Highlights of the

Social & Environmental Report 2017

MEF
Microfinance
Enhancement
Facility

Content

Foreword

It is with great pleasure that we present to you the Highlights of the 2017 Social and Environmental Report of the Microfinance Enhancement Facility (the « MEF ») - the full report being reserved to our shareholders.

This report is divided into two main sections:

I) Development Indicators

II) Social Performance Indicators

We hope it provides you with deeper insights into MEF's social impact.

We would like to thank MEF's investors, stakeholders and partner institutions for their commitment to the Fund's mission.

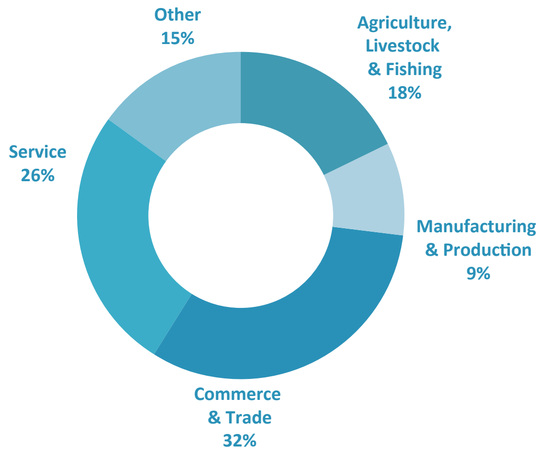
Yours sincerely,

Board of Directors, Microfinance Enhancement Facility

Summary of Social & Environmental Indicators

Microfinance Institutions' Reach

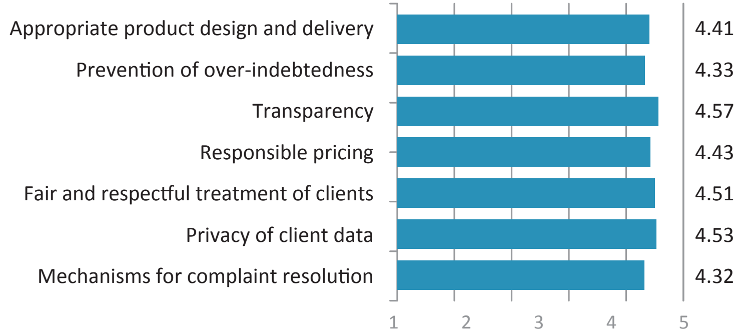
Sector Distribution of Portfolio



Borrowers	Percentage
Number of microentrepreneurs reached by funding provided by MEF	600,746
Total of microentrepreneurs reached by MFIs in the portfolio	23,965,491
Women, percent:	85%
Rural, percent:	56%
Loans	**USD**
Average loan balance	1.224
Client Type	
Microfinance	55%
Microenterprise (five or fewer employees)	22%
SME	18%
Consumption	17%
Housing	7%
Large enterprises	21%
Education	1%
Other - USD	14%
Product Type	
Direct loans	78%
Group guaranteed loans	18%

Adherence to Social and Environmental Criteria

Level of Adherence to the Client Protection Principles (CPPs) (self-reported)



The diagramme highlights the good scores of MEF's MFIs regarding their adherence to the Client Protection Principles.

Adherence to the CPPs	
MFIs having formally adopted the CPPs	76%
Adherence to Exclusion List	
Violation of Exclusion List	None

All figures reflect the MEF-financed portions in the MFI portfolios.
Please note that 104 out of the 113 MFIs in the portfolio as of 31 December 2017 have reported their social and environmental data.

Introduction

As a global microfinance debt fund, MEF's approach to social and environmental performance is built on our vision of stabilising microfinance markets in developing countries by offering a reliable and flexible source of debt to microfinance institutions (MFIs).

The social impact of our investments depends on the performance of our partner MFIs. Selecting adequate MFIs is thus the first and foremost step to achieve our social impact goals. And presenting the results they achieve, supported by MEF financing, is hence the key element of our own social and environmental performance reporting.

Regular assessment and monitoring are important for transparency, accountability and performance improvement. MEF and its partner MFIs need to show to our investors and stakeholders that their resources are applied well – not only from a financial sustainability but also from a social impact perspective.

Moreover, social performance reporting is not only for the benefit of our investors and external stakeholders, but also to our own benefit. By collecting, comparing and analysing this data we better understand the challenges we face and can transform lessons learned into our investment strategy.

Given our extensive global portfolio with 113 MFIs in 45 countries we believe we have valuable lessons to share. With this report we aim to contribute to the debate of increasing social performance in microfinance and welcome any comments.

This report is based on financial and social indicators reported by the partner MFIs in MEF's portfolio as of 31 December 2017. The aggregate responses on aspects such as outreach, products and services or other social performance indicators, however, provide a yearly "snap shot" of the profiles of the active partner MFIs of the MEF rather than a basis for comparison. Any year-on-year variation can largely be due to the turnover of partner MFIs in the MEF portfolio as the mix of MFIs in the portfolio evolves -and is meant to evolve- given the demand-oriented business model of MEF. For instance, by year-end 2017 the portfolio comprised of 113 MFIs with 26 new MFIs financed and 14 MFIs exited during 2017.

Development Indicators

Development Indicators

MEF had 113 active partner MFIs in 45 countries with a total loan portfolio outstanding of USD 598.6 million by year-end 2017. The Fund has seen continuous growth in these numbers, for instance since 2015: from 95 MFIs in 36 countries and an 8% growth in the outstanding loan portfolio.

The portfolio reflects the demand-oriented operation of the MEF with global growth accelerating in 2017 and many microfinance markets experiencing expansion (see also the overview table and graph):

In 2017, strong demand for MEF funding continued from the Latin America & Caribbean (LAC) region with a year-on-year growth of +43% and from the South Asia (SA) region with +34%. Per year-end 2017 the portfolio was concentrated in these two regions, together accounting for 66% of the portfolio (LAC 46%; SA 20%).

In contrast, MEF's exposure in the Sub-Saharan Africa (SSA) region decreased; after an increase in 2016, it decreased from 12% of the portfolio in 2016 to 8% in 2017. For the Eastern Europe & Central Asia (EECA) region, a period of several crisis events in the microfinance sector continued the trend of decreasing demand for MEF loans (from 36% of the total portfolio in 2015 and 18% in 2016 to 10% in 2017).

The market analysis of the 2017 MIV Survey,[1)] based on 2016 data, also reflects an increasing demand for MIV-financing from LAC, with this region occupying the largest share of MIVs' portfolios (34% in 2016; up from 30% in 2015); whereas for SA the MIV Survey shows a 14% portfolio share (2016) with year-on-year growth from 2015 of only 4%. Similarly, the MIV Survey recorded a decline for EECA's share in MIVs' portfolios (from 38% in 2014 to 30% in 2015 to 26% in 2016); whereas for SSA it shows a 10% portfolio share (2016) with year-on-year growth 2015-16 of 8%.

Besides responding to changing demand from a regional perspective, MEF is also progressively de-risking its financing for its partner MFIs by increasing local currency funding. With the support of its hedging counterparties, and in consideration of the experience of the previous years when local currency depreciation was a major threat to hard-currency financed MFIs, MEF continued to increase its portion of local currency loans to 48.9% (from 42.8% at the end of 2016), including 14.4% of loans in countries where either the USD (Ecuador, El Salvador and Panama) or EUR (Kosovo, Montenegro) is the legal tender, therewith de-risking approximately half of its investees from currency fluctuations. All of MEF's currency exposures are fully hedged to USD. For 2016, MEF was thus well above market practice both for local currency lending and hedging: The 2017 MIV Survey shows the portion of direct debt investments in MFIs in local currency at 31% for 2016 (up from 29.5% in 2015), of which 42.3% was un-hedged (vs. 45% in 2015).

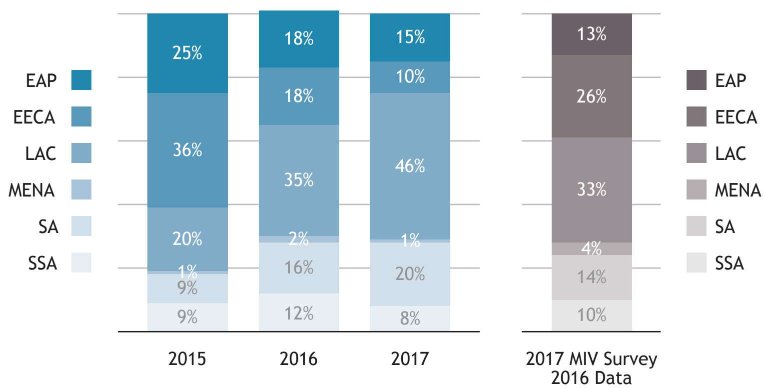
[1)] 2017 SYMBIOTICS MIV SURVEY: Market Data & Peer Group Analysis; 11th edition, September 2017 (http://symbioticsgroup.com/wp-content/uploads/2017/09/Symbiotics-2017-MIV-Survey.pdf)

The data is based on December 2016 financial and social performance indicators reported by the large majority of active microfinance investment vehicles (MIVs). Out of an identified 127 MIVs, 98 participated and 93 were included in the final benchmark, making this sample rather representative. MEF participates in this survey.

MEF Data and Portfolio	2015	2016	2017	in % Δ 2016-2017	2017 MIV Survey 2016 Data
MEF total assets (mUSD)	704.30	692.20	651.70	-6%	n/a
MEF total portfolio (mUSD)	555.30	554.90	598.60	8%	n/a
portfolio in total assets (in %)	79%	80%	92%	15%	n/a
Number of partner MFIs	95	102	113	11%	34.8 (average)
Number of countries	36	40	45	13%	96 (sum)
Share of local currency in portfolio*	32%	43%	49%	14%	31%
Number of local currencies provided*	18	17	21	24%	n/a

*including EUR and USD loans when legal tender

Regional Diversification of MEF



EECA: Eastern Europe & Central Asia, **LAC**: Latin America and Caribbean, **SSA**: Sub-Saharan Africa
EAP: East Asia and Pacific, **SA**: South Asia, **MENA**: Middle East and North Africa

Of MEF's 113 partner MFIs, 104 responded to MEF's social indicators questionnaire. Of the 9 institutions that did not report, 6 were under receivership of the regulator or in a wind-down or liquidation process. The response rate is thus 104 out of 107 "active" partner institutions of the MEF.

The MFIs reporting in 2017 provided loans to nearly 24 million borrowers. Of those, more were rural (56%) than urban borrowers and around 85% were women. Our partner MFIs on-lent the MEF financing to some 600,000 of their borrowers,[2)] up from around 544,000 in 2016. The 2017 MIV Survey, based on 2016 data, reports an average number of active borrowers financed by MIVs of just over 400,000 (402,960 in 2016; up from 307,450 in 2015).

The outreach of MEF's portfolio MFIs is supported by a variety of factors: (i) their large branch networks which grew to 9,261 in 2017 (up from 8,254 in 2016); and (ii) their predominantly microfinance rather than SME banking orientation, as the following analysis of average loan amounts illustrates:

With USD 1,224 (2017) as the global average outstanding loan amount per borrower, MEF's partner MFIs clearly serve predominantly the microfinance segment. Regionally the picture is however very differentiated with: SA USD 295; SSA USD 2,371; MENA USD 859; EECA USD 1,617: EAP USD 2,986; and LAC USD 4,527. A direct comparison would neglect that this in part reflects differences in economic strength as average incomes and cost of living vary greatly by region and to some extent within regions as well. Within the MEF's SSA portfolio, a noticeable increase in average outstanding loan amounts per borrower to USD 2,371 occurred in 2017. This is up from USD 476 in 2016 and from continuously well below USD 1,000 in preceding years. This is an effect of data reported in 2017 by two new MEF partner institutions that focus on SME-lending. Without their figures the average for SSA of USD 639 would be more in line.

Overall, the global average outstanding loan amount per borrower of the MEF partner MFIs remained fairly stable with USD 1,224 in 2017 compared to USD 1,029 in 2016 and USD 1,119 in 2015. This is below the averages recorded across all MIVs of USD 1,920 for 2016 and USD 1,575 for 2015 (2017 MIV Survey). The MEF's portfolio hence shows an above average micro-orientation.

[2)] This figure results from a more granular perspective than the global averages in the overview table would suggest. The number of MFI borrowers financed by MEF is calculated per MFI then summed up (i.e. the sum of MFI borrowers the MEF loans reach given each MFI's average loan amount to their borrowers).

		EAP	EECA	LAC	MENA	SA	SSA	Global 2017
2017	Total loan portfolio (USD million)	6.181	1.940	13.219	319	4.777	2.907	29.342
	Number of borrowers	2.069.977	1.200.160	2.919.959	371.678	16.177.526	1.226.191	23.965.491
	Average loan amount per borrower	**2.986**	**1.617**	**4.527**	**859**	**295**	**2.371**	**1.224**
	Number of branches	**1.640**	**701**	**1.539**	**118**	**4.430**	**833**	**9.261**
2016	Total loan portfolio (USD million)	5.109	2.556	8.238	279	3.472	786	20.441
	Number of borrowers	2.204.311	1.457.935	1.902.517	338.627	12.314.887	1.653.185	19.871.462
	Average loan amount per borrower	**2.318**	**1.753**	**4.330**	**824**	**282**	**476**	**1.029**
2015	Total loan portfolio (USD million)	4.805	3.898	6.900	146	2.421	438	18.608
	Number of borrowers	2.220.000	1.925.568	2.865.003	270.563	8.529.167	812.237	16.622.538
	Average loan amount per borrower	**2.164**	**2.024**	**2.408**	**540**	**284**	**539**	**1.119**

Development Indicators

Microfinance activities are often associated with lending mainly in urban areas and to “non-productive” sectors like services and trade or for consumption. A look at MEF’s partner MFI 2017 data reveals the following on lending to women, outreach into rural areas and on borrowers in “productive sectors” (agriculture/livestock/fishing and manufacturing/production; note that the productive sectors analysis draws on responses of 97 MFIs, all else on 104 respondents):

2017	EAP	EECA	LAC	MENA	SA	SSA	Global 2017	Global 2016
Total loan portfolio (USD million)	6.181	1.940	13.219	319	4.777	2.907	29.342	20.441
Number of borrowers	2.069.977	1.200.160	2.919.959	371.678	16.177.526	1.226.191	23.965.491	19.871.462
Average loan amount per borrower (USD)	**2.986**	**1.617**	**4.527**	**859**	**295**	**2.371**	**1.224**	**1.029**
Number of branches	**1.640**	**701**	**1.539**	**118**	**4.430**	**833**	**9.261**	**8.254**
Share of women borrowers	**72%**	**53%**	**59%**	**61%**	**96%**	**61%**	**85%**	**86%**
Share of rural borrowers	**85%**	**65%**	**40%**	**44%**	**55%**	**52%**	**56%**	**39%**
Share of agri/livestock/fishing loans	**22%**	**23%**	**12%**	**21%**	**45%**	**6%**	**18%**	**22%**
Share of manufacturing/production loans	**9%**	**12%**	**11%**	**12%**	**5%**	**13%**	**10%**	**12%**

Notably, on lending to women, the global portfolio shows a very high share of 85% (2017; 86% in 2016) of borrowers of MEF partner institutions being women, women-headed households or women-led MSMEs. This is clearly higher than the industry average of 70% female borrowers (per 2016; 2017 MIV Survey). The MEF South Asia portfolio’s very high rate of female borrowers (96% in 2017) is largely due to the fact that it comprises mostly Indian MFIs with a focus on lending to women.

Assessing lending in rural areas, the global portfolio of MEF’s partner MFIs and their clients shows a strong record as well with 56% rural borrowers, up from 39% in 2016.[3)] The 2017 MIV Survey compares at 55% rural borrowers (2016). In the MEF portfolio, notably the East Asia & Pacific portfolio shows the strongest rural focus with 85%, dominated by Cambodian MFIs.

As regards lending to the “productive sectors” (agro/livestock/fishing or manufacturing/production), MEF partner MFIs’ portfolios show a sizeable share of 28%. Regionally, South Asia stands out with the highest share of 50% of the portfolio in these sectors and Sub-Saharan Africa with the lowest at 19%.

In summary, and also in comparison with industry averages of MIVs where available, the activities of the MEF and its partner MFIs show a reasonably balanced regional diversification with an increasing concentration in LAC; a good and further improving practice on de-risking for partner MFIs with increased local currency lending; a strong emphasis on microlending (as opposed to lending to MSMEs); a very strong outreach to women well above industry-average; and a good record also on lending to “productive sectors”.

[3)] These ratios are calculated based on the industry-standard CGAP definition: taking the average of rural borrowers of MFIs in the MEF portfolio (calculated as the total number of rural borrowers of each MFI in the MEF portfolio divided by the total number of borrowers of the MFIs). The 2016 MEF S&E report had originally presented the share of rural borrowers financed by MEF as 45% in 2016 using a weighted average and thus a different method (calculated as the share of the borrowers living in rural areas of each MFI weighted by the importance of the MFI in the MEF’s portfolio – given the MEF loan amount to the MFI).

Social Performance Indicators

Social Performance Indicators

To contribute to a transparent debate within the impact investing industry, MEF's portfolio of partner MFIs is also benchmarked against the Universal Standards for Social Performance Management (USSPM). The USSPM define social performance along six headline dimensions: (1) Define and Monitor Social Goals, (2) Ensure Board, Management and Employee Commitment to Social Goals, (3) Design Products, Services and Delivery Channels that meet Clients' Needs, (4) Treat Clients Responsibly, (5) Treat Employees Responsibly, and (6) Balance Social and Financial Performance. As such, the USSPM look at social performance both from a perspective of the MFI's borrower or client (in particular dimensions 3 and 4), from an internal perspective (especially dimension 5), but also from a governance perspective (as per dimensions 1 and 2). The 6th dimension – Balance Financial and Social Performance – can be considered a summary criterion for assessing the "double bottom line" to be achieved in responsible finance and impact investing.

The 1st USSPM dimension – Define and Monitor Social Goals – is by definition difficult to measure in quantitative terms. The willingness of a MFI to provide social performance data to MIX as the leading sector database is seen as a reasonable proxy (www.themix.org). Around one-third of MEF's partner MFIs fulfilled this criterion, flagging also a need for even more sensitisation for transparency as a key pillar of social performance.

The 2nd dimension – Ensure Board, Management and Employee Commitment to Social Goals – is even harder to measure and has to rely largely on the self-assessments of the reporting institutions.

For the 3rd dimension – Design Products, Services and Delivery Channels that meet Clients' Needs – several measurable and some quantifiable indicators can be applied, among others: client retention rates, attractiveness for new clients, and additional products and services offered to clients besides lending.

While nearly one-third of all MEF partner MFIs offer only loans to their clients (31%), roughly one-third (34%) offer one additional product (deposits, insurance, remittances) and around one-third (36%) offer two or three additional products. In particular the partner MFIs in the SSA and EAP regions (currently predominantly Cambodian and Mongolian MFIs) offer a broad range of products for their clients.

Percentage of MFIs with product lines additional to lending	EAP	EECA	LAC	MENA	SA	SSA	Global 2017
3 Additional Products	10%	11%	15%	0%	0%	9%	11%
2 Additional Products	50%	17%	26%	0%	6%	45%	25%
1 Additional Product	30%	28%	36%	50%	31%	36%	34%
No Additional Product	10%	44%	23%	50%	63%	9%	31%

The types of services (mobile banking and agent banking) and the types of products (deposits, insurance, remittances) provided varies by region, as the following table shows.

	EAP	EECA	LAC	MENA	SA	SSA	Global 2017
Products							
Savings	19%	11%	47%	0%	2%	21%	51%
Insurance	5%	9%	64%	2%	11%	9%	49%
Remittances	17%	28%	41%	0%	3%	10%	34%
Services							
Mobile Banking	21%	13%	38%	4%	4%	21%	27%
Agent Banking	17%	0%	50%	8%	8%	17%	14%

Savings products are the most commonly offered among the non-lending products and available from 51% of the MEF partner MFIs (47 out of 92 respondents). In particular, nearly half the MFIs in the LAC region collect deposits from their clients and around one fifth in the SSA and EAP regions, respectively. Further products relevant for financial inclusion offered by MEF's partner MFIs include insurance 49% (44 of 90 respondents) and remittances 34% (29 of 85 respondents). In 2016, 53% of MEF partner MFIs offered savings, 43% insurance and 36% remittances. The 2017 MIV Survey, based on 2016 data, reports 51.4% of MFIs offering savings and 60.4% offering insurance.

Increasingly, mobile banking and agent banking services are essential for greater outreach and financial inclusion. Particularly also for rural and generally more remote or underserved areas they provide a less costly alternative to brick & mortar branch networks while requiring solid technological infrastructure and significant technological and training investments. Mobile banking services were offered by 27% partner MFIs (out of 90 respondents); agent banking services were available from 14% (out of 86 respondents). In 2016, 32% of MEF partner MFIs offered mobile banking facilities and 13% offered agent banking services. The 2017 MIV Survey, based on 2016 data, reports 34.5% of MFIs having mobile banking facilities (no data available for agent banking services).

For the 4th dimension – Treat Clients Responsibly – again several quantifiable metrics can be applied, among others: portfolio quality (as an indication of avoiding client over-indebtedness), average cost of loans (to assess responsible pricing), and the avoidance of foreign currency (FX) loans to clients (so as to not burden clients with exchange rate risks).

On FX loans, 25% of partner MFIs reported such loans at a sizeable share of their portfolio (> 30%; 21 of 85 respondents).

On portfolio quality, 42% of the institutions reported ratios of PAR > 30 days at higher than the benchmark of 5% that is generally considered as adequate (39 of 93 respondents). Only a case-by-case analysis, however, would provide further insight on whether the higher PAR was due to factors within the range of control of the MFIs (e.g. more responsible lending practices) or due to external factors such as an economic or sector crisis in the country.

For the 5th dimension – Treat Employees Responsibly – the sub-dimensions are mainly qualitative. The only quantitative indicator is the employee turnover rate. For this 28 institutions reported critical values above 20%, implying that more than one fifth of staff was exchanged during the year, whereby employee dissatisfaction might but need not be a significant reason.

For the 6th dimension – Balance Social and Financial Performance – key measureable and quantifiable indicators are operational (or financial) sustainability and the operating expense ratio. In order to perform financially, the financial sustainability must be at or above 100%. A ratio of excessively above 100% would raise flags concerning the social performance of the institution as then, for instance, profits might be maximized when perhaps instead interest rates to clients could be lowered. At the same time, MFIs with operational sustainability ratios > 130% should not automatically be considered as "non-performing" from a social perspective. It would depend on how the profits were derived as well as how they are used – e.g. whether they ultimately finance investments such as into widening the network or are needed to build (required) capital reserves.

Most respondents (95 of 104) reported their operational sustainability ratios. The following table assesses them against a benchmark of between 100% and 130% that is considered as adequately balancing financial and social performance. The analysis shows that more than half of the MFIs (56%; 53 of 95) are clearly within the range of operational sustainability and were thus adequately balancing their social and financial performance.

Operational Sustainability Ratio	EAP	EECA	LAC	MENA	SA	SSA	Global 2017		Global 2016	
Below financial performance limit (< 100%)		2	14		6	4	26	27%	20	24%
Within financial and social peformance range (100% < X < 130%)	6	10	29	2	3	3	53	56%	45	54%
Beyond social performance limit (> 130%)	4	3	3		3	3	16	17%	19	23%
Total participating MFIs	10	15	46	2	12	10	95	100%	84	100%
Not reporting operational sustainability		3	1		4	1	9		10	
Total							104		94	

Another readily measurable indicator for social performance is the operating expense ratio, defined as operating expenses divided by total assets. From a social performance perspective, this simple efficiency ratio should be as low as reasonably possible as otherwise clients are ultimately burdened with the cost of inefficiency of the institution, e.g. via higher lending rates or fees. Yet a reasonable operating expense ratio is also subject to various factors, such as the size of the institution and the focus sector – with small micro lenders usually having higher costs (and hence higher operating expense ratios) than larger MSME-oriented financiers. Microfinance literature broadly defines operating expense ratios of between 15% and 50% as usually adequate.

The following table shows that a clear majority of reporting institutions (82 of 100) have operating expense ratios below 50%. They can hence reasonably be considered as performing from a social point of view (provided that their specific business model would not clearly merit lower operating expense ratios, which only a case-by-case assessment could reveal). In particular MEF partner MFIs in LAC as well as SA and EAP report low, thus "socially performing", operating expense ratios.

Operating Expense Ratio	EAP	EECA	LAC	MENA	SA	SSA	Global 2017		Global 2016	
Below (better than) acceptable range (< 15%)	7	5	19	2	9	3	45	45%	42	49%
Likely in acceptable range (15% < X < 50%)	1	7	19	0	2	8	37	37%	32	38%
Above (worse than) acceptable range (> 50%)	2	4	9	0	3	0	18	18%	11	13%
Total participating MFIs	**10**	**16**	**47**	**2**	**14**	**11**	**100**	**100%**	**85**	**100%**
Not reporting operational sustainability	0	2	0	0	2	0	4		9	
Total							104		94	

Exclusion List

Exclusion List

At all times, the Investment Managers shall ensure that they do not provide loans, funding or other support to any MFI that provides loans, funding or other support to clients that engage in any of the following activities:

- Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements, or subject to international bans, such as pharmaceuticals, pesticides/herbicides, ozone depleting substances, PCB's, wildlife or products regulated under CITES.
- Production or trade in weapons and munitions.[1]
- Production or trade in alcoholic beverages (excluding beer and wine).[1]
- Production or trade in tobacco.[1]
- Gambling, casinos and equivalent enterprises.[1]
- Production or trade in radioactive materials. This does not apply to the purchase of medical equipment, quality control (measurement) equipment and any equipment where IFC considers the radioactive source to be trivial and/or adequately shielded.
- Production or trade in unbonded asbestos fibers. This does not apply to purchase and use of bonded asbestos cement sheeting where the asbestos content is less than 20%.
- Drift net fishing in the marine environment using nets in excess of 2.5 km. in length.
- Production or activities involving harmful or exploitative forms of forced labor2/harmful child labor.[3]
- Production, trade, storage, or transport of significant volumes of hazardous chemicals, or commercial scale usage of hazardous chemicals. Hazardous chemicals include gasoline, kerosene, and other petroleum products.[1]
- Production or activities that impinge on the lands owned, or claimed under adjudication, by Indigenous Peoples, without full documented consent of such peoples.
- Cross-border trade in waste and waste products, unless compliant with the Basel Convention and the underlying regulations.
- Destruction4 of High Conservation Value areas.[5]
- Pornography and/or prostitution.
- Racist and/or anti-democratic media.

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[1] This does not apply to project sponsors who are not substantially involved in these activities. "Not substantially involved" means that the activity concerned is ancillary to a project sponsor's primary operations. In concrete terms "substantial" means more than 10% of an MFIs underlying portfolio volume.

[2] Forced labor means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty.

[3] Harmful child labor means the employment of children that is economically exploitive, or is likely to be hazardous to, or to interfere with, the child's education, or to be harmful to the child's health, or physical, mental, spiritual, moral, or social development.

[4] Destruction means the (1) elimination or severe diminution of the integrity of an area caused by a major, long term change in land or water use or (2) modification of a habitat in such a way that the area's ability to maintain its role is lost.

[5] High Conservation Value (HCV) areas are defined as natural habitats where these values are considered to be of outstanding significance or critical importance (See http://www.hcvnetwork.org).

Client Protection Principles

The Smart Campaign's Client Protection Principles

Description:

Smart Microfinance is being fully transparent in the pricing, terms and conditions of all financial products. Smart Microfinance is working with clients so they do not borrow more money than they can repay or use products that they do not need. Smart Microfinance employs respectful collection practices and adopts high ethical standards in the treatment of clients. Smart Microfinance gives clients a way to address their complaints so they can be served more effectively. Smart Microfinance ensures client data remains private. Smart Microfinance protects clients, businesses, and the industry as a whole.

Smart Microfinance encompasses core Client Protection Principles to help microfinance institutions practice good ethics and smart business. The Client Protection Principles are the minimum standards that clients should expect to receive when doing business with a microfinance institution. These principles were distilled from the path-breaking work by providers, international networks, and national microfinance associations to develop pro-client codes of conduct and practices. There is consensus within the microfinance industry that providers of financial services should adhere to these core principles:

Principles:

- **Appropriate product design and delivery**

  Providers will take adequate care to design products and delivery channels in such a way that they do not cause clients harm. Products and delivery channels will be designed with client characteristics taken into account.
- **Prevention of over-indebtedness**

  Providers will take adequate care in all phases of their credit process to determine that clients have the capacity to repay without becoming over-indebted. In addition, providers will implement and monitor internal systems that support prevention of overindebtedness and will foster efforts to improve market level credit risk management (such as credit information sharing).
- **Transparency**

  Providers will communicate clear, sufficient and timely information in a manner and language clients can understand so that clients can make informed decisions. The need for transparent information on pricing, terms and conditions of products is highlighted.
- **Responsible pricing**

  Pricing, terms and conditions will be set in a way that is affordable to clients while allowing for financial institutions to be sustainable. Providers will strive to provide positive real returns on deposits.
- **Fair and respectful treatment of clients**

  Financial service providers and their agents will treat their clients fairly and respectfully. They will not discriminate. Providers will ensure adequate safeguards to detect and correct corruption as well as aggressive or abusive treatment by their staff and agents, particularly during the loan sales and debt collection processes.
- **Privacy of client data**

  The privacy of individual client data will be respected in accordance with the laws and regulations of individual jurisdictions. Such data will only be used for the purposes specified at the time the information is collected or as permitted by law, unless otherwise agreed with the client.
- **Mechanisms for complaint resolution**

  Providers will have in place timely and responsive mechanisms for complaints and problem resolution for their clients and will use these mechanisms both to resolve individual problems and to improve their products and services.

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