

Responsible Finance Forum

Advancing Responsible Finance for Greater Development Impact



**A Stock-Taking of Strategies and Approaches among
Development Agencies and Development Finance
Institutions**

Consultation Draft

January 27, 2011

This draft report was prepared by a team led by the German Federal Ministry for Economic Cooperation and Development (BMZ), IFC, and CGAP. The findings, interpretations, and conclusions expressed in this report are those of the authors. They do not necessarily represent the views of these institutions or the governments they represent. This report contains information provided by AusAID, BMZ, CGAP, DGRV, Dutch Ministry of Foreign Affairs, GIZ, IFC, KfW, SBFIC, UNCDF, and the World Bank. This data has been collected for the purpose of fostering cooperation and knowledge exchange. The presentation and analysis of this data should not, therefore, be viewed as a complete and accurate representation of all donor and investor activities in the area of responsible finance.

© 2011. IFC, CGAP, and BMZ. All rights reserved.

The material in this work is copyrighted. Copying and/or transmitting portions or all of this work without permission may be a violation of applicable law. IFC, CGAP, and BMZ encourage dissemination of this work and will normally grant permission to reproduce portions of the work promptly, and when the reproduction is for educational and non-commercial purposes, without a fee, subject to such attributions and notices as they may reasonably require.

IFC, CGAP, or BMZ do not guarantee the accuracy, reliability or completeness of the content included in this work, or the conclusions or judgments described herein, and accept no responsibility or liability for any omissions or errors (including, without limitation, typographical errors and technical errors) in the content whatsoever or for reliance thereon. The boundaries, colors, denominations, and other information shown on any map in this work do not imply any judgment on the part of IFC, CGAP, or BMZ concerning the legal status of any territory or the endorsement or acceptance of such boundaries.

This report contains information provided by AusAID, BMZ, CGAP, DGRV, Dutch Ministry of Foreign Affairs, GIZ, IFC, KfW, SBFIC, UNCDF, and the World Bank. Where the information in this report is explicitly attributed to any of these institutions, all rights to that information belong to the institution indicated. All requests regarding permission to reproduce this information should be forwarded to that institution directly.

The contents of this work are intended for general informational purposes only and are not intended to constitute legal, securities, or investment advice, an opinion regarding the appropriateness of any investment, or a solicitation of any type. IFC, CGAP, and BMZ, or their affiliates may have an investment in, provide other advice or services to, or otherwise have a financial interest in, certain of the companies and parties (including named herein).

Responsible Finance Forum

Advancing Responsible Finance for Greater Development Impact

**A Stock-Taking of Strategies and Approaches among
Development Agencies and Development Finance
Institutions**

Consultation Draft

January 27, 2011

"Improving access to financial services for the poor remains a key strategy in reducing poverty and fostering inclusive economic growth in developing countries. However, access alone is not sufficient. What matters most is that poor people gain maximum benefit from access to financial services. Responsible finance is a concept that helps get things right in providing poor people with appropriate financial services. I am proud to say that German Development Cooperation already follows responsible finance practices in all of its financial cooperation activities.

At the end of the day, it will be the private sector's commitment to responsible finance practices that will make all the difference. Therefore, I am very happy that the Responsible Finance Forum provides an opportunity for sharing knowledge and best practice between public and private sector stakeholders, forging a strong alliance to enhance access to finance for the poor in a responsible way."

Gudrun Kopp, Parliamentary State Secretary, German Federal Ministry for Economic Cooperation and Development

"Access to a range of financial services, from savings, to insurance, to credit, delivered in a responsible way to both households and businesses of all sizes, is one of the critical building blocks of sustainable growth and development. As an investor, advisor, asset manager, and standard-setter, IFC believes that there is much we can do, with our partners in the Responsible Finance Forum and others, to demonstrate how a common understanding of responsible finance can strengthen financial architecture, extend access, and improve the range of financial products on offer, especially for the underserved today."

Rachel Kyte, Vice-President, Advisory Services, International Finance Corporation

"Responsible finance is a hot topic today and while some of the attention is due to recent financial crises, this is just part of the reason for widespread interest. There is growing recognition that increased access to finance needs to be paired with greater attention to the quality of products and services offered and with effective consumer protection regulations that all consumers can understand and use. This is the path to long term profitability and sustainability for providers. It is also essential to the success of transforming the estimated 2.7 billion unbanked population worldwide into consumers who see finance as solving problems they face - of cash flow, risk mitigation, paying bills and saving for the future - rather than creating new risks."

Tilman Ehrbeck, CEO, CGAP

This report attempts to draw on the initial results of a stock-taking exercise led by BMZ, IFC, and CGAP. The exercise collected experiences of several international donor and investor agencies that are members of the **Responsible Finance Community of Practice** established as a result of the Responsible Finance Forum I that took place in Berlin, Germany, in January 2010.

Responsible Finance Forum brings together a number of development agencies and development finance institutions. Through the on-going discussions, the Forum has highlighted the need for development-oriented institutions to share, on a continuous basis, their experiences and knowledge in supporting more transparent, inclusive, and equitable financial markets. The institutions listed below have responded to the call for participation in the stock-taking and generously contributed their expertise as well as information about their relevant strategies, current activities, and projects to this report.



Australian Government
AusAID



This report is a consultation draft that invites comments and additional data from all interested parties. It will, at a later stage, also include results from on-going discussions within the Responsible Finance Forum.

Table of Contents

| | |
|---|----|
| About This Report | i |
| Introduction: The Opportunity and Challenge of Responsible Finance | 1 |
| What Are Some of the Trends in Developing and Emerging Markets? | 2 |
| Why Are Development Institutions Engaged in Supporting Responsible Finance? | 4 |
| How Does the Development Community Promote Responsible Finance? | 5 |
| Challenges Ahead | 5 |
| The Three-Pillar Framework for Responsible Finance..... | 7 |
| Approaches to Financial Consumer Protection Regulation | 8 |
| Responsible Finance and Financial Institutions | 9 |
| Consumers and the Challenges of Building Financial Capability | 10 |
| Responsible Finance in Strategies and Programs of Development Institutions..... | 12 |
| Key Strategies and Approaches for Promoting Responsible Finance | 12 |
| Linking Strategies to Markets: Responsible Finance Interventions in Developing Countries .. | 23 |
| Annex 1. Key Stakeholder Groups and Their Roles in Responsible Finance..... | 27 |
| Annex 2. A List of Relevant Strategies, Programs, and Projects of Participating Agencies..... | 29 |
| Annex 3. Stock-Taking Questionnaire..... | 39 |
| References and Useful Resources..... | 40 |
| Abbreviations and Acronyms..... | 42 |
| Acknowledgments..... | 43 |

About This Report

This report has been prepared as an ongoing contribution to the Responsible Finance Forum. The purpose of the report is to contribute to the exchange of knowledge and best practice among institutions working towards the goals of balanced financial sector development and sustainable economic growth. The report aims to facilitate discussions of new challenges in promoting responsible finance and highlight the benefits of coordinating activities around this topic in the international development context. It is expected to contribute to a collaborative data-sharing effort among a growing group of institutions and foster interest in designing a more systematic process of accumulating and exchanging information on responsible finance. Such a process can help identify potential synergies and opportunities for cooperation as well as gaps in serving our clients better.

The report features an overview of the conceptual framework and current trends in the three pillars of responsible finance: (I) regulation for consumer protection, (II) responsible practices by financial providers, and (III) financial capability. It provides a background and rationale behind the concept of responsible finance and its role in the development institutions' strategies and programs such as those related to financial markets development, access to finance, SME development, financial inclusion, and poverty reduction.

The report intends to build on the data provided by participating institutions to highlight current trends and models that can help advance the inter-institutional

discussion on why and how the international development community can promote responsible finance through working with both public and private sector.

Drawing on current best practices among participating institutions, the report also suggests that working together on responsible finance issues can help move this agenda forward. Together, international donor and investor agencies have many opportunities to create more responsible financial markets worldwide, leveraging our roles as partners and advisors to governments and firms, agents of change in public sector transformation, investors in private-sector financial institutions, and knowledge and thought leaders in the development field.

The report also highlights diverse perspectives on the roles of governments, commercial investors and philanthropic agencies, various types of financial providers, consumers, non-governmental organizations, academia, and advocacy groups in advancing the work on responsible finance.

Introduction: The Opportunity and Challenge of Responsible Finance

Responsible finance has proved to be an important issue for the financial sector, especially during the last few years, as the global financial and economic crisis—compounded by food, fuel, and energy crises—underscored the importance of transparent, inclusive, sustainable, and equitable financial practices. It has been emphasized by governments, global financial regulatory bodies, NGOs, and the private sector worldwide. It has also been brought up within the G-20 financial inclusion agenda.

With the recent failures of regulatory regimes to fully address the imbalances in financial markets and concerns of rising indebtedness in various countries, policy makers, practitioners, donors and investors have started paying greater attention to the issue of responsible finance. The situation in India's federal state of Andhra Pradesh has further increased global attention to this issue, demonstrating the urgency of advancing the responsible finance discussion across all financial sectors, including microfinance. Moreover, this

Defining Responsible Finance

"Responsible finance" has different meanings for different players. In its broadest meaning, it can be understood as a guiding principle for how financial services should be delivered to live up to the challenge of promoting sustainable development; therefore the work must incorporate social, developmental, and environmental dimensions and have support from governments, investors, consumer organizations, educators, and other stakeholders. One of the critical dimensions of financial sector responsibility is fair treatment of clients and acting in ways that protect clients' social and economic welfare.

Responsible finance, as defined in this report, refers to coordinated public and private sector interventions that encourage and assist financial services providers and their clients in improving their understanding and approaches, practices, and behaviors that can eventually contribute to creating more transparent, inclusive, and equitable financial markets.

Achieving this vision in any market requires action by a variety of stakeholders, with three key stakeholder groups leading the way: the financial services industry (through a variety of actions, including compliance with laws and regulations, adherence to industry codes of conduct, standards, good practices, and institutional commitments to transparency and fairness in their operations); governments (through policy and consumer protection regulation, commitments to increase attention to financial literacy at the national level); and consumers and their organizations (through enhanced consumer awareness and capability).

This multi-stakeholder approach, a "**three-pillar framework**," to protecting financial consumers and promoting responsible financial products and practices is more likely to result in success than relying on action by a single stakeholder. Donors and investors can play an important role by supporting this multi-stakeholder approach and facilitating joint action between these three core groups.

movement needs to be seen in the context of the broader and ongoing discussion surrounding the provision of and access to finance. The questions on responsible finance that have arisen more prominently due to the financial crisis represent a window of opportunity to deepen the

discussion on what responsible finance is about, why it is important for sustainable development and growth worldwide, and the roles of various stakeholders in promoting this concept.

What Are Some of the Trends in Developing and Emerging Markets?

Investors demanding more accountability, governments strengthening financial consumer protection frameworks, consumer advocacy organizations starting to pay more attention to financial consumer protection, and the microfinance industry organizing itself to develop and enforce client protection principles – these are just a few examples of the growing responsible finance movement. Recognizing and addressing some of the key trends in this movement is important for strengthening collaboration among key stakeholders and promoting innovative strategies for advancing responsible finance. Among the key trends:

- **Strengthening of national financial sector regulatory regimes for consumer protection—often a combination of regulatory and industry self-regulation approaches—in both developing and developed countries and the emerging microfinance regulation to protect the poor and vulnerable groups.** In the aftermath of the financial crisis, there is growing demand for governments and regulators to improve national regulatory regimes to ensure stability of financial systems and the banking industry. In addition to the debates taking place in the United Kingdom, the European Union, and the United States, consumer protection

regulatory reforms are a growing trend in many developing countries (Hong Kong, Malaysia, Mexico, Peru, Philippines, and South Africa are just a few examples¹). The picture is somewhat different for microfinance institutions and non-bank financial institutions where regulation is just emerging and there is a lot of debate on whether and how to regulate these institutions.²

- **Growing international support for strengthening the consumer protection regulatory environment and establishing global regulatory regimes.** With its principles on innovative financial inclusion, the G-20 promotes regulation for consumer protection as a key element for sustainable expansion of access to financial services.³ Examples of international efforts are “OECD Recommendation and Principles on Policy Framework for Effective and Efficient Financial Regulation” and the recent G20 Declarations. Also, the recent G20 Seoul Summit Communiqué asked the Financial Stability Board to explore and report on options to advance financial consumer protection. G20 Principles for Innovative Financial Inclusion adopted in 2010 also emphasize consumer protection and empowerment. Different international standard-setting bodies have also discussed how to promote consumer protection in the regulatory environments in developing countries.

- **Increased interest in and adoption of industry-led client protection initiatives in microfinance.** Over the last decade, and especially in the wake of the recent microfinance crisis, the microfinance industry has experienced a transformation towards improved articulation of its development mission. The transformation is occurring as the industry has come under fire on issues such as transparency, financial sustainability, clients' over-indebtedness, high fees and interest rates, and difficulties in managing environmental impacts. Initially, this process was driven by industry investors and funders, who now demand to see the evidence of how their investments contribute to poverty reduction and development and are taking steps to build client protection into the heart of their due diligence processes. Given that many microfinance markets are now overheating, this trend is important. A number of prominent initiatives, supported by investors and providers alike, as well as by other stakeholder groups, aim to evaluate the industry's social performance and its impact on poverty reduction.
- **The commercial banking sector shows potential to become an agent of change in promoting responsible finance standards globally.** The growing interest and involvement of commercial banks in supporting global development priorities through their dual roles as financial service providers and investors creates an opportunity for greater adoption of best practices and voluntary standards for responsible finance. Around the world, banks are increasing their focus on various aspects of responsible finance. This includes developing innovative frameworks that address the role of responsible finance

across their entire scope of operations, from risk management and business opportunities perspectives. Engaging the global banking industry in sharing these best practices more broadly, establishing a dialogue on their role in development, and developing common approaches to responsible finance all have the potential to help scale-up responsible lending practices and to draw significant resources to key global priorities such as poverty reduction, job creation and SME development, health and education.

- **Financial literacy is increasingly on the agendas and strategies of governments; the interventions are mainly driven by NGOs and the private sector. The global search for effective models of developing financial capability continues.** Consumer protection and financial literacy are the two areas most frequently reported to be under the financial regulators' set of responsibilities.⁴ Broadly, there are two complementary approaches to financial capability interventions: the first is having a national strategy and the second is developing programs on the ground. In recent years, national strategies have been developed by many countries, including Ghana, Kenya, New Zealand, and Trinidad & Tobago.⁵ Often, the implementation is in partnership with multiple channels and actors – the education system, the media, social marketing, non-governmental organization programs, consumer groups, and financial institutions. Yet, in spite of this surge of interest, sometimes there is uncertainty about what can be done. What do we mean by "financial capability"? What programs and policies are likely to be effective? What is an appropriate role for financial institutions?

Why Are Development Institutions Engaged in Supporting Responsible Finance?

Multilateral and bilateral development agencies and development finance institutions are beginning to converge with institutional investors, funders, and global banks on collaborative efforts to support more responsible delivery and social and environmental impact of financial services. As this convergence occurs, it becomes evident that responsible finance activities are an important complement to many core macroeconomic and microeconomic strategies aimed at growing inclusive business and MSME development, advancing access to finance, ensuring stability and transparency in the financial markets, contributing to poverty reduction, and ultimately more sustainable economic, social, and environmental development:

- **Critical for financial markets stability.**

The global crisis and the continuing distress in financial markets⁶ have highlighted the role of unscrupulous business practices, the lack of adequate oversight and consumer protection, the limits on the effectiveness of market forces for instilling commercial discipline, and the limited level of financial capability in the population, even among relatively sophisticated financial consumers. These distortions in the financial system have had an impact on global economic growth and on the wellbeing of many population groups. In addition, responsible finance can correct the imbalances in incentives for financial institutions, investors, and clients to increase lending volumes without due regard for the macroeconomic consequences, especially on low-income segments.

- **Important for the access to finance, financial inclusion, and inclusive business agendas.** By establishing and promoting mandatory and voluntary standards on transparency, disclosure and ethical business practices and engaging industry players in strengthening their reputation as quality providers, responsible finance increases consumers' willingness to trust the financial system, especially for more vulnerable customers – both individuals and MSMEs – many of whom are new to the financial system. It helps prevent a race to the bottom in terms of product and service quality. For providers, responsible finance practices can bring business benefits such as better risk management, growth of their customer base through consumer-focused innovation in product design and delivery, and incentives to expand their business by including financial services for the vulnerable and poor population groups.

- **Responsible finance plays a role in economic development and poverty reduction.**

There is a relationship between stable and inclusive financial systems and economic development, and link between economic development and poverty reduction⁷. Generally, when financial systems are more responsible and equitable in allocating resources among all members of the population in a way that does not create economic imbalances, there is greater equity of opportunity for entrepreneurship, education and quality of life.

How Does the Development Community Promote Responsible Finance?

Due to their interface and continuous interaction with all key stakeholders, development-oriented institutions are well-positioned to promote the three-pillar framework and make a contribution to advancing the responsible finance agenda. The data in this report emphasize the fact that responsible finance is already embedded in the strategies and activities of many donors, development agencies, development finance institutions, and other implementing agencies.

The development community has significant knowledge and capacity to participate in many aspects of responsible finance (consumer protection, industry standards /

initiatives and, increasingly, in financial capability). Depending on their organization and mission, key activities of development agencies and development finance institutions that have provided data for this report include developing comprehensive strategies around responsible finance, allocating resources to various implementation agencies, providing grant and other types of financing (loans, equity) to the private sector, delivering technical assistance programs, and serving as hubs for knowledge accumulation and creation of new knowledge around responsible finance (Annex 2).

Challenges Ahead

Going forward, there are many challenges for successful advancement of responsible finance. Among them:

- Building more evidence and lessons learned on the effectiveness of initiatives based on joint action by all three key stakeholder groups in responsible finance.
- Finding the right balance between promotion of access to finance and consumer protection regulation. Even though good practice research exists, there is a need to build more evidence on the effectiveness of various interventions, particularly where to draw the line between financial sector activities that should be regulated and activities that should be subject to self-regulation. The challenge is to apply best international practices but tailor interventions according to country context and market development level.

- Measuring the effectiveness of self-regulatory and other voluntary initiatives by the private sector. Innovative frameworks for measuring the effectiveness of such initiatives as well as their impact on various aspects of development are emerging⁸; however a considerable effort is needed to ensure robustness and consistency of the data collection mechanisms.
- Measuring and monitoring over-indebtedness across population groups. A body of research is growing on how to define, measure, and address over-indebtedness but still requires building a much richer picture of how irresponsible finance affects consumers and providers, as well as what it means from the macroeconomic perspective.
- Building a more robust business case for the financial services providers in general,

and commercial banks in particular, both in developed and developing countries, to engage on responsible finance priorities.

- Scaling-up best practice examples of financial capability programs on international, national, and local levels. With many questions still unanswered on the effectiveness of various financial capability models, scaling-up financial capability interventions remains a difficult task. These challenges are augmented by the need to improve general literacy and numeracy skills in many countries and difficulties with accessibility for rural populations.

The Three-Pillar Framework for Responsible Finance

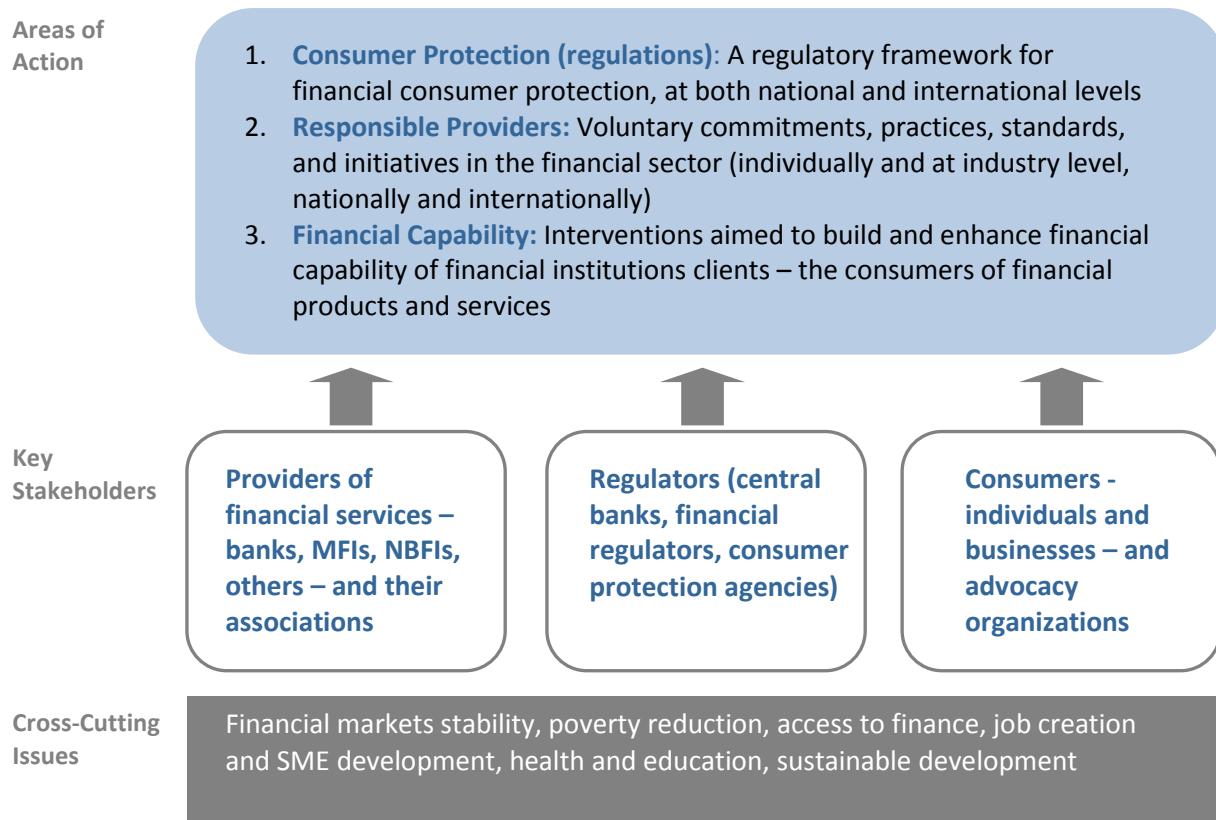
Responsible finance, as presented here, involves a balanced approach through three main types of instruments linked to the three main stakeholder groups in financial markets – financial services providers, governments (regulators and policy makers) and consumers (Figure 1).

For maximum effectiveness, the three key elements should be addressed together. Each element has a primary focus but there is also some overlap between them. For example, consumer protection regulation can significantly enhance the effectiveness of self-regulatory approaches. Governments

can also help advance initiatives in financial capability by partnering with non-governmental organizations, academia, and the media, all of which play distinctive roles in this process (Annex 1). Financial providers also have the potential to play a role in promoting financial capability by providing consumers with point-of-service financial training and information.

Typically, the responsible finance approach recognizes the imbalance of information, power and resources, and focuses on retail and small business clients' vulnerability, regardless of whether the consumers are

Figure 1. Responsible Finance: A Multi-Stakeholder (Three-Pillar) Approach



engaged in income-generating activities or consumption. Types of financial services that comprise the primary scope of responsible finance encompass a broad

range of personal and small business products, including credit and other financial services and products such as savings and insurance.

Approaches to Financial Consumer Protection Regulation

Global consumer debt was 12–14 percent of GDP in the first half of the 1990s but increased to 18 percent in recent years. Mortgage debt rose even more rapidly—from 46 percent of GDP in 2000 to over 70 percent in 2007. Given this situation, an improved regulatory environment for consumer protection becomes ever more important.

Weaknesses in consumer protection and financial literacy affect both developed and developing countries.⁹ Government regulators and policymakers play an important role in protecting consumers' interests and consumer confidence in formal financial systems: they structure and stabilize markets and direct consumer-provider interactions through consumer protection regulations and laws, and they provide oversight and supervision. These actions can help address the imbalance of power, information, and resources between consumers and their financial services providers. They also can promote better risk management, efficiency, and transparency in financial markets. In the US, for example, authorities have demonstrated the increased importance of consumer protection for the stability of the financial sector by making a decision to establish a Consumer Financial Protection Bureau (CFPB).¹⁰ Many developed and emerging economies are actively strengthening their financial consumer protection regulatory regimes, as evidenced by CGAP's survey,

"Financial Access 2010." The data show that more than 80 percent of economies (118) responding to the survey have laws and regulations addressing at least some aspects of financial consumer protection, and most of these laws were passed in the last two decades.

In particular, adequate regulation for consumer protection can help ensure certain minimum standards, or force disclosure of certain kinds of information, or facilitate the establishment of a code monitoring body or competition authority. Regulation should provide consumers with transparency, choice, redress, and privacy.¹¹ Self-regulatory approaches to consumer protection established at the industry level can be a complementary tool to laws and regulations.

Self-regulation tools such as codes of conduct are more likely to be effective when they function in tandem with government regulation and have mechanisms to ensure adherence by participating financial institutions. In the UK for example, the consumer protection system fosters industry commitments to responsible finance through a well-defined and complementary system of regulation and self-regulation. This system articulates the roles of government, banking sector, and an independent verification board.¹²

A key challenge for governments in setting private sector development policy is

combining appropriate consumer protection regulation with broad support for expansion of financial services. The challenge arises due to potential tradeoffs between the risks and the possibility of over-regulation to prevent these risks. Based on past experience it is apparent that there is no one-size-fits-all solution for consumer-friendly regulation. Frameworks should have flexibility to adjust for unique

country conditions, finding the right balance depending on the ability of the sector to regulate itself and on the robustness of local financial infrastructure. In this environment, there is a need to build more knowledge and best practices through research, country diagnostics, and other methods.

Responsible Finance and Financial Institutions

Responsible practices by financial providers encompass issues such as transparency, disclosure, fairness of pricing and dignified treatment of clients, product and service quality, adequate policies and procedures to ensure sound risk management in the provision of financial services.

Voluntary codes of conduct adopted by financial services providers at the national level can support and complement compliance with existing regulations. They also can be adopted before the establishment of formal regulation in markets where regulation is weak and where providers need a framework with common rules and standards to help them demonstrate a commitment to fair and transparent practices and to help them follow through on these commitments. For instance, such voluntary rules and standards can allow for agreement on a standardized format for information disclosure to clients or enable development of shared practices for tracking and assessing clients' creditworthiness.¹³ Challenges for broader adoption of self-regulatory approaches include, but are not limited to, difficulties in coordination among providers, lack of incentives in

certain markets, and limited institutional capacity of industry associations, especially in developing and emerging economies. Insufficient capacity and high costs of implementation for financial providers, especially for smaller institutions, also pose challenges.

Not only consumers benefit from responsible finance – so do providers. The business case and opportunities include improved risk management and efficiency, long-term relationships with customers, increased ability to attract and retain customers due to greater consumer orientation, cost reduction, improved reputation, and access to diversified sources of funds. Often, there is an even stronger value proposition for financial institutions when they move beyond conventional regulation and implement tools and processes, to exceed regulatory requirements.

The role of financial institutions in promoting responsible finance is not limited to self-regulation in its narrower sense. To advance responsible finance practices, financial institutions should be driven not only by "do no harm," but also by doing good—ensuring and proving that their

financial product and service offerings are pro-growth, pro-sustainable development, and pro-poor. In recent years, the private sector has experienced a surge in industry-led voluntary initiatives, principles- and guidelines-based approaches, standards, and multi-stakeholder forums that demonstrate the private sector's willingness and ability to innovate in the globalized economy and develop and operationalize indicators that demonstrate their positive social, environmental, and economic impact. These initiatives may be more appropriate for cross-border business, while regulation-based approaches at the national level may give rise to concerns about extra-territoriality.

In the financial sector, a number of initiatives have been developed and led by actors in the financial industry – including

investors, financial institutions (individually or in partnerships with others), commercial banks, microfinance institutions and umbrella bodies. Examples include the Client Protection Principles and the SMART Campaign,¹⁴ the Equator Principles¹⁵ and Global Alliance for Banking on Values.¹⁶ Increasingly the concept of responsible finance is part of the corporate strategies of large global banks, such as Standard Chartered and Barclays. While responsible finance initiatives for the microfinance sector have been defined and some are already in endorsement stage—such as the SMART Campaign and Social Performance Task Force¹⁷—similar initiatives more broadly applied to commercial banking sector are still being shaped.

Consumers and the Challenges of Building Financial Capability

When using financial products and services, consumers must be able to defend their rights and make good financial decisions. Providers and government can only go so far. The term financial capability is often used instead of financial literacy to stress the importance of changing financial

behaviors—of going beyond knowledge (literacy) to action, such as saving, avoiding over-indebtedness and repaying obligations in a timely fashion. Moreover, consumers can enhance the effectiveness of laws, regulations and codes of conduct if they are aware of the rules and standards and know

Defining Financial Capability

Financial capability is a term informed by insights from behavioral economics. Financial capability is the combination of knowledge, understanding, skills, attitudes and *especially behaviours* that consumers must demonstrate so they can make sound personal finance decisions, based on their own economic and social circumstances. A key aspect in building financial capability is facilitating the flow of information. Many channels (media, theatre, school curricula, public and private) can promote messages and information for consumers that can trigger behavioral change. In comparison, financial literacy has to do with knowledge and understanding of financial products and services, terms and concepts to enable sound personal finance decisions.

how to exert their rights when needed.

However, major challenges remain. There is a lack of knowledge on financial capability and what actually triggers behavioral change. Why do some campaigns work and others do not? Are lessons from other sectors, like health, adaptable to the financial sector?

Governments and providers play important roles in strengthening the financial capability of consumers. Financial capability has different operational implications for the financial regulator than consumer protection. Consumer protection is often implemented through market conduct regulation and supervision as part of traditional regulatory and supervisory activities. Promoting financial capability, on the other hand, requires different skill sets and operations. The role of the regulator can be one of coordination, consultation with private partners and financial institutions, or, less frequently, implementation.¹⁸

There has been much discussion on the role of financial institutions in consumer education. Providers are in direct contact with consumers, especially at the critical decision point where a product or service will be purchased. If providers are enlisted to support good decisions, this can impact both the financial well-being of consumers and the quality of financial services in the system. However, in some situations, where the interests of consumers and providers are not aligned or where the issue is not well suited to a consumer / provider interaction—such as sticking with a budget, doing comparison shopping for financial products or starting to save—other stakeholders, such as non-governmental organizations, media, and educational

system need to support financial capability outreach and training.

For example, some financial institutions may view advice on product suitability to their clients as a source of confusion, conflict of interest, and potential legal problems. These institutions take the approach that after providing appropriate disclosure and sufficient information, the decision about the purchase of a certain product should be entirely with the customer. Some banks may be willing to provide advice as a special and separate service for which customers would pay, develop educational materials for their clients, and organize educational events. Others can work with external organizations providing financial literacy, education, and counseling services.¹⁹

Design of consumer protection and financial literacy measures should take into account recent research in behavioral economics. Psychological biases may influence consumers to make choices that are neither rational nor optimal.²⁰

Donors and international organizations can make a great contribution to improving the financial capability of consumers. They can be equally in a position to convene regulators to support national strategies for financial literacy and financial institutions, along with other key players in efforts to develop innovative solutions.

Responsible Finance in Strategies and Programs of Development Institutions

Key Strategies and Approaches for Promoting Responsible Finance

This section presents an overview of various approaches to promoting responsible finance among institutions that responded to the first round of stock-taking regarding their responsible finance activities. The stock-taking was conducted using a simple questionnaire that included questions about key strategies and approaches to implementation, as well as quantitative data about relevant projects (Annex 3).

The stock-taking exercise shows that the work involving support to responsible finance is incorporated throughout the strategies, programs, and projects of

participating institutions (Annex 2), and that there are commonalities among the activities of different institutions.

The stock-taking results demonstrate that the development community promotes responsible finance in one of two ways: creating targeted programs, actions, and interventions around responsible finance, or integrating the concept of responsible finance in various existing strategies, programs, and projects. Figure 2 shows various strategic approaches of the participating institutions and key pillars of responsible finance addressed by them.

Figure 2. Examples of Strategies and Approaches to Promoting Responsible Finance

| Strategies and approaches for promoting responsible finance | Primary responsible finance elements addressed | | |
|--|--|-----------------------|----------------------|
| | Consumer Protection | Responsible Providers | Financial Capability |
| 1. Convening international dialogue, conferences, round-tables | | | |
| 2. Responsible finance as part of sector and issue strategies (poverty reduction, financial sector development, financial inclusion) | | | |
| 3. Special-purpose funding to support innovation | | | |
| 4. Standard-setting and advocacy campaigns | | | |
| 4a. Benchmarks and standards for regulation | | | |
| 4b. Codes of conduct, principles, networks, and campaigns | | | |
| 5. Forming and supporting partnerships | | | |

| | | | |
|--|--|--|--|
| 6. Developing international best practices and diagnostic tools for consumer protection and financial literacy | | | |
| 6a. Data collection on consumer protection regulations and financial literacy | | | |
| 6b. Country / channel/ issue focused diagnostic projects | | | |
| 6c. Household and consumer surveys on financial literacy / capability | | | |
| 7. Direct assistance and capacity building for governments and regulators | | | |
| 7a. Consumer protection policies and regulations | | | |
| 7b. National and local financial literacy strategies | | | |
| 8. Practical responsible finance tools for investors and financial providers | | | |
| 9. Creating an enabling environment for responsible finance (credit bureaus, financial infrastructure, policy reform) | | | |
| 10. Direct advice and capacity building to the private sector (financial providers and their associations) | | | |
| 11. Responsible finance indicators as part of investment due diligence | | | |
| 12. Partnering with financial providers, NGOs, academia, media to develop and implement financial capability interventions | | | |
| 13. Developing and testing methodologies for impact evaluation of financial capability interventions | | | |

1. Convening international dialogue, conferences, round-tables

International discussion among stakeholders in responsible finance–development institutions, investors, regulators, financial service providers, NGOs, media, educators—is important to define the topic and foster alliances and collaboration on implementation issues and models. Among the dialogues led and supported by development institutions in recent years:

- Responsible Finance Forum: The first forum took place in January 2010 in Berlin, followed by the second forum on January

27, 2011 in The Hague. The forum’s leading organizations include BMZ, Dutch Ministry of Foreign Affairs, CGAP, and IFC.

- Africa-wide conference on consumer protection and financial capability: This first-time conference took place in Ghana in 2009. GIZ on behalf of BMZ organized the conference jointly with the Partnership for Making Finance Work for Africa (MFW4A).²¹ The conference included more than 200 policy makers and business representatives.
- SBFIC conference, Sustainable Financial Education: Public Service, Corporate Social Investment or Business?: Jointly organized

with Kenya Post Office Savings Bank in Nairobi in November 2008.

- KfW organized a series of Responsible Finance conferences in several East European and Caucasus countries starting as early as 2007 (Serbia, Bosnia and Herzegovina, Azerbaijan, Albania, Kosovo, Georgia) and co-organized together with Frankfurt School of finance and Management the big Responsible Finance Conference (Frankfurt Forum) in February 2008²², involving more than 250 participants worldwide. Moreover, DFI workshops on responsible finance jointly with CGAP in February 2010 and January 2011 aiming at consensus building around responsible finance implementation issues.

2. Incorporating the concept of responsible finance in overall funding

strategies for priorities such as poverty reduction, financial sector development, financial inclusion

Development agencies consider responsible finance within their overall funding strategies in the relevant areas. Specifically, various elements of responsible finance are embedded in the strategic funding priorities within such strategies as financial sector development, poverty reduction, financial inclusion and microfinance in developing countries.

For example, BMZ is supporting the responsible finance activities of the German development agencies around, and is fostering international dialogue on the topic. In its recently published *Financial Services for the Poor: A Strategy for the Australian Aid Program 2010-2015*, AusAID

CGAP's Investors' Guide on Implementing Client Protection Principles

The SMART Campaign is organized around six core Client Protection Principles. It is endorsed by over 1,000 organizations, including hundreds of retail microfinance providers, networks, associations, support organizations, and close to 90 investors and donors.

Although the principles of client protection are widely agreed upon, deeper implementation of the principles and ways of monitoring them at the MFI and funder level are in the early stages of development. Since 2008, CGAP has worked with the investor community to address this challenge. The guide draws heavily on current investor practice and references and recommends the following *seven actions for investors*:

1. Incorporate the Principles in investment policies.
2. Endorse the Principles publicly.
3. Encourage current and prospective investees to discuss and endorse the Principles.
4. Develop, test and refine criteria and procedures to assess investee implementation of the Principles during screening and due diligence processes.
5. Integrate the Principles into financing or shareholder agreements as appropriate.
6. Monitor implementation of the Principles by investees through mandatory reporting and regular monitoring and evaluation.
7. Report on progress to investors and other stakeholders.

The Guide is a "living" document, which will be updated regularly as practice evolves.
<http://www.cgap.org/p/site/c/template.rc/1.26.11503/>

puts special emphasis on responsible finance and the increased capacity of clients to understand and utilize financial services effectively. As part of its contribution to the G-20 Financial Inclusion Experts Group, Dutch Ministry of Foreign Affairs' model for scaling-up SME finance through the Schokland Mesofinance Fund includes criteria for all SMEs applying for such loans to adhere to good social and environmental standards.

3. Special-purpose funding to support innovation in responsible finance

Special-purpose funding can be dedicated to solving specific issues that may inhibit progress of responsible finance. For example, the Financial Literacy and Education Trust Fund (2009-2013) financed by the Russian Federation²³ is a World Bank program implemented in part by the OECD to enhance financial knowledge and capabilities in the developing world. Its primary focus is to develop a framework for financial capability in low- and middle-income countries and operational guidance and methodological toolkits for (i) measuring levels of financial capability, and (ii) evaluating the impact of financial capability enhancement programs. The fund provides financial support, intellectual guidance, and technical assistance to develop innovative methods and test their application through support for country-level assessments, surveys and programs.

4. Standard-setting and advocacy campaigns for investors, financial providers, and policy makers

Development institutions can help advance responsible finance by using their convening power and making a contribution

to leveling the playing field through setting standards that are internationally accepted and strengthening the business case for financial institutions to adopt them. A number of approaches to standard-setting exist, including:

4a. Developing international benchmarks and standards for consumer protection regulation

For example, the World Bank, in collaboration with The Bank for International Settlements' Committee on Payment and Settlement Systems (CPSS), supports the General Principles for Remittances²⁴ that are now endorsed by the G8, G20, and the Financial Stability Board. The World Bank-CPSS program for implementation of the Principles already covered over 20 countries. IFC's Global Credit Bureau Program promotes understanding among policy makers on using credit information to improve access to finance in a responsible way.

4b. Convening the private sector on responsible finance through a variety of methods, such as codes of conduct, principles, networks, voluntary standards

One example of these convening initiatives is the Client Protection Principles and SMART Campaign led by CGAP with Acción International. The Principles are endorsed by over 1,000 organizations representing three levels of the microfinance industry: retail providers, funders and policy makers.

5. Forming and supporting partnerships for development and implementation of responsible finance initiatives

Partnerships are an important instrument for developing and implementing responsible finance interventions. They

build on the strengths of various stakeholders, thereby ensuring the advancement of the topic alongside the three-pillar framework. Examples include IFC's partnership with Operation Hope and Citi to expand financial literacy services in South Africa through the Banking on Our Future program²⁵ and the above-mentioned CGAP partnership with Acción.

6. Developing international best practices and diagnostic tools for consumer protection and financial literacy

Knowledge creation is one of the key activities mentioned by participating institutions. It involves such approaches as research and development of good practice documents, diagnostic tools, surveys, and various studies. Examples include:

- World Bank Good Practice Benchmarks for Europe and Central Asia (see box).
- KfW check list on responsible finance.
- KfW concept paper on over-indebtedness.
- GIZ study on the role of microfinance associations in developing the microfinance industry globally.
- SBFIC studies comparing financial literacy measures in Mexico, Botswana, South Africa, Namibia and Vietnam.
- IFC's Global Practices in Responsible and Ethical Collections being developed as part of its Debt and Asset Recovery Program (DARP) program.
- UNCDF supports evidenced-based and proportionate regulation in a way that balances access and protection and focuses on disclosure and works to develop better understanding of how such practices can be applied in LDCs.

The World Bank Global Program on Consumer Protection and Financial Literacy

The World Bank Global Program on Consumer Protection and Financial Literacy was launched in November 2010 with the objective of helping countries achieve concrete measurable improvements in consumer protection in financial services. The program brings together both public and private sector institutions—financial regulatory and supervisory agencies, industry associations and consumer organizations—to find the best solutions for each country. The program focuses on three types of financial services—credit, savings and payments systems—and looks for ways to strengthen consumer rights and consumer education for each. The program does so through a number of approaches at the global, regional and national level, including research on best practices, household surveys, diagnostic reviews of country frameworks, working with governments and civil society to develop action plans and programs. For example, Good Practice Benchmarks for Europe and Central Asia (applicable globally) identified over 20 detailed good practices for banking, securities, insurance, non-bank credit institutions and private pensions.

Specific national programs generally cover legal, regulatory and institutional reforms, improvements in voluntary codes of conduct, and strengthening of financial education systems. The Global Program, among other things, builds on the work done in the Bank's Europe and Central Asia Department that over the past five years conducted four country household surveys, eleven country diagnostic reviews, three action plans and implementation programs in Azerbaijan, Latvia, and Russia, and global and national good practice and lessons learned publications. www.worldbank.org/consumerprotection

In addition to the above, some of the specific instruments applied by the development institutions to collect, analyze, and disseminate best practices include:

6a. Data collection on consumer protection regulations and financial literacy

Consumer protection regulation changes rapidly in both developed and developing countries. Development institutions also can play an important role in supporting continuous research and the dynamic processes of knowledge accumulation and dissemination. Various tools have been developed, such as CGAP's Financial Inclusion Regulation Center²⁶ and its annual Financial Access survey. In 2010, the survey gathered consumer protection regulation data from more than 140 economies.

6b. Country / channel/ issue focused diagnostic projects on measures for consumer protection and financial literacy

Many of the institutions participating in the stock-taking indicated that they conduct country diagnostic work. This work is an important instrument for supporting governments as they improve their regulatory regimes based on best international practices adapted to local conditions. In addition to country diagnostics, development institutions also conduct channel-focused diagnostics—branchless banking, microinsurance, recourse—and issue-focused diagnostics such as disclosure and pricing transparency. Consumer protection diagnostics are also incorporated into broader financial sector diagnostics, like the World Bank's Financial Sector Assessment Program (FSAP).

6c. Household and consumer surveys on financial literacy / capability (at the national level)

Household surveys are important to understand levels of financial capability and patterns of consumer behavior in a country. They can inform national strategies for financial literacy and new models for program delivery. They also help evaluate the effectiveness of current programs.

7. Direct capacity building for governments and regulators, at the national and regional levels

Development institutions play an important role in helping governments strengthen consumer protection regulation and oversight systems in the public sector and establish balanced regulatory approaches, with a self-regulation component where appropriate. These initiatives are mostly developing at the national level, but there are region-wide initiatives as well. For example, UNCDF is supporting the African Regulator initiative being organized by Microfinance Transparency that will have a continent-wide conference and two sub-regional follow up conferences to engage regulators on client protection regulatory issues, with a focus on pricing disclosure.

Two main approaches (often implemented together) to working with governments around responsible finance include:

7a. Assisting with strengthening consumer protection policies and regulations

This work primarily involves working with central banks and ministries of finance to strengthen national regulatory frameworks and supervisory capacity on consumer protection issues. There is a broad scope for this work to support both regulation of the

commercial banking sector and microfinance. For example, GIZ assists governments with revising prudential regulation of deposit-taking MFIs, ensuring safety of deposits, and promoting transparency among non-deposit-taking MFIs through light-touch regulation.

7b. Assisting with developing national and local financial literacy strategies

National strategies developed and supported by governments are an important approach to promoting financial capability at the country level. They signal that financial education and literacy are national priorities and engage multiple public and private actors in implementation. Approaches include developing financial education curriculums for schools and young adults, social marketing²⁷, working with media, NGOs, and universities.

8. Practical responsible finance tools for investors and financial providers

Development institutions are actively engaged in developing and implementing practical tools to help in a number of related areas: risk management tools for financial providers, tools for investors on how to incorporate responsible finance in their investment strategies and operations, financial literacy tools that can be used by providers to increase financial literacy of their customers. Institutions often carry out this work through their direct advisory and capacity building work with financial providers and investors. Examples include the KfW toolkit for responsible finance and CGAP's Investors' Guide on implementing the Client Protection Principles (see boxes for KfW and CGAP best practice examples in this section for more details).

GIZ Helps Develop and Implement Financial Literacy Strategy in Ghana

In Ghana, in cooperation with other donors, GIZ has advised the Ministry of Finance and Economic Planning (MoFEP) in developing a national financial literacy strategy. GIZ supports the MoFEP and the Ghana Microfinance Network in conducting financial literacy road shows (street theater, one-on-one Q&A sessions), followed by simple impact assessments showing that the number of savings accounts increased by 50 percent in the areas where the road shows took place. In the area of Banking Supervision, GIZ will provide technical advice, training and mentoring for the management and technical staff of the Bank of Ghana, the ARB Apex Bank and the Ghana Co-operative Credit Union Association (CUA) to strengthen their supervisory functions and the internal controls of their member institutions and to improve consumer protection while continuing to create a Financial Literacy Toolbox for agents and clients. GIZ also is supporting the Ghana Education Service as it integrates a financial education program into school curricula to increase knowledge and understanding and to help change behavior at an early stage, that is, among future clients of financial service providers.

As an agency specializing in technical cooperation, GIZ is active in all three pillars of responsible finance. Areas of focus in consumer protection area include capacity building for central banks and ministries of finance so they can strengthen their supervision of MFIs and the regulatory framework for microfinance (prudential regulation) as well as developing laws for consumer protection.

9. Creating an enabling environment for responsible finance through programs that aim to improve policy and financial infrastructure

Improving overall financial infrastructure can help create a more conducive environment for governments, financial institutions, and consumers to engage in responsible finance. Supporting credit bureaus is an important instrument to curb over-indebtedness and help financial institutions to better manage lending risks. Consumer protection is also the topic kept in mind as development institutions assist regulators in improving the overall policy environment for investment and as they support the sustainable growth of various market segments such as microfinance, SME finance, insurance, housing finance in developing countries.

For example, IFC's Global Credit Bureau Program participates in the Credit Reporting Global Standards initiative (WB in cooperation with BIS), which is likely to

include best practices in consumer protection as related to credit reporting. The program also includes financial education interventions focused on credit reporting rules and practices. In addition, IFC has addressed over-indebtedness issues by helping establish a debt counseling center in partnership with local MFIs in Bosnia and Herzegovina. KfW regional conferences on responsible finance were co-organized with the Central Banks of the respective countries. Via the Advisory Group of the European Fund for Southeast Europe (EFSE), which is composed of the Central Bank Governors of the EFSE countries, KfW promotes a regular dialogue on responsible finance issues with these important stakeholders.

10. Advice and capacity building for financial providers and their associations to incorporate responsible finance practices in their operations

Advice and capacity building for financial

IFC Performance-Based Grants Initiative (PBGI): Incentivizing Responsible Practices among Financial Providers

IFC's Performance-Based Grants Initiative program aims to build inclusive financial systems, to expand financial services to underserved segments. The program helps IFC's financial institution clients overcome the obstacles to providing financial services to lower-income populations by reducing the perceived risks and offsetting high upfront costs.

The PBGI program links incentives for financial institutions to their social performance, using a set of performance indicators. It builds on international best practices of social performance measurement in microfinance, such as the work of the Social Performance Task Force. The program provides technical assistance (advisory services) to IFC clients to set clear social objectives and strategies, develop procedures and systems to achieve objectives, monitor indicators and assess progress, and use social performance management to improve organizational performance.

To date, nearly 30 projects in 25 countries have been implemented. About 85 percent of these projects are in low-income countries. Even though the program focuses on microfinance, its reach extends to other financial services products and sectors such as housing and microinsurance.

providers (MFIs, NBFIIs, commercial banks) and their associations (banking associations, microfinance associations) can help them incorporate responsible finance practices into their operations. Approaches include working with banking and microfinance associations to promote good practices and standards (e.g. self-regulation through codes of conduct) among their members, training financial institutions on the use of good practice tools for responsible finance (often within their overall risk management frameworks) and helping them implement industry codes of conduct where such codes exist, and providing incentives for improved social performance. For example, GIZ has advised a number of microfinance associations in developing codes of conduct for their member MFIs.

11. Incorporating indicators of responsible finance into investment due diligence and reporting requirements

Development finance institutions working directly with the private sector to provide loan and equity investments to MFIs, NBFIIs, and commercial banks act in their capacity of investors. In general, this approach incorporates responsible finance considerations in due diligence processes for investments, covenants for investment legal agreements, and reporting requirements during investment project supervision. By applying these instruments in their decision-making processes, investors play a critical role in promoting responsible finance because they channel financial resources to more responsible institutions and thereby incentivize adherence to good practices and standards.

For instance, UNCDF's strategy of working with financial providers incorporates responsible finance requirements as part of disbursement conditions. Financial service providers with UNCDF grants must sign Performance-Based Grant Agreements

Mainstreaming Responsible Finance: A *Leitmotif* for KfW's Toolkit

KfW Development Bank sees responsible finance as an overarching and integral part of its financial sector strategy. KfW sees responsible finance as a joined action by financial institutions, their customers, regulatory authorities, and donors and investors.

KfW stated the importance of responsible finance in a position paper already in 2007, making responsible finance a "KfW-Leitmotif". This means that KfW Development Bank is committed to align all its financial sector activities to responsible finance practices.

Responsible finance at KfW is a mandatory part of program appraisal for financial institutions. To support this strategy, KfW has developed a series of tools to integrate responsible finance issues into the normal project cycle. This toolkit includes:

- A position paper on responsible finance
- A check list for integrating responsible finance issues into the due diligence work
- Specimen terms of reference to integrate responsible finance issues into feasibility studies and other analytical work
- Specimen responsible finance contract clauses both for loan agreements and funds/apexes
- Concept note on over-indebtedness
- "Red lines" note as part of the overall quality and knowledge management process.

indicating whether they have endorsed the Smart Campaign, describe other policies adopted to protect clients, describe other systems or practices implemented to protect clients, and describe their approach to performance monitoring.

12. Partnering with financial providers, NGOs, academia, media to develop and implement financial capability interventions

Some of the approaches include:

- Developing specific financial literacy and education interventions: For example, SBFIC's regional program on financial capability in Mexico, Peru, and El Salvador focuses on building up training structures for staff of cooperative banks and MFIs. Also, DGRV puts special emphasis on training for staff and members of cooperatives and self-help organizations in its projects, for example in India and various Latin American countries.
- Focusing on building capacity of financial institutions to deliver financial

capability interventions to their clients: For example, KfW's project appraisal includes assessments of what partner financial institutions are doing themselves to strengthen financial capabilities. A number positive examples exist, ProCredit Bank Brochures, "How to Approach a Bank" supported by the EFSE Development Facility.

- Incorporating financial literacy and education in a larger-scale technical assistance programs to governments and the private sector: For example, IFC's mortgage market development program in Europe and Central Asia put together borrower toolkits, which are promoted through financial institutions. The program also supported a university course on financial education as a way of contributing to more sustainable mortgage market development in these regions.
- Leveraging broader training and capacity building programs for financial providers, SMEs, consumers: For example, IFC's SME Toolkit is an online training and information platform for SMEs around the

United Nations Capital Development Fund: Delivering Financial Education to Mobile Banking Users

The Pacific Financial Inclusion Program of UNDP/UNCDF was developed with funding from AusAID and the European Union and implemented in collaboration with the National Microfinance Unit and rural community services providers.

The program's innovative approach to delivery of financial education suitable for the emerging models for financial inclusion was providing financial education alongside mobile banking service.

The four-hour training is conducted in the local language and accessible for low-literacy participants. Training delivery and content are designed based on clients' needs and priorities and active participation, and focused on their own situations. The customers were given an opportunity to immediately apply learning through use of a savings account. A small number of learning outcomes was set. The program developed a sound approach to selecting and training master trainers and trainers and featured collaboration among a wide range of stakeholders.

world. Along with a variety of recourses that help SMEs start and grow their businesses, SME Toolkit includes a module on financial literacy.

13. Developing and implementing methodologies for impact evaluation of financial capability interventions

This work is critical to inform strategic decision-making and support the search for new delivery models of successful financial capability interventions. For example, the World Bank Research Department recently conducted studies on the effectiveness of financial education in Indonesia and Russia, and CGAP and the World Bank have supported the work of the Russia Financial Literacy and Education Trust Fund as it develops innovative financial capability metrics. Another example is the World Bank's project to support the capital markets regulator of Brazil (Comissão de Valores Mobiliários) to evaluate the effectiveness of a pilot project of financial education for 30,000 students in 600 schools in 4 states. The financial education program was designed with the participation of the financial regulatory agencies and the heads of the education system, and focuses on the introduction of financial concepts within several subject matters of the high-school curriculum. The impact assessment will allow the authorities to fine-tune the implementation of the financial literacy program.

Linking Strategies to Markets: Responsible Finance Interventions in Developing Countries

To further promote responsible finance, especially in developing countries, it is important to identify innovative and practical ways to incorporate this concept into regional and country projects. The analysis from this stock-taking exercise shows that participating institutions are well on their way to implementing specific programs and projects in many countries.

The maps below (Figures 3-5) illustrate geographic distribution of relevant development institutions' projects based on the data collected up the date of this report. The maps represent geographic locations and elements of responsible finance addressed—consumer protection regulations, responsible providers, and financial capability—of 245 country-based projects carried out by participating institutions in the developing regions.

The initial analysis of this information indicates that some notable trends include:

- Many country projects address two or three elements of responsible finance at the same time.
- Country projects often apply a combination of strategic approaches detailed in this report as they work with regulators, providers, and their associations to improve the regulatory environment, help providers implement practices, and develop financial capability interventions.
- Much of the work on responsible finance with providers focuses around the issues of financial inclusion and therefore focuses on sectors like microfinance, branchless banking, and microinsurance.

The tendency is somewhat similar for projects around financial capability.

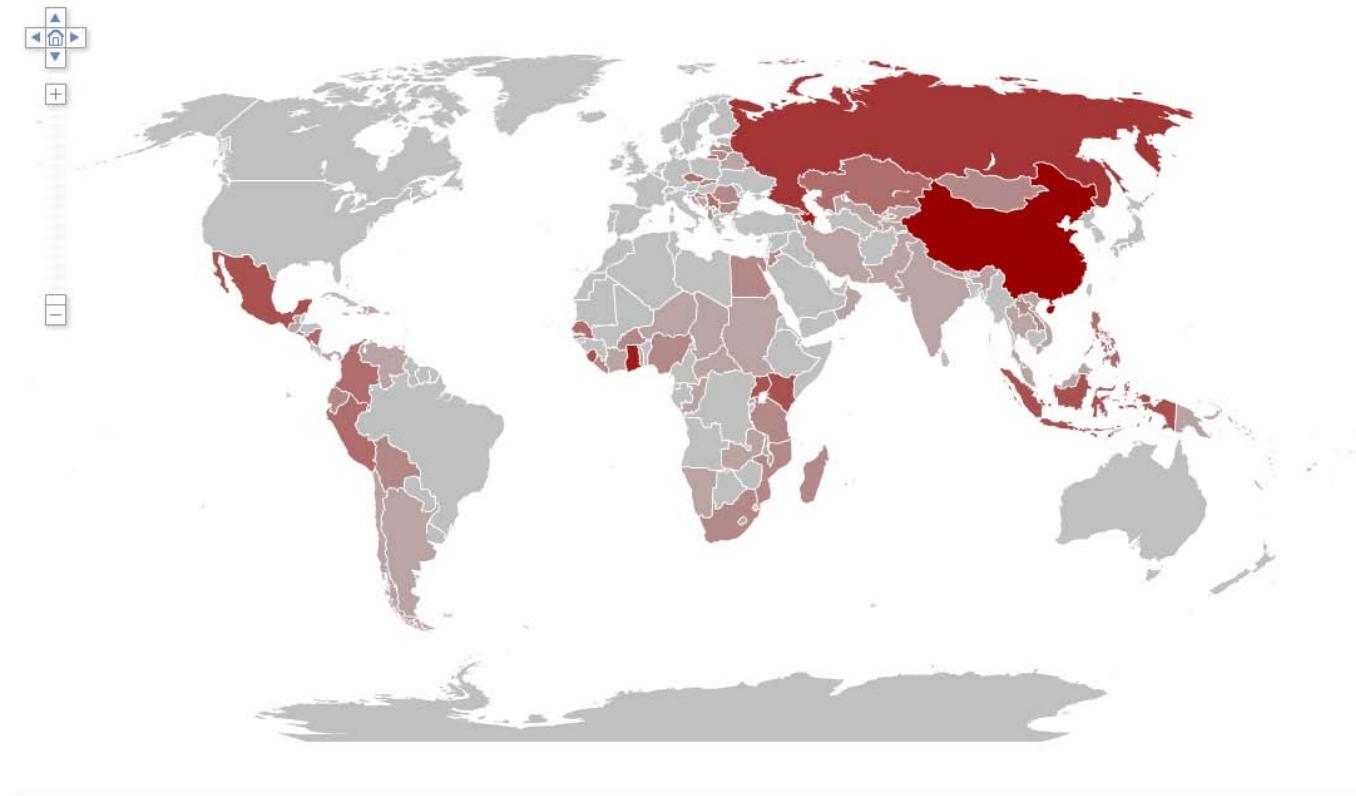
- Work with national regulators on consumer protection regulations is not always focused on responsible finance issues surrounding financial inclusion models; some of the participating organizations have focused this work on either cross-sectoral approaches to consumer protection and financial literacy or on market segments that are more “mainstream”, such as housing/ mortgage, insurance, securities and pensions.
- Projects focusing on consumer protection also tend to concentrate in middle-income countries as opposed to low-income countries. This trend reflects the difficulties with attracting the attention of providers and governments in low-income countries to this issue when the lending and financial services markets (e.g. mortgage lending, credit cards, insurance) are not yet adequately developed.
- The distribution of projects focusing primarily on consumer protection regulations, emphasizing work with financial providers, and targeting financial capability interventions is now always aligned between countries.
- In Africa, projects that address all three components of responsible finance tend to focus on a selected group of countries such as Burkina Faso, Cote d'Ivoire, Ghana, Kenya, Senegal, and South Africa.

These trends are initial observations and invite comments and discussion from all interested parties. Building a robust picture of responsible finance interventions around

the world is a collaborative effort. This data and analysis can help inform decision-making and strategy formulation. This report, therefore, attempts to demonstrate the potential value of increasing joint

efforts on data collection around responsible finance.

Figure 3. Approximate Distribution of Participating Development Institutions' Projects with a Focus on Consumer Protection Regulations



Legend

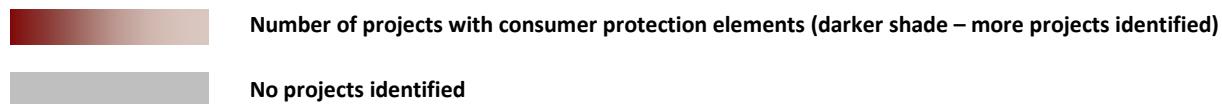
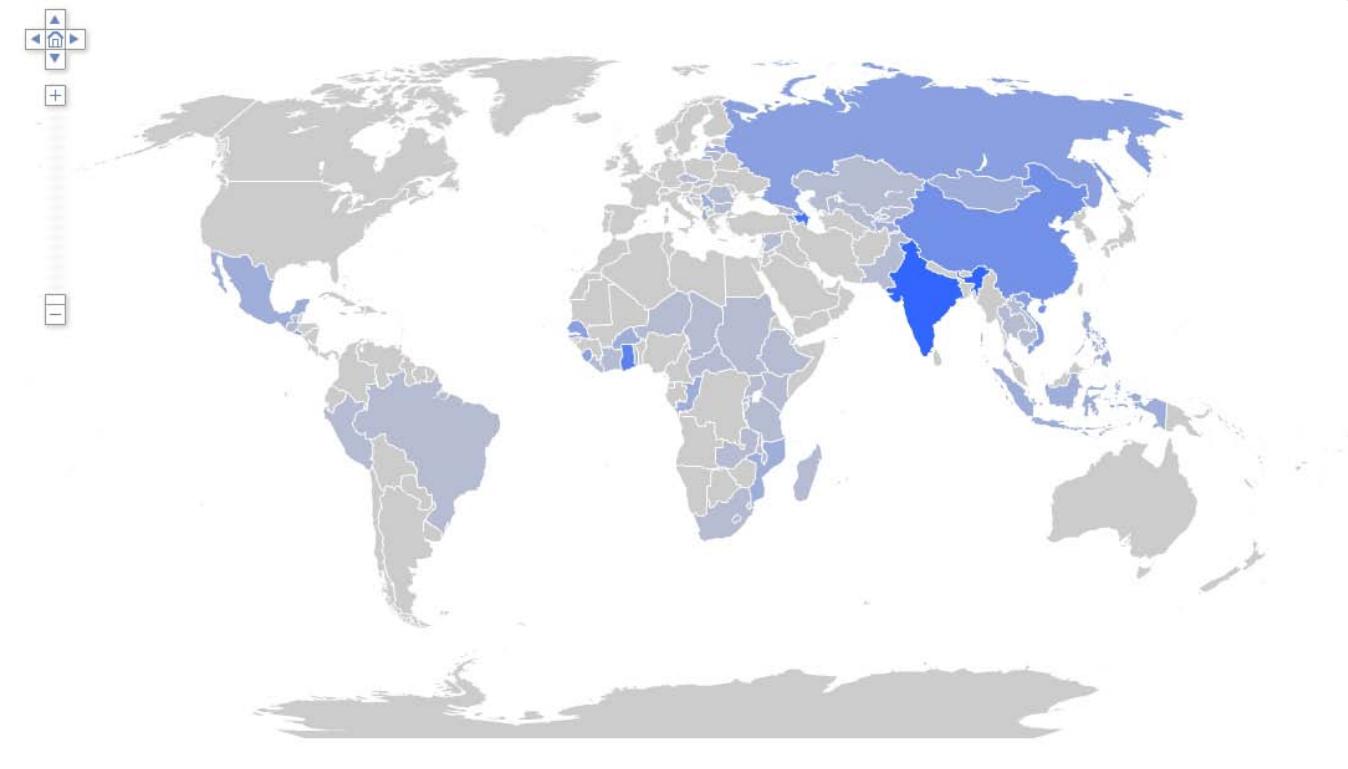


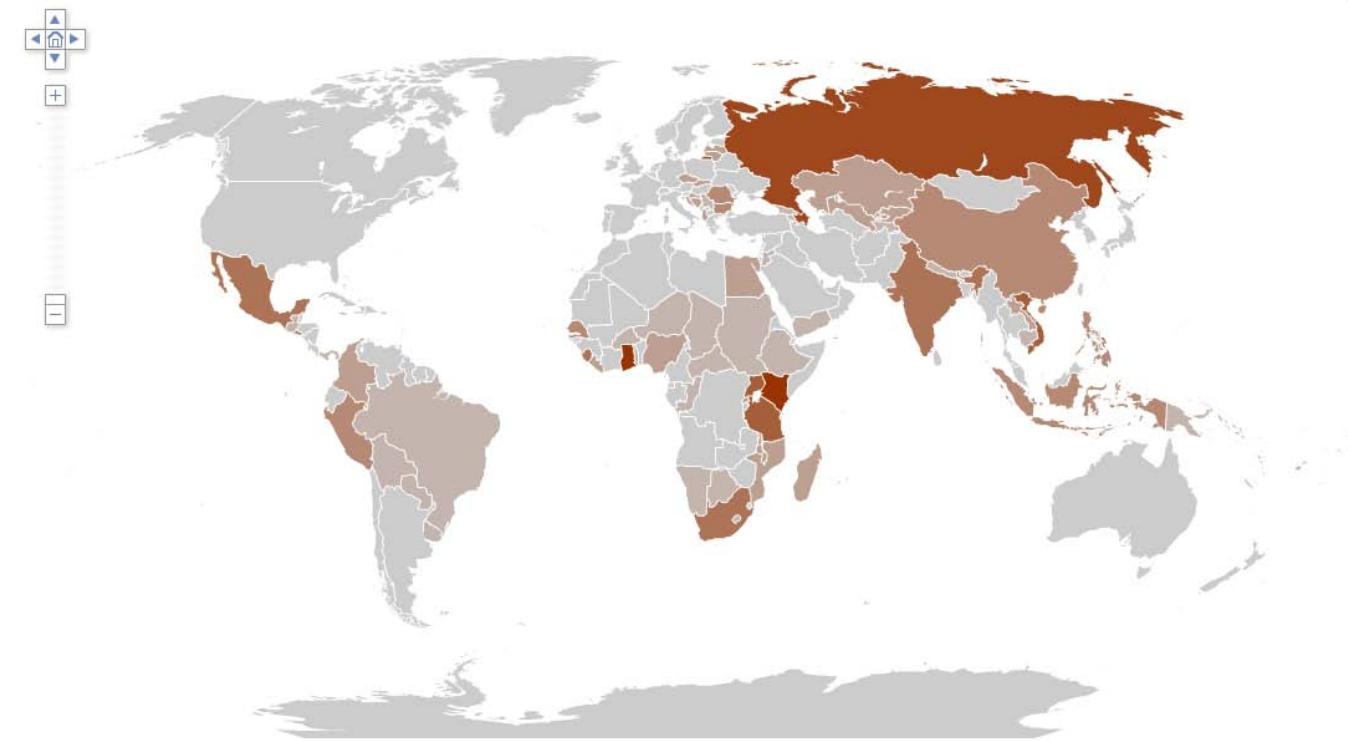
Figure 4. Approximate Distribution of Participating Development Institutions' Projects with a Focus on Work with Financial Providers



Legend

-  Number of projects with consumer protection elements (darker shade – more projects identified)
-  No projects identified

Figure 5. Approximate Distribution of Participating Development Institutions' Projects with a Focus on Building Financial Capability



Legend

| | |
|--|--|
| | Number of projects with consumer protection elements (darker shade – more projects identified) |
| | No projects identified |

Disclaimer: The maps (Figure 3-5) are based on the preliminary results of the stock-taking exercise, as presented in this report. It includes quantitative project data provided by the CGAP, GIZ, IFC, World Bank, and UNCDF. It includes technical assistance / advisory projects only (or, support provided to such projects by the participating institutions in the form of grants and project funding). The maps do not include any direct investments made by these institutions where principles of responsible finance were applied to the lending / investment portfolios. The projects included are mostly active and/or recently closed projects within a two-to-five-year timeframe. The map includes country-level projects only and does not include any region-level and global-level projects and programs of the participating institutions (these strategies and programs are described throughout the report as examples as well as in Annex 2).

The maps have been developed to illustrate the potential type of information that can be obtained through a quantitative mapping of project activities. However, more work on the mapping criteria and methodology is needed for a more accurate mapping. Therefore, the results depicted here should not be viewed as a complete and accurate representation of all relevant activities of these institutions.

Annex 1. Key Stakeholder Groups and Their Roles in Responsible Finance

| Stakeholder Group | Main Role(s) | Secondary Roles | Strengths | Limitations (actual and potential) | Examples |
|--|--|---|---|--|---|
| Governments/ regulators | Establish and enforce consumer protection laws and regulations | Promote financial capability via public policy, encourage industry to adopt voluntary codes of conduct | Ability to mandate changes for industry, enforce non-compliance, include financial literacy in public school curriculum | Institutional capacity and resources to fulfill role, regulatory capture by powerful financial sector interests | Developing countries: South Africa, Mexico, Russia, Malaysia Developed countries: Australia, EU, New Zealand, UK |
| Financial Providers | Adopt and implement responsible financial practices (including industry-wide responsible finance voluntary codes where they exist) | Provide targeted financial capability training and relevant information to consumers at time of transaction | Proximity to consumer, especially at critical decision time – “teachable moment”, (account opening, payment due, etc.); ability to change business practices, adopt responsible finance | Institutions’ incentives are not always aligned with consumers’ interests, have limited resources to implement in crisis environment | Industry Associations – British Banking Association (BBA) – Codes of Conduct for Responsible Lending, Responsible Borrowing, Banking Code EFSE Development Facility Major international banks – Citi - \$200 million FC initiative BofA – Keep the Change campaign |
| Multilateral, bilateral organizations | Coordinate stakeholders, promote good practices, fund initiatives | Support applied research, M&E and develop evidence base on most successful policies and interventions | Broad reach across countries, regions; linkages to government, international regulatory agencies / institutions | Shifting priorities may limit long-term engagement on issue, limited hands-on knowledge of consumers’ needs | OECD – Financial literacy WB/OECD – Financial Education Fund GIZ / KfW – Responsible Finance tools |
| Non-governmental organizations | Provide financial capability training and outreach to consumers; promote responsible finance codes | Advocacy for issues with governments, donors and multilaterals | Experience in project implementation on the ground in developing countries | Limited resources, not well coordinated, varying quality and skill levels | Acción / Center for Financial Inclusion – Campaign for Client Protection Microfinance Opportunities – FC curriculum development Operation Hope – Banking on Our Future |

| | | | | | |
|---|--|--|---|---|--|
| Foundations | Fund and support strategic initiatives to promote responsible finance and financial capability | Facilitate partnerships and knowledge sharing | Resource availability, catalyst and agenda-setting role | More resource limitations since crisis; limited ability to engage in policy discussions (funds not to be used for lobbying) | Gates, Citi, Peterson, Mastercard |
| Policy Advocacy and Industry Influence Organizations | Provide an independent voice on consumer issues in finance | Support targeted research | Independence, consumer orientation | Limited resources, tend to have somewhat narrow focus | European Coalition for Responsible Credit (ECRC) Center for Responsible Lending (USA) Fair Finance Watch (USA) |
| Academics | Research and document most effective approaches for achieving responsible consumer finance | Advocacy for better government and sector policies | Rigorous analysis, ability to innovate (such as work on behavioral finance) | Limited practical application of insights at times; frequently focus on developed country experiences | Barr, Mulianathan, Lusardi (Dartmouth) |

Annex 2. A List of Relevant Strategies, Programs, and Projects of Participating Agencies

AusAID

| Strategies, approaches, delivery instruments | Elements of responsible finance | Program and project examples, further details | Contacts |
|--|---------------------------------|--|--|
| Incorporating the concept of responsible finance in the strategic funding priorities of issues and sectors | Financial capability | AusAID has integrated responsible finance into its poverty reduction strategy through its recently published " <i>Financial Services for the Poor: A Strategy for the Australian Aid Program 2010-2015</i> ", AusAID puts special emphasis on responsible finance and the increased capacity of clients to understand and utilize financial services effectively | Ruth Goodwin-Groen ruth.goodwin-groen@ausaid.gov.au |

Dutch Ministry of Foreign Affairs

| Strategies, approaches, delivery instruments | Elements of responsible finance | Program and project examples, further details | Contacts |
|--|---------------------------------|---|---|
| Incorporating the concept of responsible finance in the strategic funding priorities of issues and sectors | Cross-cutting | Support of relevant activities of FMO (e.g. Massif (Micro- and small enterprise fund); capacity development) Incorporating responsible finance in the funding for financial inclusion activities: <ul style="list-style-type: none"> - 7 microfinance activities, including support to CGAP, NPM (Dutch Microfinance Platform), and Women's World Banking. The current strategy of Women's World Banking may offer examples of good practice, with its focus on: its target group, range of products, demand for products, financial education and leadership development, and linkage to mesofinance from a gender perspective - 6 microfinance activities managed by embassies, including Palestine, Burundi, Surinam - Support of Development NGO's (Cordaid, Hivos, ICCO, Oxfam Novib) | Hans van der Veen hw-vander.veen@minbuza.nl |

BMZ

| Strategies, approaches, delivery instruments | Elements of responsible finance | Program and project examples, further details | Contacts |
|---|---------------------------------|--|---|
| Supporting responsible finance at the strategic | Cross-cutting: Consumer | Convening of international dialogue (e.g. sponsor and co-organizer of the Responsible Finance Forum) | Susanne Dorasil Susanne.Dorasil |

| level | protection, responsible providers, financial capability | Channeling public funding to support responsible finance interventions of German (GIZ, KfW, DGRV, SBFIC) and multilateral agencies and other implementing organizations | @bmz.bund.de |
|--|---|--|--|
| GIZ | | | |
| Strategies, approaches, delivery instruments | Elements of responsible finance | Program and project examples, further details | Contacts |
| Supporting partnerships in the area of financial inclusion and access to finance | Cross-cutting | <p>In 2009, on behalf of BMZ, GIZ organized, jointly with the Partnership for Making Finance Work for Africa (MFW4A), the first Africa-wide conference on Consumer Protection and Financial Capability in Ghana, with more than 200 policy makers and business representatives.</p> <p>GIZ regularly contributes to bring forward the RFF</p> <p>On behalf of the Bill and Melinda Gates Foundation, GIZ manages Alliance for Financial Inclusion Implementing approaches of consumer protection and internationally, leveraging the position of GIZ within the MFW4A, the Alliance for Financial Inclusion and the Access to Insurance Initiative to increase financial literacy and consumer protection</p> <p>GIZ heads the secretariat of the Access to Insurance Initiative (A2II), on behalf of BMZ This Initiative promotes an „enabling policy environment“ for microinsurance, in partnership of BMZ, IAIS, CGAP, ILO, UNCDF and FinmarkTrust</p> | Brigitte Klein brigitte.klein@tz.de |
| Diagnostics and building best practices | Consumer protection, financial capability | <p>Jointly with CGAP and World Bank: MFW4A 4-country diagnostic of the status quo of regulation, self regulation and financial capability in Uganda, Kenya, Tanzania, and Ghana</p> <p>A study on the role of Microfinance Associations in developing the Microfinance Industry globally (2002, to be updated)</p> | |
| Capacity building for national regulators in developing countries on consumer protection | Consumer protection | <p>Strengthening supervisory capacity of central banks and ministries of finance (Ghana, Uganda, China, Indonesia, Laos, other) to. In particular, capacity for MFIs and the regulatory framework for microfinance (prudential regulation); help develop laws for consumer protection</p> <p>Support to Central Banks in revising prudential regulation of deposit-taking MFIs; promotion of transparency among non-deposit taking MFIs through light-touch regulation</p> | |
| Direct advice and assistance to rural institutions offering microfinance products and their associations | Consumer protection, responsible providers | <p>Advising rural institutions offering MF products through their apex organizations, enabling micro-, small and medium-sized enterprises, economically active low-income households and students to have a better understanding of loan and savings products and enjoy better client service and consumer protection in the banking sector</p> <p>Advising MFAs on developing and implementing codes of conduct and supervising members (Uganda, Mozambique, Senegal, various MFAs in Central Europe)</p> | |

| | | |
|--|----------------------|---|
| | | Conducting trainings on internal audit/risk management with apex organizations, advocacy work for mergers, analyzing the status quo of self-regulation, capacity-strengthening of self-regulatory bodies Development of trainings on good governance practices for institutions of the cooperative credit structure in India |
| Supporting governments in development, management and implementation of national strategies for financial literacy | Financial capability | Implementing national strategies of financial literacy in school curricula, jointly with the Ministry of Education (e.g. Ghana), setting up public-private partnership to increase financial literacy of staff within international corporations National strategies for financial literacy are implemented in close consultation and collaboration with the industry, based on an extensive country diagnostics (Ghana, Uganda, Kyrgyzstan, other countries) |
| Developing tools for financial literacy and working directly with MF providers and with apex bodies to train and disseminate these tools | Financial capability | Increasing public awareness about financial sector issues, by training journalists and installing international resource web pages Developing financial literacy toolbox (including training modules in customer care, sales and promotion, household financial management/microbusiness management, and client survey tools) Training apex bodies as ToTs and MFIs directly on integration of toolbox into business processes Promoting client education on financial literacy and consumer protection through educational material and media; performing road shows, screening TV soap operas; developing financial education curriculum and methodology, piloting financial education programme in schools Senegal: Financial Literacy Trainings via private sector associations |

KfW

| Strategies, approaches, delivery instruments | Elements of responsible finance | Program and project examples, further details | Contacts |
|--|---------------------------------|--|--|
| Convening and awareness raising among DFI peer group, among regulators | Cross-cutting | Responsible Finance conference together with Frankfurt School of finance and Management in February 2008. http://www.frankfurt-forum.org/htdocs/responsible_finance.html DFI workshop on responsible finance jointly with CGAP in February 2010 aiming at consensus building around responsible finance implementation issues Several workshops organized together with Governors of Central Banks in Eastern Europe/Caucasus in 2007-2010 in Co-operation with EFSE (Albania, Azerbaijan, Bosnia & Herzegovina, Kosovo, Serbia, Georgia) Continuous dialogue with Eastern European Central Bankers in the framework of EFSE | Matthias Adler matthias.adler@kfw.de |
| Supporting and leading | Cross-cutting | Work with/Co-funding of MF Transparency on transparent pricing in Azerbaijan | |

| | | |
|--|--|---|
| partnerships | | International positioning as lead DFI promoting responsible finance (conference moderations, input as panelists, work with CGAP) Work on credit bureaus (with IFC) Supporting and chairing EFSE Development Facility that has a strong emphasis on responsible finance |
| Knowledge creation, tools | Cross-cutting | Study on the impact of consumer loans (2008) Various documents and tools produced for knowledge dissemination and further discussion among funders and among partner FI (Position Paper, Check list for due diligence, Responsible Finance Clause for Financing agreements; "red lines", specimen contract clauses, concept note on addressing client over-indebtedness etc.) Internal trainings on responsible finance and setting up of an internal responsible finance network |
| Responsible finance is integrated in the financial sector strategy and program appraisal for support of financial institutions | Consumer protection, responsible providers, financial capability | Generally, responsible finance is an overarching part of financial sector strategy; mandatory part of program appraisal for support of financial institutions Full integration of responsible finance in due diligence process and in legal documents: Issues of a 2 pages checklist have to be analyzed, discussed with the partner, and reflected with a well-founded judgment in Board approval documents Part of the appraisal is what partner institutions do themselves to strengthen financial capabilities. Numerous positive examples exist (ProCredit Bank brochures; EFSE Development Facility "How to Talk to a Bank" brochure, http://www.efse.lu/Responsible-finance-----site.site..html_dir.nav.65_likecms.html) |

SBFIC

| Strategies, approaches, delivery instruments | Elements of responsible finance | Program and project examples, further details | Contacts |
|--|---------------------------------|--|--|
| Convening and awareness raising | Financial capability | Conference „Financial Literacy“ in Nairobi (late 2008) | Niclaus Bergmann Niclaus.bergmann_nn@sbfic.de |
| Knowledge creation | Financial capability | Studies comparing „Financial Literacy“ measures in Mexico, Botswana, South Africa, Namibia and Vietnam | |
| Working directly with financial providers to build financial capability of their clients | Financial capability | Seminars and trainings for clients of cooperative savings banks in Mexico Regional program (funded by BMZ) in Mexico, Peru, El Salvador on Financial Capability with a focus on building up training structures for staff of cooperative banks and MFIs Since the mid 90s: Advising MFIs in the Philippines, Vietnam, and Laos, who train their clients in | |

| | | |
|--|---|--|
| Supporting governments on financial literacy | Financial capability, consumer protection | financial capability Supporting the Central Bank of Albania in developing information materials for consumers. In addition, SBFIC has started to support governments in Azerbaijan, Georgia and Uzbekistan to develop different strategies to enhance the mobilization of savings via supporting different measures to increase financial capability and transparency in the financial industry |
|--|---|--|

DGRV

| Strategies, approaches, delivery instruments | Elements of responsible finance | Program and project examples, further details | Contacts |
|---|---------------------------------|--|---|
| Supporting regulators in establishing and/or improving banking supervision and regulation standards | Consumer protection | Support of regulators and governments in establishing and/or improving banking supervision and regulation standards Promotion of the development of deposit protection schemes: Savings are protected and thereby consumers/clients/members are protected | Paul Armbruster armbruster@dgrv.de |
| Working with credit cooperatives to promote good practices | Responsible providers | Promotion of delegated supervision (cooperative self control instead of self regulation because the regulatory body must be an independent state institution whereas the sector itself can be responsible for the supervision mandated to the sector by the state). Auditing plays a key role Support of a trustworthy relationship between institution and clients in cooperatives | |
| Working with credit cooperatives to build financial capability | Financial capability | Capacity building is seen as a very important topic within cooperative networks Training of cooperative bodies, employees and members are regular activities | |

CGAP

| Strategies, approaches, delivery instruments | Elements of responsible finance | Program and project examples, further details | Contacts |
|--|---------------------------------|---|--|
| Standard-setting and advocacy | Responsible providers | CGAP is co-founder of the SMART Campaign with Acción International. Campaign has 1000+ endorsers including most of major microfinance retailers, associations, funders. SMART Campaign is based on Client Protection Principles, an internationally recognized framework Leading SMART Campaign's investors initiative | Kate McKee kmckee@worldbank.org Antonique Koning akoning@worldbank.org |
| Convening dialogue | | Virtual conference on responsible finance (2010), http://virtualconference.cgap.org/ Responsible finance round-tables with regulators, providers, and other stakeholders, since 2009 | |

| | | | |
|--|-----------------------|---|---|
| and discussions | | | bank.org Margaret J. Miller mmiller5@worldbank.org |
| Developing tools and guidance for providers and investors | Responsible providers | An investor's guide for implementing the Client Protection Principles | |
| Diagnostics (national, channel-focused, issue-focused) | Consumer protection | Country diagnostics, some include consumer research (seven completed - Kenya, Peru, Mexico, others) Channel-focused diagnostics (e.g. branchless banking - Peru, microinsurance, recourse) Issue-focused diagnostics (e.g. disclosure and pricing transparency – Philippines) | |
| Online data center | Consumer protection | Financial inclusion regulation center (online) - Information on microfinance regulation. http://www.cgap.org/p/site/c/regulation_center/ | |
| Policy and regulatory advice | Consumer protection | Turning to supervision and enforcement, 2010 focus note | |
| Research, surveys, metrics for the demand side (consumer awareness and financial capability) | Financial capability | Financial Access Survey 2010: Consumer protection data from 140+ economies Support to financial capability metrics (Russia Financial Literacy Trust Fund, World Bank) Suite of tools on using consumer experience research for consumer protection, including consumer group discussions, individual interviews, financial diaries, quantitative analysis Work on media, entertainment education and financial literacy and capability | |

World Bank

| Strategies, approaches, delivery instruments | Elements of responsible finance | Program and project examples, further details | Contacts |
|---|---|--|--|
| Knowledge creation (best practices, tools, surveys) | Consumer protection, financial capability | <p>The World Bank Global Program on Consumer Protection and Financial Literacy: Good Practices for Europe and Central Asia (soon to be expanded as Global Good Practices) - 20+ detailed good practices for each of banking, securities, insurance, non-bank credit institutions and private pensions</p> <p>Household surveys on financial literacy and behavior in Russia, Azerbaijan, Romania, Bulgaria. In pipeline West Bank & Gaza, Bosnia & Herzegovina, Malawi, Tajikistan, Zambia, Nicaragua</p> <p>Paper on lessons learned from diagnostic reviews in several countries: http://go.worldbank.org/HHAM6ZHT0</p> <p>Paper on good practices http://go.worldbank.org/4G93NTRIK0</p> | Susan Rutledge Srutledge@worldbank.org Juan Carlos Izaguirre Araujo jizaguirre@worldbank.org Mario Guadamilas |

| | | | |
|---|--|--|--|
| | | Website with published reports www.worldbank.org/consumerprotection | (FSAP) |
| Diagnostic reviews at the national level | Consumer protection, responsible providers, financial capability | <p>Research on effectiveness of financial education (Indonesia, Russia)</p> <p><u>The World Bank Global Program on Consumer Protection and Financial Literacy: 11 Diagnostic Reviews</u> - Azerbaijan, Bosnia & Herzegovina, Bulgaria, Croatia, Czech Republic, Kazakhstan, Latvia, Lithuania, Romania, Russian Federation, Slovakia. In pipeline Malawi, Nicaragua, Peru, Tajikistan, Ukraine, Armenia, Zambia, Bosnia (NBCIs)</p> <p><u>Financial Sector Assessment Program (FSAP)</u> (http://finsec.worldbank.org/):</p> <p>Issues of consumer protection and financial literacy in country assessments of the financial sector.</p> <p>FSAPs have been completed for most countries worldwide.</p> | Mguadamilas@worldbank.org |
| Direct advice and capacity building to governments and industry associations | Consumer protection, responsible providers, financial capability | <p><u>The World Bank Global Program on Consumer Protection and Financial Literacy: Action plans and implementation programs for consumer protection and financial literacy to governments</u> (Azerbaijan, Latvia, Russia, Bosnia & Herzegovina)</p> <p>Russian Federation Financial education and financial literacy project, covering also consumer protection (capacity building, regulation)</p> <p>Financial literacy TA projects, including Brazil (school-based financial education program, microinsurance consumer education in favelas), Colombia, Uganda, Tanzania, Kenya, Malawi.</p> | |
| Special-purpose funding to support innovation in advancing and measuring financial capability | Financial capability | Russia Financial Literacy and Education Trust Fund (2009-2013). The Russian Federation is committed to providing \$15 million over four years to finance operational guidance and methodological toolkits for (i) measuring levels of financial capability, and (ii) evaluating the impact of financial capability enhancement programs | Richard Paul Hinz rhinz@worldbank.org |
| Standard-setting on consumer protection within issue-focused industry standards | Consumer protection | <p>Joint World Bank-IFC work on payments and remittances includes promoting international standards, in collaboration with The Bank for International Settlements' Committee on Payment and Settlement Systems (CPSS). The General Principles for Remittances endorsed by the G8, G20, and the Financial Stability Board. Principles include that the "market for remittances should be transparent and have adequate consumer protection"</p> <p>WB-CPSS program for implementation of WB-CPSS Principles – 20+ countries covered, global and national databases promoted</p> | Maria Teresa Chimienti mchimienti@worldbank.org |

IFC

| Strategies, approaches, delivery instruments | Elements of responsible finance | Program and project examples, further details | Contacts |
|--|--|---|---|
| Convening and awareness raising | Cross-cutting | Co-organizer of the Responsible Finance Forum | Motoko Aizawa maizawa@ifc.org |
| Supporting consumer protection through improving financial infrastructure (credit bureaus) | Consumer protection, financial capability | IFC's Global Credit Bureau Program promotes understanding among policy makers on using credit information to responsibly improve access to finance. IFC's Program participates in the Credit Reporting Global Standards initiative (WB in cooperation with BIS) which is likely to include best practices in consumer protection as related to credit reporting | Peer Stein pstein@ifc.org |
| Incorporating consumer protection in larger technical assistance projects with local governments and industry associations to promote improved regulation and industry practices | Consumer protection, responsible providers | <p>As part of its technical assistance, IFC provides support to local financial market development, such as improving enabling environment, training for FIs, definition of standards and best practices. IFC projects in microfinance, SME finance / banking, and housing finance often include elements of consumer protection:</p> <ul style="list-style-type: none"> - IFC developed a Global Mortgage Toolkit that includes issues of consumer protection (used for capacity building with governments and providers) - Projects to help improve regulation and self-regulation (codes of conduct) for consumer protection in mortgage lending in Armenia, Azerbaijan, Burkina Faso, Ghana, India, Kazakhstan, Kyrgyz Republic, Nigeria, Russia, Tajikistan, Ukraine, Uganda, Uzbekistan - IFC projects that aim to develop sustainable access to finance for SMEs (part of Global SME Banking Program), e.g. China, Indonesia, Philippines, often include support for policy reform to reduce barriers to SME finance and laws permitting greater private participation in SME credit reporting. This includes public awareness raising on role of credit information systems in SME banking | |
| Embedding responsible finance in direct advice to financial providers on risk management | Responsible providers | IFC assists its financial sector clients with improving their processes and systems for risk management. For example, IFC's Debt and Asset Recovery Program (DARP) includes work on Global Practices in Responsible and Ethical Collections (developing best practices and assisting in implementation) | |
| Embedding responsible finance in project due diligence (microfinance) | Responsible providers | IFC Microfinance Strategy ensures client MFIs are lending for productive economic activities, comply with IFC Exclusion List (the list of activities that IFC does not finance, such as alcohol, tobacco, weapons etc.), use transparent practices (e.g. publication of effective interest rates, or, at a minimum, display nominal prices in their banking halls). IFC's microfinance work places emphasis on portfolio quality, thus discouraging reckless lending and on savings mobilization to | |

| | | |
|---|-----------------------|---|
| | | promote the transition of MFIs out of donor dependency |
| Using social performance measurement to incentivizing providers to implement responsible practices | Responsible providers | IFC Performance-Based Grants Initiative links incentives of financial institutions to their social performance against a set of performance indicators. Close to 30 projects have been already implemented in 25 countries, such as Albania, Armenia, Bangladesh, Brazil, China, DRC, Ethiopia, India, Ivory Coast, Maldives, Pacific Islands, Pakistan, Senegal, Syria, Tajikistan, and Zambia |
| Partnering with financial institutions, industry associations, NGOs, academia to deliver financial capability interventions | Financial capability | <p>Several IFC advisory programs and projects have included elements of financial education for consumers and MSMEs. IFC supported:</p> <ul style="list-style-type: none"> - development of borrower manuals, borrower toolkits, financial literacy curriculums around various types of lending (e.g. student loans, mortgage loans, microfinance, SME finance), adapted to local markets - development of a university course on mortgage lending (Russia) - financial literacy programmes of NGOs (Operation Hope in South Africa) - incorporating financial education into credit bureau projects. In particular, (i) microfinance credit reporting projects (to include a financial capability component); (ii) financial education focused on credit reporting rules / practices - in collaboration with leading local microfinance institutions, establishment of a debt counseling center in Bosnia and Herzegovina for microfinance entrepreneurs - incorporating financial education into credit bureau projects. In particular, (i) microfinance credit reporting projects; (ii) financial education focused on credit reporting rules / practices - leveraging broader SME training tools (SME Toolkit - a web-based portal for SMEs - and Business Edge - a training program for SMEs) to incorporate messages on financial education/literacy. These tools are delivered in collaboration with local delivery partners. <p>www.smetoolkit.com</p> |

United Nations Capital Development Fund (UNCDF)

| Strategies, approaches, delivery instruments | Elements of responsible finance | Program and project examples, further details | Contacts |
|--|---------------------------------|--|---|
| Incorporating responsible finance into the institutional | Cross-cutting | UNCDF has developed a Responsible Finance Strategy Document that provides overview of the overall approach as well as implementation of strategy | Beth Porter beth.porter@ncdf.org |

strategy

| | | |
|---|---|---|
| Developing best practices for consumer protection | Consumer protection | Developing a better understanding of the regulatory frameworks in the LDCs of UNCDF operations and how UNCDF can best contribute to improved regulatory frameworks |
| Awareness raising, direct advice and capacity building for governments | Consumer protection, financial capability | <p>Supporting African Regulator initiative that will have a continent-wide conference and two sub-regional follow up conferences to engage regulators on client protection regulatory issues, with a focus on pricing disclosure. UNCDF will also support follow up activities at the country level to assist with implementation</p> <p>In WAEMU countries, UNCDF is communicating with all Committees in charge of National Strategies on Microfinance/Financial Inclusion and asking them to ensure that they are addressing financial capability in their strategies. For this purpose, national surveys on financial capability undertaken or underway. Client education and financial literacy for electronic G2P program developed and being rolled out to 24,000 welfare recipients in Fiji</p> |
| Awareness raising, direct advice and capacity building for financial providers and their associations | Responsible providers | <p>The strategy focuses on raising awareness about client protection, supporting client protection assessment, and building capacity to operationalize client protection principles</p> <p>(1) providers with UNCDF grants must sign Performance-Based Grant Agreements that indicate whether they have endorsed the Smart Campaign; describe other policies adopted to protect clients; describe other systems or practices implemented to protect clients; state how it monitors its performance. These are part of disbursement conditions. (2) UNCDF intends to fund client protection assessments of selected partner financial providers. (3) UNCDF intends to work with selected national associations to support workshops and training on development of client protection codes of practice and their implementation, in a way that complements/coordinates with the work of others in this area (SEEP, bilateral donors, etc.)</p> |
| Incorporating consumer protection in larger technical assistance projects with financial providers | Responsible providers, financial capability | In the Pacific Islands, financial education delivered alongside mobile banking service through local-language training |
| Partnering with financial institutions, industry associations, NGOs, academia to deliver financial capability interventions | Responsible providers, financial capability | The multi-country YouthStart initiative in Africa supports financial capability-building directly by providers or through partnerships |

Annex 3. Stock-Taking Questionnaire

The methodology for this stock-taking exercise is based on a short questionnaire sent to over 20 development agencies and development finance institutions who are members of the Responsible Finance Community of Practice established as a result of the Responsible Finance Forum I that took place in Berlin in January 2010 (see the outline and questions in the box below).

For the purposes of the analysis, the elements of responsible finance were defined as follows:

- **Consumer protection element:** Working with government on policy related to consumer protection laws or regulations, but also further issues of responsible regulation such as minimum standards for lending etc.

- **Responsible provider element:** Working with financial services providers on issues such as codes of conduct, rules of engagement.
- **Financial capability element:** Focused on improving consumers' ability to engage with the financial sector and understand products and protections. Efforts targeting financial education and literacy are examples of projects that are aimed at building financial capability. Work may involve engaging with multiple actors, including governments, NGOs, financial providers, and others towards increasing financial capability.

Name of institution

Type of institution (e.g. donor, investor, other implementing agency)

1. Relevant international fora, initiatives and conferences you are or have been active in

PART I. Qualitative Data: Please describe key elements/highlights of how your institution implements responsible finance at the strategic level (relevant strategies, corporate initiatives etc.)

2. Key strategies where the institution's commitment to promoting responsible finance plays a role / is reflected. (If your primary focus is in just one of the three pillars, please indicate which one)
3. Typical approaches in implementation (how the key strategies translate into programs and projects)

PART II. Quantitative Data: Please specify by sector and region in how many of your projects elements of responsible finance play a role (by region, by element of responsible finance, and by type of financial product – if applicable)

PART III. Best Practice: Please give 1-4 short examples of interesting projects/initiatives of your institution that illustrate your approach to responsible finance.

References and Useful Resources

- AusAID.2010. "Financial Services for the Poor: A Strategy for the Australian Aid Program 2010-2015",
http://www.donorplatform.org/component?option=com_docman/task,doc_view/gid,1382
- CGAP. 2010. Financial Access 2010. The State of Financial Inclusion Through the Crisis.
- Foster, Sarah, Estelle Lahaye, and Kate McKee. 2009. Implementing the Client Protection Principles. A Technical Guide for Investors. CGAP.
- GIZ. 2011 (draft). Financial Capability and Consumer Protection – A Way Forward to Financial Inclusion in Africa. Jointly with World Bank and DFID, within the Partnership for MFW4A (final draft).
- Global Financial Education Program, 2008. "Assessing Outcomes of Financial Education," Financial Education Update, Vol. 2, Issue 2, Winter 2008.
www.globalfinancialed.org/documents/financial_education_update_vol2_issue2.pdf
- G20. Financial Inclusion Experts Group. 2010. Access Through Innovation—Report of the G20 Financial Inclusion Experts Group.
- GTZ. 2008. Compendium: Employee financial wellness: A corporate social responsibility.
- GTZ. 2000. How to regulate and supervise microfinance - key issues in an international perspective.
- GTZ. 2003. Regulatory requirements for microfinance.
- Honohan, Patrick. 2004. Financial development, growth, and poverty: How close are the links? Development Research Group and Financial Sector Operations and Policy Department. The World Bank
- IFC. 2006. Credit Bureau Knowledge Guide.
- McKee, Kate and Mundy, Shaun. "Improving the Financial Capability of Poor People". CGAP Focus Note. 2009.
- Rutledge, Susan. 2010. "Consumer Protection and Financial Literacy: Lessons from Nine Country Studies", Policy Research Working Paper No. 5326, World Bank, June 2010.
- Rutledge, Susan. 2010. "Country Studies Provide Powerful Lessons in Financial Consumer Protection", Knowledge Brief No. 26, The World Bank, July 2010.
- Rutledge, Susan, N. Annamalai, R. Lester and R. Symonds. "Good Practices for Consumer Protection and Financial Literacy in Europe and Central Asia: A Diagnostic Tool", ECSPF Working Paper 001, World Bank, August 2010.
- Stein, Peer, Bikki Randhawa and Nina Bilandzic. 2011. Toward Universal Access: Addressing the Global Challenge of Financial Inclusion. In Fardoust, Shahrokh, Yongbeom Kim and Claudia Sepùlveda. "Post-Crisis Growth and Development: A Development Agenda for G-20". World Bank: Washington, D.C.
- The Making Finance Work for Africa Partnership, <http://www.mfw4a.org/>
- UNCDF. October 2010. Responsible Finance Strategy.

World Bank Diagnostic Reviews on
Consumer Protection and Financial Literacy.
www.worldbank.org/consumerprotection

Zia, Bilal. "Valuing Financial Literacy:
Evidence from Indonesia". DECRG-FP
Impact Evaluations. May 2009.

Abbreviations and Acronyms

| | |
|--------|---|
| AusAID | Australian Aid |
| BBA | British Bankers' Association |
| BCBS | Basel Committee on Banking Supervision |
| BMZ | Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung (The German Federal Ministry for Economic Cooperation and Development) |
| CGAP | Consultative Group to Assist the Poor |
| DGRV | Deutscher Genossenschafts- und Raiffeisenverband e. V. (DGRV – German Cooperative and Raiffeisen Confederation |
| EFSE | The European Fund for Southeast Europe |
| EU | European Union |
| GDP | Gross Domestic Product |
| GIZ | Deutsche Gesellschaft für internationale Zusammenarbeit (German Agency for International Cooperation), formerly GTZ |
| IAIS | International Association of Insurance Supervisors |
| IFC | International Finance Corporation |
| MFA | Microfinance Associations |
| MFI | Microfinance Institution |
| MSMEs | Micro- and Small Enterprises |
| NBFI | Non-Bank Financial Institution |
| NGO | Non-Governmental Organization |
| RFF | Responsible Finance Forum |
| SBFIC | German Saving Banks Foundation for International Cooperation |
| UNCDF | United Nations Capital Development Fund |

Acknowledgments

Team: Susan Dorasil, Kim Nguyen Van (BMZ); Motoko Aizawa, Ekaterina Grigoryeva (IFC); Margaret J. Miller (CGAP).

The team would like to thank Antonique Koning and Katherine McKee (CGAP); Susan Rutledge, Juan Carlos Izaguirre Araujo (World Bank, Global Program on Consumer Protection and Financial Literacy); Valeria Perotti (World Bank, Social Protection), Nina Bilandzic, Houtan Bassiri (IFC), Beth Porter (UNCDF), Hans van der Veen (Dutch Ministry of Foreign Affairs), Ruth Goodwin-Groen (AusAID), Brigitte Klein, Achim Deuchert (GIZ), Matthias Adler (KfW), Paul Armbruster (DGRV), Niclaus Bergmann (SBFIC) for their contributions and feedback.

End Notes

¹ More information on consumer protection regulatory frameworks in various countries can be found in CGAP's Financial Access 2010 publication. http://www.cgap.org/gm/document-1.9.46570/FA_2010_Financial_Access_2010_Rev.pdf

² CGAP Financial Inclusion Regulation Center provides a good source of information on the subject of regulation in microfinance. http://www.cgap.org/p/site/c/regulation_center/

³ In the Leaders' Statement: the Pittsburgh Summit, September 24-25, 2009, it was noted that "*Far more needs to be done to protect consumers, depositors, and investors against abusive market practices, promote high quality standards, and help ensure the world does not face a crisis of the scope we have seen. We are committed to take action at the national and international level to raise standards together so that our national authorities implement global standards consistently in a way that ensures a level playing field and avoids fragmentation of markets, protectionism, and regulatory arbitrage*".

<http://www.pittsburghsummit.gov/mediacenter/129639.htm>

⁴ CGAP. Financial Access 2010.

⁵ More information on national strategies for financial literacy in various countries can be found in CGAP's Financial Access 2010 publication. http://www.cgap.org/gm/document-1.9.46570/FA_2010_Financial_Access_2010_Rev.pdf

⁶ There are other causes of the current crisis including compensation schemes, misaligned incentives and macroeconomic policy. Still, the fact that consumers became unwitting participants through their credit and investment decisions contributed to the spread and scale of the crisis.

⁷ Honohan (2004) writes, "The causal link between finance and growth is one of the most striking empirical macroeconomic relationships uncovered in the last decade."

⁸ Innovative solutions are emerging in microfinance, for example the SPTF's progress out of poverty index
<http://sptf.info/page/user-reviews-of-sp-tools>

⁹ Rutledge, Susan L., Annamalai, Nagavalli, Lester, Rodney, Symonds, Richard L. 2010. Good Practices for Consumer Protection and Financial Literacy in Europe and Central Asia: A Diagnostic Tool. World Bank.

¹⁰ <http://ourfinancialsecurity.org/2011/01/halfway-to-the-cfpb-an-afr-progress-report/>

¹¹ Rutledge, Susan. 2010. Country Studies Provide Powerful Lessons in Financial Consumer Protection. The World Bank Knowledge Brief.

¹² UK Lending Standards Board, www.lendingstandardsboard.org.uk/

¹³ Where credit bureaus are not yet available, there have been examples of financial providers sharing this information with each other in other ways.

¹⁴ <http://www.smartcampaign.org/>

¹⁵ <http://www.equator-principles.com/principles.shtml>

¹⁶ <http://www.gabv.org/>

¹⁷ <http://www.sptf.info/>

¹⁸ CGAP. Financial Access 2010.

¹⁹ For example, UK's FSA maintains a database of advice given by financial advice firms. This database is capable of detecting if advisers suggestions are biased towards certain banks or products.

²⁰ Rutledge, Susan L., Annamalai, Nagavalli, Lester, Rodney, Symonds, Richard L. 2010. Good Practices for Consumer Protection and Financial Literacy in Europe and Central Asia: A Diagnostic Tool. World Bank.

²¹ www.mfw4a.org/

²² http://www.frankfurt-forum.org/htdocs/responsible_finance.html

²³ The Russian Federation is committed to providing \$15 million over four years to finance the effort.

²⁴ The Principles include that the "market for remittances should be transparent and have adequate consumer protection".

²⁵ <http://www.operationhope.org/smdev/pressrelease2.php?id=1249>

²⁶ http://www.cgap.org/p/site/c/regulation_center/

²⁷ A process that uses marketing principles and techniques to influence a target audience behavior that will benefit society, as well as the individual. http://www.mfw4a.org/fileadmin/data_storage/documents/other-internal-documents/Nancy_Lee_Open%20Session_english.pdf