



# European Code of Good Conduct for Microcredit Provision

Evaluator Methodology – Update 2024

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# **European Code of Good Conduct for Microcredit Provision**

Evaluator Methodology – Update 2024

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# 1. Introduction

This document is the methodology to monitor the implementation of the ‘**European Code of Good Conduct for Microcredit Provision**’ (henceforth, ‘the Code’) by non-bank microcredit providers (henceforth, ‘the providers’). The methodology is primarily aimed at the Code evaluators, but technical staff working for microcredit providers may also find it useful. The main purpose of the methodology is to provide a clear and comprehensive overview of the evaluation process, from sign-up to post-award decision and support, and to offer detailed guidelines for the assessment of applicability and compliance of clauses.

The guidelines are organised into five chapters:

- Chapter 1: Introduction
- Chapter 2: About the Code and the evaluation process: 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 should be expected by the providers, the evaluators and other relevant parties in the course of the step.
- Chapter 3: Before the evaluation: Prior to starting the evaluation, the evaluators should familiarise themselves with the tools and other relevant documentation, and ensure that they have some important documents at hand. This section lists and describes the relevant tools and documents.
- Chapter 4: During the evaluation: Prior to evaluating compliance with the clauses, the evaluator must verify that the correct size category has been applied, that the justification of non-applicable clauses is appropriate and that the relevant documents have been supplied. This section provides guidelines for evaluators to do this. The section also provides guidelines for providers on how to evaluate compliance, including what constitutes compliance and weighting and global marking. Finally, the section provides tips and considerations on making the recommendation concerning the decision to award and not.
- Chapter 5: After the evaluation: This section provides guidelines on writing and submitting comments and recommendations to the provider following the award decision. The section will also offer tips and considerations in recommending a course of action for providers that have failed to achieve the global marking.

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: Evaluator report format: To assist the evaluator to write up the findings from the evaluation and make a recommendation concerning the award.

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

- The Self-Assessment Tool: See chapter 3.1.2.
- Business Model Description Form: The evaluators will ask the providers 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

- Disclosure of Financial and Operational Information template: This template should be uploaded on the website of the provider during the evaluation process as soon as the information has been validated by the external evaluator. It should be updated every subsequent years in a form of self-reporting. Self-reported data will not be validated by the external evaluator. See chapter 4.6.1. for more information.
- Mid-term progress form: Providers awarded the Code will be asked to submit this form in the middle of the ongoing 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.

In addition, the following forms will be received from the EIB, after submitting a request to support under [Social Inclusive Finance Technical Assistance](#) (SIFTA) via email: [sifta@eib.org](mailto:sifta@eib.org)

- Sign-up form: This form will be used by the non-bank microcredit providers wanting to sign up to the Code.
- Endorsement form: This form is used by bank microcredit providers and partner organisations wanting to endorse the Code.

## 2. About the Code and the evaluation process

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. Background to the Code

On 13 November 2007, the Commission adopted a communication entitled "A European initiative for the development of micro-credit". 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 the EU. 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 addition, six online stakeholder questionnaires were circulated requesting input and comments, two draft versions of the Code were circulated asking for comments and meetings were held with key trade associations.

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 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). 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 under InvestEU.

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, **entering into force in January 2021**.

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](#)
- [The Code webpage on EMPL Europa with related documents](#)

## 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. It is chaired by unit G.3. of the Directorate-General for Employment,

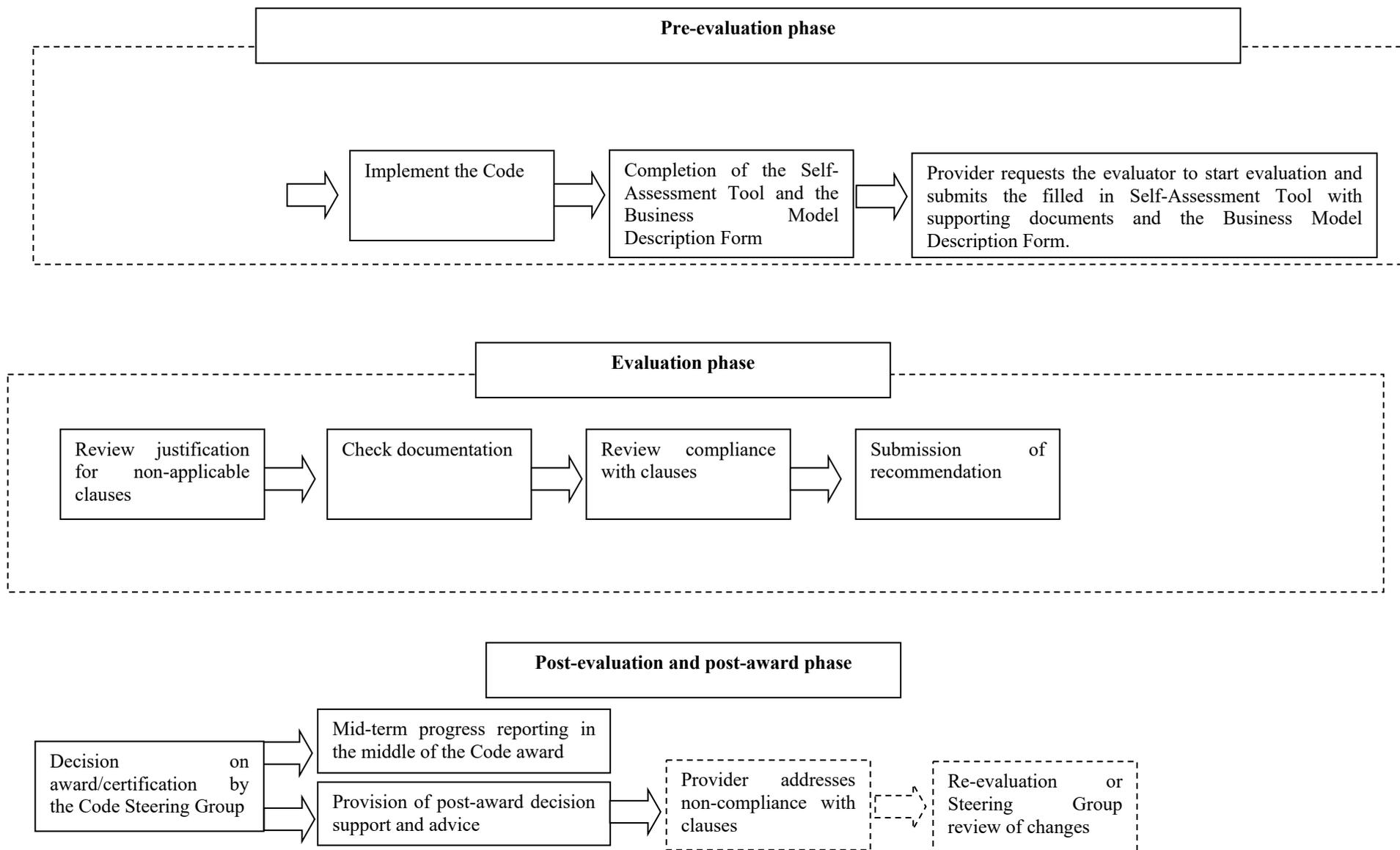
Social Affairs and Inclusion (DG EMPL) of the European Commission. The purpose of the Steering Group is to decide on the award/certification based on the recommendation of the evaluator. The group will also consider any appeals and complaints received about evaluations.

- Designated contact: The designated contact for Code sign ups and evaluations is the EIB ([sifta@eib.org](mailto:sifta@eib.org)), who is managing the Social Inclusive Finance Technical Assistance (SIFTA).

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 process**



At the very first stage of the process, the provider will request support and submit a **sign-up form** signed by its legal representative to the EIB ([sifta@eib.org](mailto:sifta@eib.org)). The EIB will notify the European Commission (DG EMPL), and the Social Inclusive Finance Technical Assistance consortium of the submission of the sign-up form, who in turn notifies the evaluator.

### Difference between endorsing and signing up to the Code

- The Code is primarily intended for non-bank microcredit providers. By signing up to the Code, these providers commit to implementing the clauses in the Code.
- Banking institutions not covered by the Code have the option of officially endorsing the Code by signing the **endorsement form** (See the [Code webpage](#), under “Related Documents”). Organisations that sign the endorsement form commit to promoting the Code and may be listed as a supporter on the Commission website.

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 4.4.
- 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 first Code award is in principle valid for four years.** The first Code renewal award is valid for five years, and the subsequent renewal awards are valid for six years. However, if one of the renewals of the institution fails in between, their next award period will start again from four years.

**Table 1**  
*The award period*

| 1. Evaluation                              | 1. Renewal                                   | 2. Renewal                                 | 3. Renewal+                                |
|--|--|--|--|
| Award period: 4 years                      | Award period: 5 years                        | Award period: 6 years                      | Award period: 6 years                      |
| Mid-term reporting: 2 years from the award | Mid-term reporting: 2,5 years from the award | Mid-term reporting: 3 years from the award | Mid-term reporting: 3 years from the award |

In all cases, **providers awarded the Code are required to submit a Mid-Term Progress Form** (available on the [Code webpage](#), under “Related Documents”) in the middle of their ongoing award period. The filled in Mid-term progress 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. The providers are notified about the date to submit this report in the award letter. More information on the Mid-Term Progress Form on chapter 5.2.

## 3. Before the evaluation

Prior to starting the evaluation of compliance of a provider, the evaluators should familiarise themselves with the tools and documents needed to complete the evaluation and keep them at hand throughout the process.

This chapter lists and describes the relevant tools and documents.

### 3.1. Documents and tools to have at hand before starting

The evaluator will be assessing Code compliance of providers using the Self-Assessment Tool and therefore needs to be familiar with it. In addition, the evaluator should be familiar with and have the following documents and tools at hand when starting the evaluation:

- *The European Code of Good Conduct for Microcredit Provision:* The evaluators 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.
- *Microcredit Provider guidelines:* Although primarily aimed at the providers, the evaluators may find the guidelines useful, perhaps particularly in formulating recommendations and providing advice on implementation for providers that fail to reach the global marking.

#### 3.1.1. Business Model Description Form

The evaluators request the providers to submit their filled in Business Model Description Form before the start of their evaluation (See the [Code webpage](#), under “Related Documents”). The form should be submitted to the evaluators 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.
- **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.

## 4. During the evaluation

Prior to evaluating compliance with the clauses, the evaluator must verify that the correct size category has been applied, that the justification of the non-applicable clauses is appropriate and that the relevant documents have been supplied. Having verified that the appropriate documentation has been submitted and having identified the clauses subject to the assessment of compliance, the assessment of compliance can start.

This section provides guidelines for evaluators on how to evaluate compliance, including what constitutes compliance, and weighting and global marking. It also provides tips and considerations on making recommendations concerning the decision to award or not.

### 4.1. Checking completeness of information

Once the provider has indicated that it is ready to start the evaluation and has submitted the Self-Assessment Tool, the evaluator needs to ensure that the information is complete. First of all, the evaluator should examine the Self-Assessment Tool ensuring that the provider has filled in the information required about the organisation. In the Self-Assessment Tool, the provider will indicate which clauses they are complying with and refer to documents submitted that evidence this compliance.

As a second step, the evaluator should ensure that the provider has included references to the various supporting documents in the Self-Assessment Tool both in relation to non-applicability and compliance. Prior to assessing compliance, the evaluator will need to check:

- *Completeness*: Have all the documents evidencing compliance been submitted?
- *Functionality*: Can all documents be accessed? Are they in an appropriate format? Do all documents open properly?
- *Appropriateness*: Have the appropriate documents been submitted to evidence compliance as per the compliance documentation guidelines outlined above?

### 4.2. Verifying size of provider

In the Code, there are a number of clauses that only apply to large institutions. These are indicated by the symbol (▲), displayed after the clause. 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. The evaluator needs to verify that the provider has inputted the correct data. 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. The number inputted should match that provided to comply with Clause 4.4.1. The number of employees covers full and part-time employees.

### 4.3. Determining applicability

The number of clauses that a provider will have to comply with will depend on the number of 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 outside this category, 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.

Providers may also suggest that some clauses should not apply to them because they do not agree with the clause or because they lack the resources to implement them. These should **not** be accepted as reasons not to implement a clause. It should be noted that a provider might legitimately decide that it will not implement a clause because it can reach the global marking – the minimum level compliance of 80% of the weighted clauses – without it. This does not apply to priority clauses, which must be implemented to comply with the Code regardless of the global marking.

Once the evaluator has verified the size of the provider, the applicable clauses and the documents supplied, the provider should be notified of the outcome of this process. If no issues have arisen during this process, it will suffice for the evaluator to contact the provider to confirm that no issues have arisen and that the evaluation can start. Where there are missing or inappropriate documentation or where the evaluator disputes the justification for any of the clauses deemed not applicable by the provider, the evaluator should notify the provider of this and allow it to respond to the concerns raised.

### 4.4. Overview of clauses, weighting and global marking

The Code consists of a total of 161 clauses covering Customer and Investor relations, Governance, Risk management, Common 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 2).

**Table 2**  
*Types of Clauses*

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

There are 7 overhead clauses (clauses 1.2, 2.3, 3.18, 3.23, 4.1, 4.2, 4.4). These are not stand-alone clauses, but each of them contain a number of sub-clauses that require implementation. There are a total of 54 sub-clauses and 100 main clauses. This means that from the total of 161 clauses, there are **154 clauses that the providers can implement**.

In addition, the clauses are weighted according to the importance of the clause (Table 3).

**Table 3**  
*Weighting of Clauses*

| Weighting level   | Medium      | High                                 | Priority              |
|-------------------|-------------|--------------------------------------|-----------------------|
| Weighting         | 0.75        | 1.00                                 | 1.25                  |
| Clauses           | Sub-clauses | Main Clauses<br>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:

$$\text{Sum applicable clauses} = (\text{Applicable sub-clause} \times 0.75) + (\text{Applicable main clauses \& priority sub-clauses} \times 1.00) + (\text{Applicable priority main clauses} \times 1.25)$$

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

$$\text{Sum clauses complied with} = (\text{Sub-clause complied with} \times 0.75) + (\text{Main clauses \& priority sub-clauses complied with} \times 1.00) + (\text{Priority main clauses complied with} \times 1.25)$$

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

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

## 4.5. Assessing compliance

The **Self-Assessment Tool 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).

There are also some cross-cutting issues concerning compliance that the evaluator needs 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 recognised good practice in different countries. Good practice refers to practice that is recommended by regulators, trade bodies or other recognised organisations. On the other, 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 (loans of up to €50,000 to microentrepreneurs), 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 chose 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, though 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.

## 4.6. Documenting compliance

When filling in the Self-Assessment Tool, providers will indicate which clauses they comply with. **It is the responsibility of the provider to document that they are indeed complying with these clauses.** 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.

Table 4 below suggests eight types of documents that may help providers to evidence compliance and evaluators to assess compliance. The Self-Assessment Tool suggests a document type for each clause. There are also some other possible ways of assessing compliance. These are discussed in the table below.

**Table 4**  
*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.   |

The emphasis is on reviewing documentation as the primary method. The providers will have to submit documentation describing their systems and processes. Where this is not appropriate or where further information is required, the evaluator may have to resort to interviewing members of staff, board members and other stakeholders. In addition to the types of documents in the table above, there is a separate verification process for data published online, which is discussed in detail in Section 4.6.1.

An alternative way of evidencing compliance is to incorporate the assessment of compliance with some or all clauses into the external audit. The most suitable clauses for incorporation into the external audit relate to risk management, especially the sections on ‘managing credit risk’, ‘managing fraud and security risk’ and ‘internal audit,’ and many of the clauses in Chapter IV on reporting standards. In terms of the clauses that relate to the calculation and definition of indicators (e.g. Clause 4.1), it is sufficient for the audit to state that the provider has used this definition or calculation in reaching this indicator. However, for clauses that require the provider to implement appropriate measures or systems, the auditor must explain how the clause is met and not simply state that the provider complies with clause.

#### 4.6.1. Online Data Verification

By signing up to the Code, providers commit to disclosing a number of social and financial performance indicators online. It is part of the remit of the evaluators to verify this information prior to it being published. The data which the providers have to submit online is detailed in the Self-Assessment Tool, “*Suggested Evidence of Compliance*” column, when referring to “*Online data verification*”. 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 independent verification of 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. 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 should check the extent to which the data provided is consistent with the other data and information submitted by the provider. For example, is the financial revenue stated consistent with the interest rate charged, the size of the portfolio and the loan loss-provisioning rate? Similarly, when divided by the number of personnel, do the salary costs seem reasonable in light of the national mean income for such staff categories?
- *Consistency with comparable providers:* Where such data is available, the evaluator can compare the data for 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 should be queried with the provider. Such data may for example be found in the EMN or MFC Member Survey or EMN-MFC Overview 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 the board to verify it.

## How to disclose and verify data

As part of the evaluation of compliance with the Code, the provider has to disclose publicly financial and operational information linked to Code clauses 4.2, 4.2.1 - 4.2.10, 4.3, 4.4.1 - 4.4.10 and 4.5 (depending on mission and target group), with a view to enhancing transparency and comparability.

The provider should disclose this information publicly on their own website, using a template provided by the external evaluators (available also on the [Code page](#)) at the start of the evaluation process. This template should be filled in and uploaded on the website of the provider during the evaluation process **as soon as the information on the template has been validated** by the external evaluator. After receiving the Code award, the provider commits to updating the template on their webpage on an annual basis. The updates are done in the form of self-reporting, and they will not be validated by the external evaluator.

When disclosing information during the evaluation process, please note that:

- In order to comply with the clauses (4.2, 4.2.1 - 4.2.10, 4.3, 4.4.1 - 4.4.10 and 4.5), the template should be freely and publicly available on the provider's website, without requiring a login or a subscription fee to view it.

- The filled in and validated (by the external evaluators) template should be published on the providers webpage before the external evaluators have finished the evaluation report and presented it to the Code Steering Group, in order to assess whether the provider complies with the clauses.
- The template will be available in several EU languages on the Code webpage. The provider can choose whether they prefer to publish the English version or/and the version in their national language.
- In the case of clause 4.2.1, the mission should be filled in the same language as the template that is used (English or local language).
- The provider will have to explain in the Self-Assessment Tool where in their website they intend to publish the template, providing the evaluators a direct website link to the location. The provider should use this same location to publish the validated template.
- The external evaluator will inform the Code Steering Group of the location of the published information by providing the link in the evaluator report.

The disclosed data should be kept available on the website of the provider for the whole duration of the Code award period. If the location of the published template changes after receiving the Code award, the provider should inform the EIB ([sifta@eib.org](mailto:sifta@eib.org)) of its new location who will notify the Commission.

- It is possible that the Code Steering Group performs spot checks using the links in the evaluator report to ensure that the provider still complies with the clauses/Code.
- The consequences for removing the information after receiving a Code award are similar with the consequences of no longer complying the Code. In such a case, the Code Steering Group may investigate further, request re-uploading the data, and ultimately withdraw the Code award.

## 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 provides some guidance and information on how evaluators can do this.

### 5.1. Post-evaluation recommendations

The first step after having completed the evaluation is to write up the findings and make a **recommendation concerning the award**. There is an evaluator report format in Appendix B to assist providers in this. The report is submitted to the Code Steering Group, which makes the final decision concerning whether to award or not. The Commission sends the provider the award decision letter, and the evaluator sends them the evaluation report. The report needs to present the findings and the recommendations in a clear and concise manner allowing the steering group to make a decision and enabling the provider to reach the global marking or improve the level of compliance.

## 5.2. Next steps

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

Providers awarded for their compliance with the Code will be informed about the date of submission of the Midterm progress form (see box below) as well as about recommended improvements to practice in the award decision letter.

### Mid-term Progress Form

In the middle of the award period (see table 1 on page 9), 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”). 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 Mid-Term Progress Form is submitted to the EIB ([sifta@eib.org](mailto:sifta@eib.org)) who will notify the Commission and the external evaluator. The external evaluator will bring it forth at the next Code Steering Group discussion with a recommendation whether further investigation is needed or if the award can continue until the end of the award period. In the case that the provider reports of changes that significantly affect their current compliance with the Code since they have received their Code award, the Code Steering Group might request for more information from the provider or decide on further investigations. 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:

| <b>Code Evaluation Terminology</b> |   |
|------------------------------------|---|
| <b>Term</b>                        | <b>Definition</b>   |
| 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 for Code sign ups and evaluations is the EIB, who is managing the Social Inclusive Finance Technical Assistance (SIFTA).   |
| 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 in the middle of the ongoing 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. |

| <b>Technical Glossary</b>     |   |
|-------------------------------|---|
| <b>Term</b>                   | <b>Definition</b>   |
| 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)” <sup>1</sup> |

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<sup>1</sup> 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." <sup>2</sup> "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." <sup>3</sup> |
| 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,  |

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<sup>2</sup> Rock, R., Otero, M. and Saltzman, S. (1998), *Principles and Practices of Microfinance Governance*, Accion International, p. 43

<sup>3</sup> 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" <sup>4</sup>             |
| 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" <sup>5</sup>  |
| 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   |

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<sup>4</sup> (Source: CGAP (1998), *External Audits of Microfinance Institutions – A Handbook, Volume 1*. Technical Tool Series No. 3. December 1998

<sup>5</sup> 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: Evaluator Report Format

### About provider

The evaluator report should contain a brief overview of the provider. This should include the name, where it operates, the institutional and legal set-up, the services it offers, its microcredit portfolio and a brief history of the provider. The evaluator may also use this section to stress aspects of the provider that are pertinent to compliance. This may include whether the provider relies extensively on cash transactions, which affect risk management arrangements.

### Viability of provider

The dedicated section in evaluation report and presentation on the issue of viability should address:

- How the provider generates income to cover operating costs (i.e., loan interest rates and fees, other services or products, or grants/subsidies)
- Shareholders, supporters and funders of the provider (nature and level of commitment and support)
- Historical and recent financial and portfolio performance (operational sustainability, portfolio quality)
- Factors in the operating environment pertinent to viability (regulatory context/changes, market conditions)

### Applicability

In this section, the evaluator should detail the number of clauses that are applicable and the total weighting of these clauses. In cases where the provider and the evaluator has disagreed on whether a clause is applicable or not, the evaluator should note this here. This should include the outcome of the disagreement and the rationale for this (i.e. for categorising a clause as non-applicable against the judgement of the provider).

### Compliance

This section should start with some general observations on compliance, including the proportion of clauses complied with in relation to the global marking. The evaluator should also note any general sources of non-compliance. For example, if there are general concerns about the credit policy that leads to non-compliance with a number of clauses. In this section, the evaluator should list the clauses where the providers have indicated that they are complying with clause and the evaluators disagree. For each of these clauses, an explanation for why the provider is not complying with the clause should be provided. The evaluator should be able to draw this information from the column 'evaluator comment – compliance' in the Self-Assessment Tool.

**Please note:** The Evaluator report should also include the direct link to the data disclosed online by the provider (see 4.6.1 ).

## **Recommendation**

At the end of the report, the evaluator should provide a recommendation concerning whether to award to the provider with their compliance with the Code or not. Where the evaluator recommends not awarding the provider, he or she should explain why, detail steps that the provider will have to take to comply and identify any support or resources the provider can request to make these changes.

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