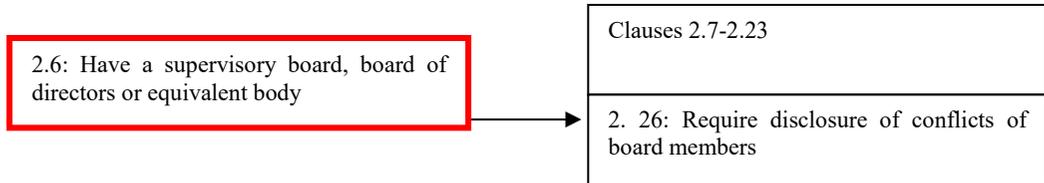
Total number of clauses	161
Base clauses	23
Requires implementation of base clauses	57
Not interlinked	81

Out of 161 clauses, there are 23 base clauses. There are 57 clauses that depend on base clauses being in place before they can be implemented. There are 81 clauses that are not interlinked and can be implemented independently of other clauses.

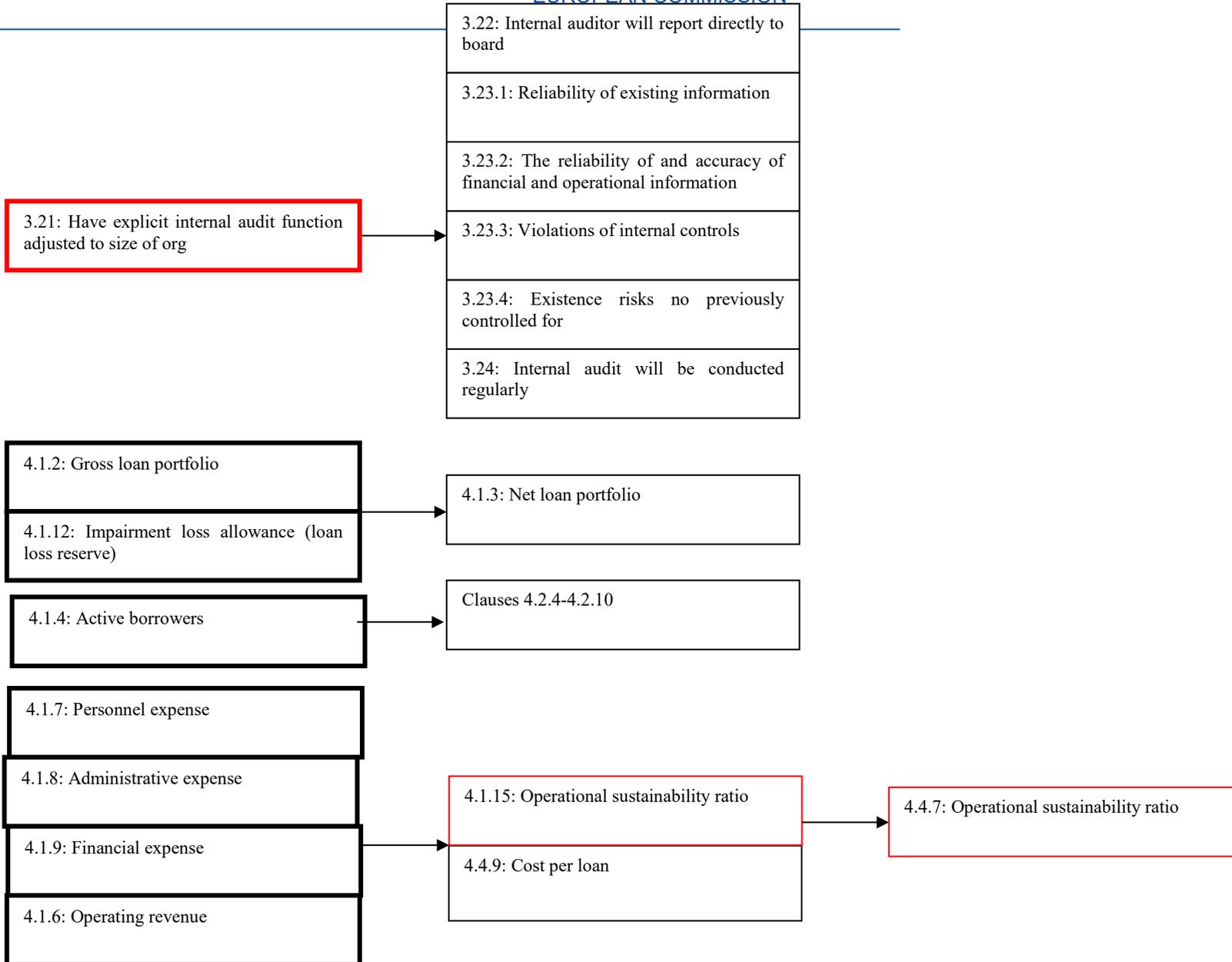
Figure 2 below provides an overview of how the clauses are interlinked. Each box lists a clause and in some cases several clauses. There are arrows between the clauses to indicate the clauses that are interlinked. The base clauses, without which preceding clauses may not be implemented, are situated to the far left and are indicated by the boxes with lines in bold font. The clauses that require base clauses to be in place prior to their implementation are to the right of the base clauses. **The providers should start implementing the clauses at the left and work their way to the right.** The priority clauses are highlighted in red.

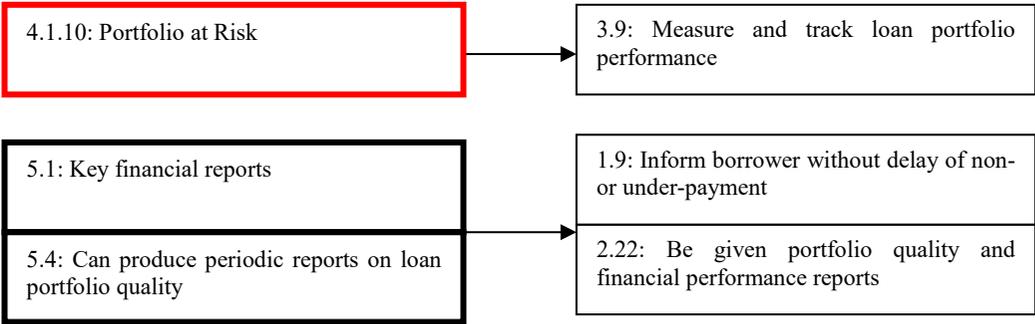
Figure 2: Interlinked clauses





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Based on these links and the time it takes to implement the clause, the table in Appendix B suggests when providers should start implementing each clause to implement them within the 18 months. The table suggests that the clauses should be implemented in three stages **with each stage constituting a six month period**. It is important to stress that the timing and sequencing of the implementation of the clauses is indicative and is only intended as recommendations. It does not take into account the differing capacities of providers to implement clauses simultaneously or the resources a provider may have access to in order to implement the Code.

The provider may find that it cannot implement certain clauses without financial or technical assistance. The box below suggests sources of financial and technical assistance within the European Union. There may be additional resources and programmes within individual countries.

Resources and technical assistance to implement the Code

- [EaSI Technical Assistance for microfinance webpage](#)
- [The Code webpage](#)
- [Helpdesk](#)

4. During the evaluation

Once the provider is convinced that it has made the necessary changes to comply with the Code, it will have to take an external evaluation to verify that it is complying with the Code. This section explains how the Code evaluation works and what is required of the provider prior to and during the evaluation.

4.1. Documenting and evidencing compliance

It is not sufficient for a provider to know that it complies with a clause. It will have to document and evidence the compliance for the evaluator. The onus is on the providers to document that they are indeed complying with these clauses. Where necessary, the provider should attach additional explanations and notes to the documents attached. The provider should also refer to the documents evidencing compliance in the column “Provider comments – compliance” in the Self-Assessment Tool.

The documents the provider will use to evidence compliance are likely to vary considerably. Larger and more mature providers are likely to have written and formalised procedures. They may also have a greater number of manuals and policy documents compared with smaller and younger providers. The latter may have more unwritten guidance and may have to produce documents specifically for the purposes of the evaluation. Nevertheless, Table 3 below suggests **eight types of documents** that may help providers to evidence compliance and evaluators to assess compliance with the Code. The Self-Assessment Tool suggests a document type for each clause.

Table 3*Documentation of Compliance*

Documentation of Compliance	
Strategic documents	The strategic documents (e.g. business plan, strategy, operational plan) may be used to document compliance with several clauses as it contains information on the mission, vision and business planning of the provider and as several clauses require a provider to have such documents.
Credit or lending policy	The credit or lending policy may include guidance on underwriting for loan officers, write-off policy, collateral policy, debt collection procedures and related aspects. This document or group of documents may be used to evidence compliance with a wide range of clauses, especially in Chapter I and III of the Code.
Human resources and staff policy	This policy may cover a range of aspects relating to staffing including staff training, job descriptions and incentives, and may be used to document compliance with a wide range of clauses.
Governance policy or documents	This document or group of documents may include board and AGM minutes and papers, board rules and governance framework. They may be as evidence of compliance with a range of clauses in Chapter II of the Code.
Risk management policy or documents	These may include a risk register, the internal audit procedures, overall risk framework and descriptions of internal controls, and are particularly relevant for assessing compliance with clauses in Chapter III of the Code.
Customer and investor policy or documents	This policy may include credit agreements, marketing material, scripts for loan interviews and investor prospectus. A data protection policy may also be included here, though it is more likely to be found in documents on monitoring and reporting. The customer and investor documentation are especially relevant for evidencing compliance with clauses in Chapter I.

Monitoring and reporting policy or documents	This document or groups of documents may include loan and delinquency monitoring, descriptions of MIS and data protection procedures. They pertain particularly to the clauses in Chapter IV and V.
External audit and accounting documents	This group of documents relate to the accounting policy of the provider and may include external audit report and associated paper and descriptions of the accounting policy.

4.1.1. MicPro application online verification

By signing up to the Code, providers commit to disclosing a number of social and financial performance indicators in the MicPro application. It is part of the remit of the evaluators to verify this information prior to it being validated. The data that the providers have to submit is detailed in the MicPro Online form (See the [Code webpage](#), under “Related Documents”). The data submitted have to relate to the most recent financial year.

The nature and extent of the verification will depend on the level of independently verified data and the reliability of the data submitted. There are three types of data:

- **Independently generated:** The most reliable data is generated by an independent third party (i.e. a reputable rating agency) through a detailed financial analysis.
- **Backed by accompanying documentation:** The second most reliable form of data is supported by audited accounts, annual reports, independent programme evaluations or similar documentation produced or verified by a third party. This may include data reported to national regulators.
- **Self-completion:** The least reliable data is simply inputted by the provider without any form of independent verification.

Providers should, as far as possible, submit data that has been independently generated or backed by accompanying documentation. Where providers do not submit independently verified data, the evaluator will perform the following tests of consistency and reliability:

- **Consistency with other data submitted:** The evaluator will check the extent to which the data provided is consistent with the other data and information submitted by the provider. For example, the evaluator will check whether the financial revenue stated is consistent with the interest rate charged, the size of the portfolio and the loan loss-provisioning rate, and whether the salary costs seem reasonable in light of the national mean income for such staff categories when divided by the number of personnel.
- **Consistency with comparable providers:** Where such data is available, the evaluator can compare the data of the provider with that of similar types of institutions or

providers operating in the same geographical area or region. Indicators that form outliers to overall figures for the group of institutions will be queried with the provider. Such data may, for example, be found in the European Microfinance Centre (EMN) Member Survey.

- Ask to see raw data: The evaluator may want to ask to see the raw data used to calculate or estimate the indicator in question.
- Verified by board: The provider may enhance the reliability of the data by getting their board to verify it.

5. After the evaluation

After the evaluator has assessed compliance of a provider with the Code, the findings need to be written up, and communicated to the steering group and the provider, and the provider needs to be given the opportunity to respond to and address the issues raised in the write-up. This section explains this process.

5.1. Post-evaluation recommendations

Having completed the evaluation, the evaluator will write up the findings and make a recommendation concerning the award. The evaluation report is submitted to the Code Steering Group, which makes the final decision concerning whether to award or not. The evaluator will share the report with the provider before submitting it to the Code Steering Committee. The Commission (DG EMPL) sends the provider the award decision letter. The evaluation report will present the findings and the recommendations in a clear and concise manner allowing the Code Steering Group to make a decision and enabling the provider to reach the global marking or improve the level of their compliance with the Code.

5.2. Next steps

In the award letter, the Code Steering Group will advise the provider on the next steps. This may include making significant changes and taking a full re-evaluation, or change and submit evidence of change of practices for consideration by the Code Steering Group at its next meeting. The support given to providers not awarded for their compliance with the Code will vary and may include referral to technical assistance, requests for additional information or clarification, or recommended actions to address non-compliance.

Provider awarded for their compliance with the Code will be informed about the date of submission of their Midterm Progress Form (see box below) as well as about recommended improvements to their practices in the award letter.

Mid-term Progress Form

Two years into the four-year award period, the providers awarded for their compliance with the Code are required to submit the Mid-term Progress Form (See the [Code webpage](#), under “Related Documents”) to the European Commission (DG EMPL). The filled in form will provide an update on the provider’s practices and report any significant changes that have taken place from the time of receiving the Code award.

This form consists of four sections:

- Financial and institutional data: The form asks for historical and the most up-to-date data for six financial and institutional indicators from the evaluation report. The purpose is to see if there has been a significant change in financial and institutional performance.
- Institutional changes: This section asks questions regarding significant changes in legal form or status, shareholding structure, mission and target group as well as if the institution has been subject to insolvency or bankruptcy proceedings.
- Changes in practice, systems and processes: This section consists of 12 questions relating to procedures and policies linked to compliance with the priority clauses.
- Follow-up to previous Code evaluation: This asks what action the provider has taken in relation to the recommendations of the Steering Group in the award letter.

The form has to be signed by a legal representative of the provider.

The Code Steering Group and the European Commission reserve the right to withdraw the award and/or to bring forward a re-evaluation based on the information provided in the Mid-term Progress Form.

Appendix A: Glossary:

Code Evaluation Terminology	
Term	Definition
Global marking	The global marking refers to minimum percentage of the weighted clauses the providers have to comply with, which is 80% of the weighted clauses.
Designated contact	The designated contact is DG EMPL and serves as the first point of contact for organisations wanting to sign up to the Code.
Endorsement template	This template will be used by partner organisations wanting to endorse the Code
Evaluator	The evaluator is responsible for evaluating compliance with the Code of individual providers. The evaluator only makes a recommendation and the Code steering group makes the final decision on award.
Provider	Short for the microcredit provider and applies to any organisation that expresses an interest to subscribe to the Code
Business Model Description Form	Providers are required to fill in and submit this form to the evaluator before being able to start the evaluation. The form provides important contextual information about the institution, its business model and its loan portfolio for the benefit of the Code Steering Group and the evaluator.
Mid-term Progress Form	Providers awarded the Code are required to submit this form two years into the four-year award period. The form asks about significant changes and steps taken in the organisation in response to the recommendations since the award of the Code, as well as some financial information.
Self-Assessment Tool	The Self-Assessment Tool is intended to assist both providers and evaluators in assessing compliance by detailing what constitutes compliance and the weighting attached to individual clauses. The tool also enables providers and evaluators to calculate the proportion of clauses the provider complies with in relation to the global marking.
Sign-up Form	This form is used by the providers wanting to

	sign up to the Code.
Code Steering Group	The European Code of Good Conduct for Microcredit Provision - Code Steering Group is composed of industry experts as well as representatives from the Commission and the lead organisation of the evaluators. The purpose of the group is to decide on the award based on the recommendation of the evaluator. The group will also consider any appeals and complaints about the evaluation.
Weighting	The clauses are weighted according to the importance of the clause. There are three levels of weighting: medium, high and priority.
<i>Documentation of Compliance with the Code</i>	
Strategic documents	The strategic documents (e.g. business plan, strategy, operational plan) may be used to document compliance with several clauses as it contains information on the mission, vision and business planning of the provider and as several clauses require a provider to have such documents
Credit or lending policy	The credit or lending policy may include guidance on underwriting for loan officers, write-off policy, collateral policy, debt collection procedures and related aspects. This document or group of documents may be used to evidence compliance with a wide range of clauses, especially in Chapter I and III of the Code
Human resources and staff policy	This policy may cover a range of aspects relating to staffing including staff training, job descriptions and incentives, and may be used to document compliance with a wide range of clauses.
Governance policy or documents	This document or group of documents may include the Board and Annual General Meeting (AGM) minutes and papers, board rules and governance framework. They may be as evidence of compliance with a range of clauses in Chapter II of the Code.
Risk management policy or documents	These may include a risk register, the internal audit procedures, overall risk framework and descriptions of internal controls, and are particularly relevant for assessing compliance with clauses in Chapter III of the Code.
Customer and investor policy or documents	This policy may include credit agreements, marketing material, scripts for loan interviews and investor prospectus. A data protection policy may also be included here, though it is more likely to be found in documents on

	monitoring and reporting. The customer and investor documentation are especially relevant for evidencing compliance with clauses in Chapter I.
Monitoring and reporting policy or documents	This document or groups of documents may include loan and delinquency monitoring, descriptions of MIS and data protection procedures. They pertain particularly to the clauses in Chapter IV and V.

Technical Glossary

Term	Definition
Annual General Meeting (AGM)	Meeting of directors and shareholders of a company of incorporated firms. Often required by law, the AGM (sometimes called annual meeting) approves annual accounts, elects board members and deals with other matters.
Annual Percentage Rate	The annual rate that is charged for borrowing, expressed as a single percentage number that represents the actual yearly cost of funds over the term of a loan. Includes any fees or additional costs associated with the transaction.
Audit trail	Paper or electronic trail giving step-by-step documented history of a transaction. Enables tracing financial data from general ledger to source document (e.g. invoice, receipt etc). General ledger is a repository of accounting information of organisation in which summaries of all financial transactions during accounting period are recorded
Business Development Services	Business Development Services (BDS) can be defined as “a broad range of non-financial services that boost competitiveness through higher productivity, better product design, improved service delivery and/or enhanced market access. The main categories of BDS are management training, vocational skills training, marketing assistance (for inputs and output), technology access, technical assistance, productivity and product design, accounting and legal services and access to various sorts of information (about standards, regulations, ideas in the enterprise field)” ²

² Sievers, M. and Vandenberg, P. (2007). Synergies through Linkages: Who Benefits from Linking Micro-Finance and Business Development Services? *World Development* 35(8), pp 1341-1358, p. 1341

Business plan	A detailed document describing the past, present and future financial and operational objectives of a company or organisation. Serves as a road map that sets out direction of organisation within a set time period, usually 3-5 years. Guides organisation's policies and strategies and is underpinned by financial data
Cash flow statement	Shows origin and usage of an organisation's cash over time according to income-earning activities, investing activities (spending intended to generate future income) and financing activities (payments from or to investors, borrowers and funders)
Collateral	Traditional collateral tends to refer to property deeds, while non-traditional collateral tends to refer to personal guarantees, household assets and forced savings. Collateral substitutes refer to peer-guarantees.
Conflict of interest	Conflicts of interest include related-party (insider lending), the hiring of family members, expensive board trips of limited value to the organisation and the provision of services to provider by board member or staff member. "Related-party transaction...finds board members engaging in an activity that benefits one institution on whose board they serve to the detriment of another institution on whose board they also serve." ³ "Related-party ("insider") loans—whether to members of an MFI's management, governing body, or parties related to them—should be fully disclosed, including outstanding amounts, interest rates, collateral, and repayment status. Small loans generally available to all employees can be reported showing only the total amount, number, interest rate, and degree of late payment on such outstanding loans. Policies on both types of insider loans should be described precisely." ⁴
Credit risk	This is the risk to earnings or capital because of a customer's failure to meet the terms of the lending agreement. Principally this is the risk that borrowers will not repay their loan.
External audit	"An <i>external audit</i> is a formal, independent review of an entity's financial statements, records, transactions, and operations,

³ Rock, R., Otero, M. and Saltzman, S. (1998), *Principles and Practices of Microfinance Governance*, Accion International, p. 43

⁴ Rosenberg et al. (2003), *Microfinance Consensus Guidelines – Disclosure Guidelines for Financial Reporting by Microfinance Institutions*, CGAP/The World Bank Group, p. 38

	performed by professional accountants to lend credibility to financial statements and other management reports, ensure accountability for donor funds, or identify weaknesses in internal controls and systems. The scope of external audits can differ significantly according to the objectives of each audit” ⁵
Forecasting	Planning tool using past and present data to produce projections for given period in future based on a number of assumptions. Given possible uncertainty associated with forecasting, it is common to assign a range of values to the uncertain factors, known as sensitivity analysis.
Loan delinquency	Delinquency in microcredit provision is another term for default. Loans tend to be considered as delinquent when two or more payments have been missed.
Portfolio at Risk (PAR)	The value of outstanding loans that have one or more payments past due more than a given number of days. Often displayed as a ratio and divided into categories according to the number of days it is overdue.
Quorum	Minimal number of officers and members of a committee or organization, usually a majority, who must be present for valid transaction of business.
Refinancing of loans	This refers to the disbursement of loans to enable the borrower to repay prior loans they otherwise would have been unable to pay
Rescheduled loans	The rescheduling of loans is the process of renegotiating or modifying “the originally scheduled payments of principal” ⁶
Restricted funds	Grants, investments or donations that require funds to be used in a specific way for a specific way or for a specific purpose according to the wishes of the funder, such as serving. The fund may be for delivering a set of services to a specific target group or it may be earmarked to cover certain costs (e.g. pay, equipment etc)
Risk matrix	A risk matrix or register identifies risks, determines the likelihood and the severity of the risks (e.g. low, moderate or high), and

⁵ (Source: CGAP (1998). *External Audits of Microfinance Institutions – A Handbook, Volume 1*. Technical Tool Series No. 3. December 1998

⁶ Microfinance Consensus Guidelines

	<p>produces aggregate risk profile combining the measures (likelihood and severity). A related tool is a risk management matrix, which incorporates the quality of existing risk management in terms of controlling the risk (e.g. strong, acceptable or weak).</p>
Secured lending	<p>Secured lending is when a loan is made in exchange of a pledge of an asset as collateral. If the loan is unpaid, the lender can repossess the collateral to recoup any losses.</p>
Total Cost of Borrowing	<p>The total charge for taking on a debt obligation (loan) that can involve interest payments and other financing fees to be paid by the customer and known to the lender at the time of disbursing the loan. The total cost of borrowing is expressed in value terms.</p>
Unrestricted funds	<p>Grants, investments or donations that can be spent at the discretion of the recipient organisation</p>
Variance analysis	<p>Process aimed at calculating the difference between actual and budgeted or targeted levels of costs or income and identifying causes for difference or variance.</p>
Write-offs	<p>According to the Microfinance Consensus Guidelines, loans that have been written off “have been recognized for accounting purposes as uncollectible. The process of recognising an uncollectible loan is called a write-off... A write-off is an accounting procedure that removes the outstanding balance of the loan from the gross loan portfolio and from the loan-loss allowance. Thus the write-off does not affect the balance of the net loan portfolio, total assets, or any equity account, unless the loan-loss reserve was insufficient to cover the amount written off.”</p>

Appendix B: Implementation Order

Stage 1	Stage 2	Stage 3
1.2: Include set of information in credit agreement		
1.6: Have credit history reported to national credit bureaux	1.1: Disclose costs in advertising	1.21: Take responsibility not to mislead investors
1.8: Have credit policies addressing borrower debt thresholds	1.3: Provide clear info in annual loan statement	2.15: Be reviewed by Annual General Meeting or equivalent body
1.10: Regularly assess customer satisfaction	1.4: Take measures to ensure customers understand terms & process	2.16: Supervise the performance of the senior management
1.11: Have policy requiring that complaints are investigated	1.5: Withdraw from credit agreement or repay within 7 days	2.17: Provide strategic directions to guide management in defining strategy
1.12: Have mechanism to deal with customer complaints	1.7: Assess repayment capacity and loan affordability	2.22: Be given portfolio quality and financial performance reports
1.15: Set out acceptable & unacceptable debt collection practices	1.9: Inform borrower without delay of non or under-payment	2.26: Require disclosure of conflicts of interest of board members
	1.13: Ensure customers are informed of right to complaint	2.28: Have board or management with an understanding of social performance
1.17: Have written privacy policy concerning customer data	1.14: Not discriminate in selection & treatment of customers	2.42: Microcredit provider will address issues raised by auditor
2.1: Produce strategic documents that are reviewed regularly	1.16: Conduct regular staff appraisals	3.10: Revise loan loss provisioning rates & methodology regularly
2.2: Produce strategic documents covering a minimum of 3 years	1.18: Have systems to protect customers' personal & financial info	3.22: Internal auditor will report directly to board
2.3: Ensure that the strategic documents cover a minimum of aspects of business	1.19: Inform customers about use of info & rights to withdraw permission	3.24: Internal audit will be conducted regularly
2.4: Ensure strategic documents include both social and financial goals	1.20: Require written customer consent to publicly disclose info	Clauses 4.2.1-4.2.10
2.7: Microcredit providers will have a board of directors or equivalent	1.22: Have documented processes to ensure understanding of risk	4.3: Members of public will be able to access info
2.12: Have a minimum of members	2.5: Take practical steps to promote environmental sustainability	Clauses 4.4.1-4.4.11
2.13: Be composed of a majority of independent board members	2.6: Use management control & performance tools	4.5: Record and publicly disclose number of complaints received on an annual basis
2.14: Be selected by Annual	2.8: The board will have an audit or	5.14: Provide training and/or

General Meeting or equivalent body	supervisory committee	manuals to staff
2.23: Have members with understanding of banking, finance & credit risk	2.9: Be independent of management	
2.28: Have board members or management with an understanding of social performance	2.10: Meet with external auditors on annual basis	
2.24: Have rules excluding improper persons from becoming board members	2.11: Have expertise in financial analysis and accounting	
2.25: Have rules stipulating term limits & rotation	2.18: Review social performance management indicators on a regular basis	
2.27: Have board members with qualifications in finance, business and management	2.19: Select and appoint chief executive	
2.29: Management will be qualified to undertake key management functions	2.20: Decide level of remuneration for executive management posts	
2.31: Have personnel policies set out in personnel manuals	2.21: Approve any changes in pricing policies	
2.34: Analyse staff satisfaction annually	2.30: Have succession plan for executive management	
2.35: Have operational manuals covering management	2.32: Have a formal training & induction programme	
2.36: Have operational manuals covering financial operations	2.33: Have staff grievance mechanism	
2.37: Have documented approach to dividend payments, and executive and director remuneration	3.2: Appoint senior manager to be accountable for risk management	
2.38: Microcredit providers will have external audit on annual basis	3.4: Assign responsibility for monitoring & providing management with relevant data	
2.39: Auditor will be appropriately qualified	3.5: Take into account risk in pricing of loan products	
2.40: External audit will adhere to national or international accounting standards	3.6: Limit credit risks by requiring that two people approve all loans	
2.41: External audit will be accompanied by letter from auditor	3.7: Review aggregate exposure to concentrations of credit risk	
3.1: Have processes to identify, assess & prioritise risks	3.8: Ensure any staff incentives not only linked to loan origination	
3.3: Implement internal controls	3.9: Measure & track loan portfolio performance	

3.11: Disclose loan loss provisioning methodology to funders & investors	3.12: Have explicit policy on write-offs & apply it consistently	
3.15: Have policies & procedures on dealing with collateral	3.13: Specify lending limits for various ranks of officers & credit committees	
3.16: Classify restricted & unrestricted fund account activity	3.15: Have policies & procedures on dealing with collateral	
3.17: Limit handling of cash through banks or using electronic transfers	3.18: Have following measures in place when handling cash	
3.20: Have in place anti-money laundering procedures	3.19: Segregate duties for approving & disbursing loans	
3.21: Microcredit providers will have explicit internal audit function adjusted to size of organisation	3.22.1: The reliability of existing info	
3.24: Internal audit will be conducted regularly	3.22.2: The reliability and accuracy of financial and operational information	
5.1: Produces key financial reports	3.22.3: Violations of internal controls	
5.2: Enables provider to perform full range accounting activities	3.22.4: Existence uncontrolled risks	
5.3: Operates in accordance with recognised accounting standards	Clauses 4.1.1-4.15	
5.4: Can produce periodic reports on loan portfolio quality		
5.5: Can manage & maintain information about clients		
5.6: Can facilitate prompt access to relevant info for management, staff & board		
Clauses 5.7-5.14		

GETTING IN TOUCH WITH THE EU

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of the European Union

ISBN 978-92-76-27754-5