



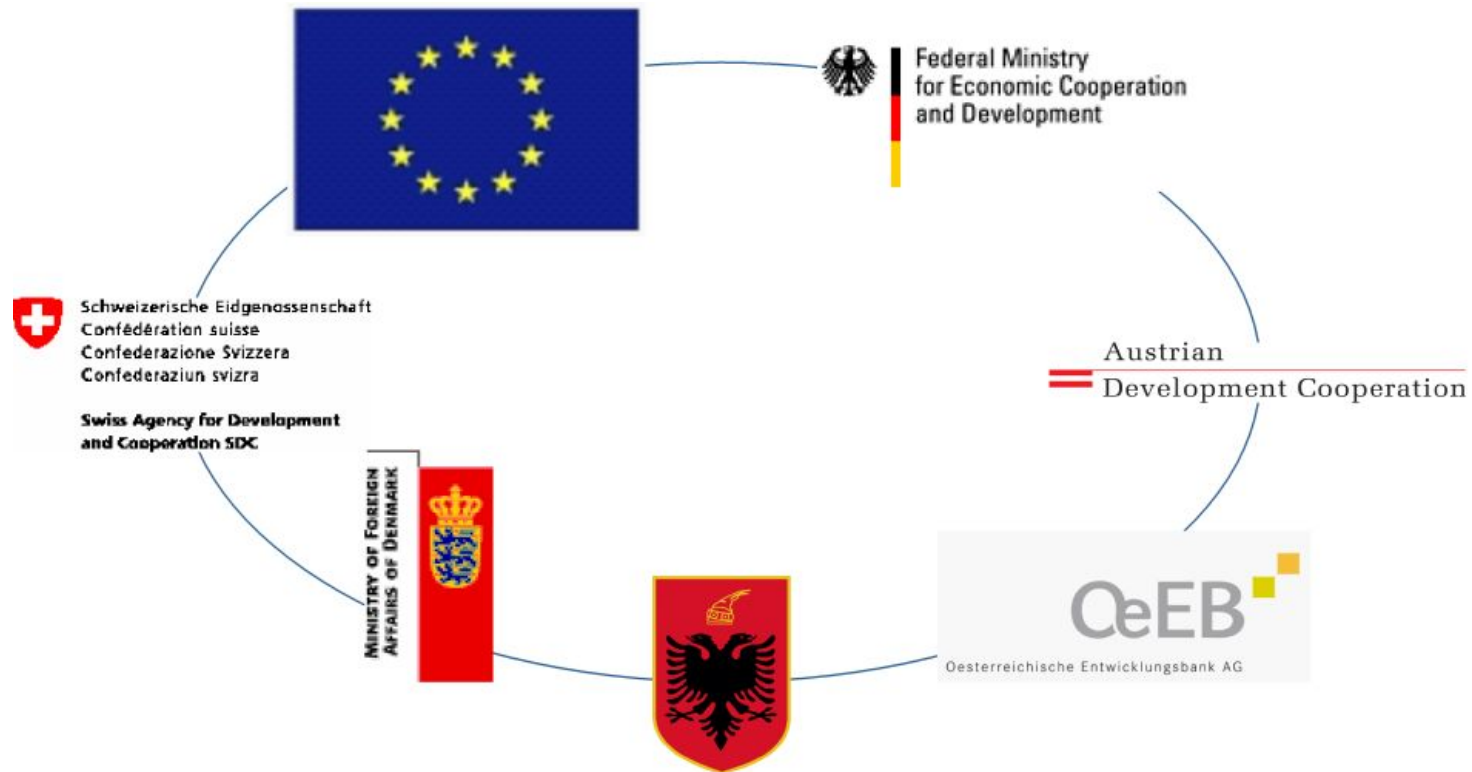
EUROPEAN FUND FOR SOUTHEAST EUROPE

# Best-Practice in Responsible Lending in Times of Crisis



SARAJEVO,  
BOSNIA AND HERZEGOVINA  
9 DECEMBER 2009

## EFSE - A Development Finance Initiative Supported by



## EFSE – A responsible investor

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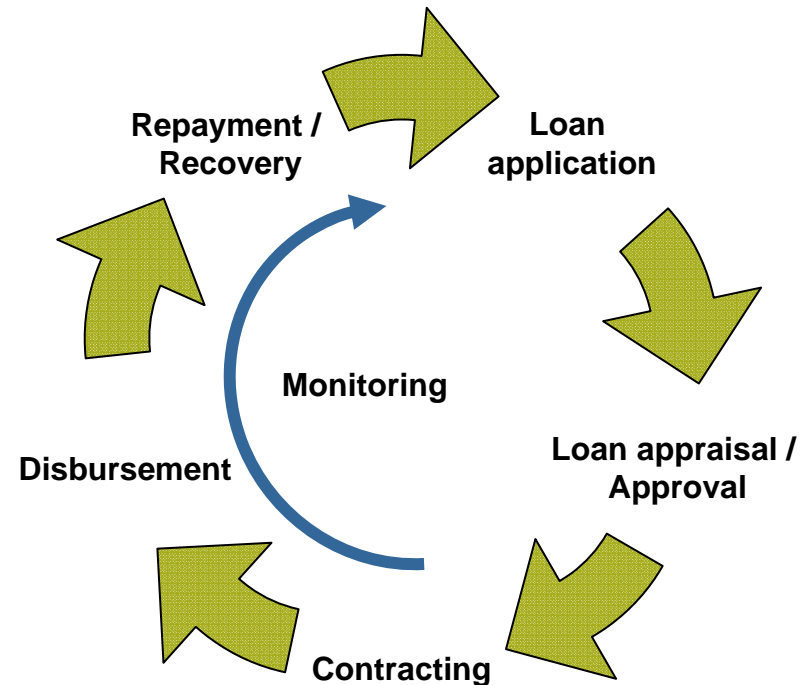
### EFSE's commitment to responsible finance – a holistic approach

- Endorsement of Client Protection Principles – Smart Campaign
- Active participation in investor's working group of Social Performance Task Force
- Integration of social and environmental performance principles in Fund operations
  - Social performance questionnaire applied in due diligences
  - Reporting on social and environmental performance of investees
- Training and technical assistance via EFSE Development Facility to support institutions in implementing responsible finance principles
- Research on responsible finance issues

# Responsible Finance at institutional level

## Responsible Finance put into practice - a particular challenge

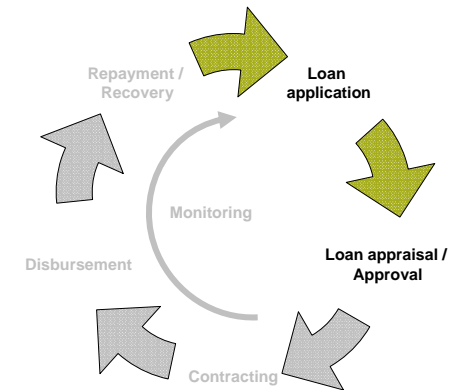
- Integrating the Client Protection Principles into everyday's work
  - Have a champion at the institutional level to promote importance of responsible finance practices
  - Review and adapt existing policies and procedures
  - Facilitate information exchange and discuss lessons learnt with other institutions
- In microfinance sector, focus on lending cycle



# Responsible Finance put into practice

## Loan application and approval

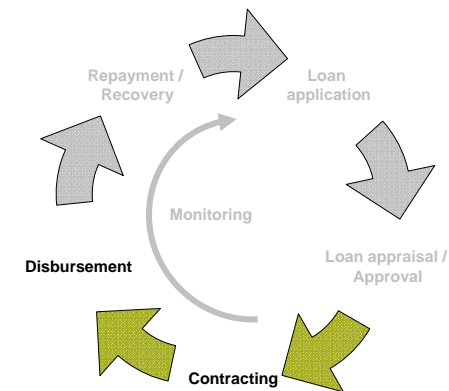
- Assessing credit worthiness prudently to avoid over-indebtedness
  - Loan products need to fit client needs.
  - Credit policies should provide explicit guidelines on debt limits.
  - Clients should always be informed transparently about true costs, terms and conditions of financial services.
  - Loan appraisal needs to include review of clients' credit history and thorough analysis of repayment capacity.
- Promoting financial education
  - Financial literacy needs to be promoted through the development and distribution of client educational materials (such as brochures, leaflets etc.)



# Responsible Finance put into practice

## Contracting and loan disbursement

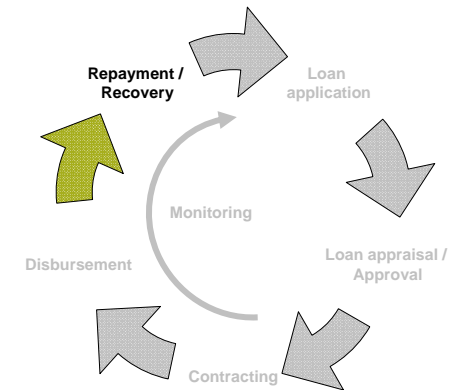
- Promoting transparency and adequate disclosure of loan terms
  - Communication with clients should use a language which is understandable.
  - Contracts should fully disclose prices, terms and conditions of a loan (interest rates, fees, commissions, penalty and pre-payment fees).
  - The content of the contract should be fully understood by the client before it is signed. Clients should have the opportunity to ask questions.



# Responsible Finance put into practice

## Repayment and Recovery

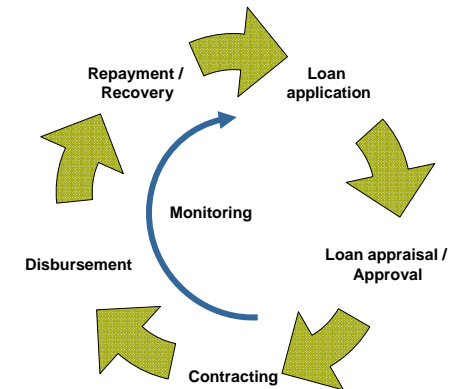
- Responsible loan collection
  - Appropriate debt collection procedures need to be defined and adhered to.
  - Clients need to be treated respectfully – loan collection should be conducted without abusive or coercive practices.
  - Prior to seizing assets, alternative repayment plans should be discussed with the client.



# Responsible Finance put into practice

## Additional relevant issues throughout the lending cycle

- Setting up complaint mechanisms
  - Clients should be aware of the possibilities to file complaints, which should be taken seriously and answered timely.
  - Specialized staff should handle those complaints.
  - Financial institutions should learn from those complaints to improve their products, lending methodology etc.



# Responsible Finance put into practice

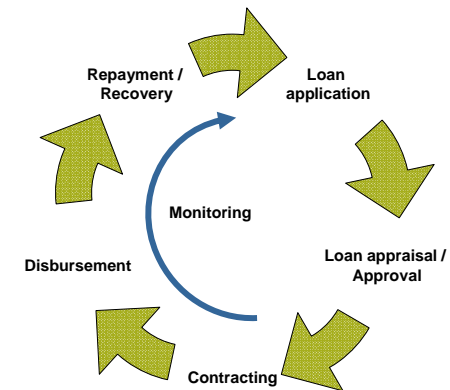
## Additional relevant issues throughout the lending cycle

### ■ Fostering ethical staff behaviour

- A code of ethics for staff needs to be established defining organisational values and ethical standards.
- When hiring new staff, compatibility with organisational values shall be checked.
- Anti-fraud policies need to be established and enforced.

### ■ Protecting client data.

- A policy and procedures should be in place.
- Clients should be aware of how their data will be used and approval is required for usage for other purposes.
- An secure IT system is required, which is regularly monitored by the internal audit.

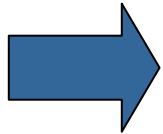


# Responsible Finance put into practice

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## Challenges

- In times of crisis, other priorities: lack of institutional capacity to focus on social performance
- Cost associated with revision of internal processes and staff training



However, crisis confirmed the importance of integrating responsible finance practices

## Additional benefits

- Enhanced reputation, brand value and trust
- Better client retention
- Improved risk management
- Economic benefits due to lower client default rates



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Thank you for your attention!