



European
Commission



Methodology to monitor the implementation of the **'European Code of Good Conduct for Microcredit Provision'** by microcredit providers

Evaluator methodology

Version 1.0



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1. Introduction

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

The remainder of this document is organised into four sections:

- **Section 2 – About the Code and the evaluation process:** This section provides a brief overview of the Code, its development and role. The section also describes each step in the process and details what should be expected by the providers, the evaluators and other relevant parties in the course of the step.
 - **Section 3 – Before the evaluation:** Prior to starting the evaluation, the evaluators should familiarise themselves with the tools and other relevant documentation, and ensure that they have some important documents at hand. This section lists and describes the relevant tools and documents.
 - **Section 4 – During the evaluation:** Prior to evaluating compliance with the clauses, the evaluator must verify that the correct size category has been applied, that the justification of non-applicable clauses is appropriate and that the relevant documents have been supplied. This section provides guidelines for evaluators to do this. The section also provides guidelines for providers on how to evaluate compliance, including what constitutes compliance and weighting and global marking. Finally, the section provides tips and considerations on making the recommendation concerning the decision to award or not.
 - **Section 5: After the evaluation:** This section provides guidelines on writing and submitting comments and recommendations to the provider following the award decision. The section will also offer tips and considerations in recommending a course of action for providers that have failed to achieve the global marking.
- Reporting formats, letter and form templates, and other supporting documentation can be found in Appendixes A-G:
- **Appendix A – Glossary:** The glossary consists of two parts. One contains the definitions of the terms used in the evaluation. The other provides a more technical glossary (e.g. definition of related-party transactions etc).
 - **Appendix B – Sign-up form:** This form will be used by the providers wanting to sign up to the Code.
 - **Appendix C – JASMINE online form:** The data that providers should disclose as part of the Code will be submitted to the evaluators using this form.
 - **Appendix D – Evaluator report format:** At the end of the evaluation, the evaluator will provide recommendations concerning whether to award or not using this format.
 - **Appendix E – Award decision letter template:** A letter based on this template will be sent to the provider with the evaluator report informing it of whether it has surpassed the minimum global marking.
 - **Appendix F – Implementation order:** This table lists the clauses in a logical order in which they should be implemented and is intended to support providers in the implementation of the Code.
 - **Appendix G – Endorsement form:** This form will be used by partner organisations wanting to endorse the Code.



2. About the Code and the evaluation process

This section provides a brief overview of the Code, its development and role. The section also describes each step in the process and details what is expected by the providers, the evaluators and other relevant parties in the course of the step.

2.1. Background to the Code

On 13 November 2007, the Commission adopted a communication entitled '*A European initiative for the development of micro-credit*'. This communication identified four priority areas for action, the last two of which are being addressed by JASMINE, a joint initiative from the European Commission and the European Investment Bank group to support the development of non-bank microcredit providers/ micro-finance institutions in the European Union. The four priority areas were identified as the following:

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

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

It was against this backdrop that the European Commission organised a series of workshops with stakeholders in early 2010 to explore the development of a Code of Good Conduct for the sector. Subsequently following a competitive tendering process, the European

Commission selected Community Finance Solutions, a research centre at University of Salford, to draft the European Code of Good Conduct for Microcredit Provision, in close consultation with stakeholders and experts.

A key element of this consultation was the incorporation of the contributions of individuals and organisations with expertise in the field of microcredit in the EU. This was done through a series of six stakeholder workshops held in Brussels between October 2010 and April 2011. The workshops were attended by microcredit providers, trade associations, academic experts and regulators, and they played an important role in shaping the final document. In addition, six online stakeholder questionnaires were circulated requesting input and comments, two draft versions of the Code were circulated asking for comments and meetings were held with key trade associations.

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

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

The development of the Code was based on the recognition that in light of the disparate regulatory frameworks in which microcredit providers in the EU operate, there was a need for a unifying set of expectations and standards that was common to the sector for the benefit of the sector

itself as well as its funders, investors, customers, owners, regulators and partner organisations. The Code sets out good practice guidelines that will better enable the sector to face the challenges of accessing long-term finance, maintaining and raising the quality of services and moving towards sustainability. The purpose of the Code is not to introduce nor replace existing regulation of microcredit providers. Rather it is intended to detail a set of common standards in terms of the operation of and reporting by providers.

The Code is primarily designed to cover non-bank microcredit providers which provide loans of up to €25 000 to microentrepreneurs. However, it is recognised that several providers will also provide personal microcredit as well as business loans exceeding €25 000 to which it may be appropriate to apply the Code. Section 4.5 discusses this issue. Moreover, the microcredit sector in the EU is diverse in terms of size, institutional set-up and the markets in which they operate. Consequently, not all practices can be considered good practice or even possible for all microcredit providers. In some cases, regulation may already exist which covers certain domains and practices. The Code recognises this and, where applicable, it specifies the type of institutions not covered by the clause in question.

The Code is intended for microcredit provider managers, directors, customers, investors, funders, owners, regulators and partner organisations. It is designed to be a tool for microcredit provider board members, stakeholders and managers in improving the operation of the sector. For customers, it is a tool to ensure that they are treated in a fair and ethical way. For investors and funders it ensures that the sector operates with transparent and pan-EU reporting standards. For regulators it gives some reassurance that the sector operates according to sound business practices and principles, and that it is well governed.

2.2. Role and sequence of evaluation process

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

A who's who to the Code evaluation

Provider: The provider is short for the microcredit provider and applies to any organisation that expresses an interest in subscribing to the Code.

Evaluator: The evaluator is responsible for evaluating compliance with the Code of individual providers. The full Terms of Reference (TOR) are included in Appendix H⁽¹⁾. The evaluator only makes a recommendation and the steering group makes the final decision on award.

Steering group: The steering group is composed of industry experts as well as representatives from the Commission and the lead organisation of the evaluators. The purpose of the group is to decide on the award based on the recommendation of the evaluator. The group will also consider any appeals and complaints about the evaluation.

Designated contact: The designated contact is the European Commission's Regional Policy Directorate General and serves as the first point of contact for organisations wanting to sign up to the Code.

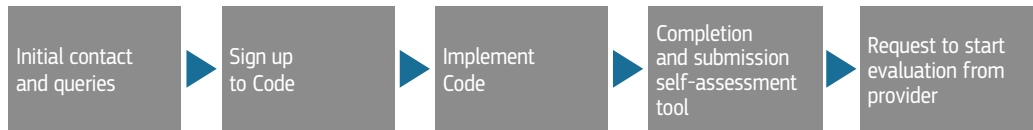
The entire process from sign-up to award and post-award support consists of three phases: a pre-evaluation phase, an evaluation phase, and a post-evaluation and post-award phase. This is illustrated in Figure 1. The boxes and arrows drawn with a stippled line indicate that these stages will not necessarily take place. The last two stages of the post-evaluation and post-award decision phase are only required where a provider fails to meet the minimum global marking to comply with the Code or where it wants to increase its level of compliance.

The very first stage of the process will be for a provider to make the initial contact with DG Regional Policy, the designated contact. If the provider is still interested in signing up after the initial discussion, the provider will submit a sign-up form signed by its Chief Executive and Chair of Board to DG Regional Policy (Appendix B).

¹ This may be incorporated by the Commission, once the TOR has been finalised.

Overview of sign-up, evaluation and post evaluation process

Pre-evaluation phase



Evaluation phase



Post-evaluation and post-award phase



Difference between endorsing and signing up to the Code

The Code is primarily intended for non-bank microcredit providers. By signing up to the Code, these providers commit to implementing the clauses in the Code. Banking institutions not covered by the Code have the option of officially endorsing the Code by signing the endorsement form (Appendix G). Organisations that sign the endorsement form commit to promoting the Code and will be listed as a supporter on the website of JASMINE online.

DG Regional Policy will notify the evaluator of the submission of the sign-up form. Then, the provider will assess current level of compliance by filling in the self-assessment tool. Based on the results of the self-assessment, the provider will have to plan and implement changes to comply with a number of clauses to reach the minimum global marking. There are a number of self-help tools and guidance to assist providers with this, which are incorporated into the provider guidelines.

Weighting, global mark and compliance

The clauses in the Code are weighted according to their importance. In order to comply with the Code, providers must comply with all of the priority clauses and 80% of the clauses that are applicable to the provider. This minimum threshold is referred to as the global marking. Further details on the weighting and the global marking can be found in Section 4.4.

The provider is given 18 months to implement the clauses once it has submitted the sign-up template. Where the provider requires further time to implement clauses, it can apply for an extension through DG Regional Policy. Once the provider is satisfied that it has made the necessary changes to comply with the Code, it will notify the evaluator by email that it is ready to start the evaluation. This email will be accompanied by a completed self-assessment form and supporting documentation. If the provider believes it

already complies with a sufficient number of clauses to reach the global minimum mark, then it may want to start the evaluation sooner than 18 months after the submission of the sign-up form.

The providers will submit documentation along with the request to start the evaluation. This will include justification for the clauses the provider believes should not apply to the organisation. Before verifying compliance, the evaluators will have to review the justification provided to ensure that a) the justification for non-applicable clauses is reasonable and that b) the evaluation focuses only on the applicable clauses. The next stage will be to check that the necessary documentation has been submitted. The evaluator may at this stage have to go back to the provider with further questions or comments. The evaluator will, at the end of this stage, inform the provider if any of the clauses claimed to be non-applicable by the provider are deemed applicable by the evaluator.

Finally, once it has been checked that the appropriate documentation has been submitted, the evaluator can start reviewing compliance with the relevant clauses using the self-assessment tool. At the end of the review of compliance, the evaluator will submit a recommendation concerning whether to give the award to the provider (see Appendix D for evaluator report format). The steering group will make a decision on the award based on the recommendation of the evaluator. The provider will be informed about the decision and given feedback from the evaluation process (e.g. implementation of remaining clauses etc) (see Appendix D for evaluator report format and Appendix E for award letter format).

Providers will be given support, advice and feedback concerning the steps it needs to take to increase its compliance. Unless the provider has been found to not comply with the Code to a sufficient degree, the process ends after this stage (at least until the next evaluation). Providers that fail to achieve the global marking will, provided they want to continue with the process, address a sufficient number of cases of non-compliance with clauses and submit evidence to document the changes made. This evidence may be reviewed by the evaluator in liaison with the steering group.

3. Before the evaluation

Prior to starting the evaluation of compliance of a provider, the evaluators should familiarise themselves with the tools and other relevant documentation, and ensure that they have some important documents at hand. This section lists and describes the relevant tools and documents.

3.1. Documents and tools to have at hand before starting

The evaluator will assess compliance using the self-assessment tool and therefore needs to be familiar with it. In addition, the evaluator should be familiar with and have the following documents and tools at hand when starting the evaluation:

- **The European Code of Good Conduct for Microcredit Provision:** The evaluators should have an electronic version or hardcopy of the Code at hand as this is the core document. It lists all the clauses, provides comments on compliance and evidencing compliance and has a useful glossary.
- **Glossary:** There is a glossary of terms used in the evaluation as well as more technical terms in Appendix A.
- **Provider guidelines:** Although primarily aimed at the providers, the evaluators may find the guidelines useful, perhaps particularly in formulating recommendations and providing advice on implementation for providers that fail to reach the global marking.

3.1.1. Self-assessment tool

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

The self-assessment tool consists of three sheets. The first sheet, entitled '*About provider*', contains information about the provider that is used to determine the size of the organisation and by the evaluator to contact the provider. The sheet contains the following fields:

- **Name of provider:** In this field, providers should fill in the full name of the legal entity that constitutes the provider.
- **Country:** Providers should indicate the country in which the provider is registered and operates. If a provider operates in more than one country, it should detail this separately, including countries in which it operates and legal arrangements (e.g. if regulated in all countries etc).
- **Institutional form:** This field is a drop-down menu that should be used by the provider to indicate the legal and institutional form of the organisation (e.g. cooperative, bank, non-bank provider, foundation etc). Where there is an exact definition of such an institution and its regulation, the provider should include such details in the field 'other comments'.
- **Short description of provider:** This field should be used to give a brief description of the provider. This may include the services it offers, its target groups, the sectors it covers (i.e. personal microcredit, business microcredit etc) and the age of the provider.
- **Website of provider:** The provider should fill in the website of the provider using this field.
- **Number of staff:** The provider should use this field to detail the number of staff members, full and part-time. This should include all staff, including those involved in non-microcredit activity, unless such activities have separate management and governance structures.
- **Number of staff (expressed as Full-Time Equivalent):** Here the providers should detail the number of staff as Full-Time Equivalent.
- **Number of active borrowers:** The providers should use this field to indicate the number of active borrowers. Active borrowers are defined as

individuals who currently have an outstanding loan balance with the microcredit provider or are primarily responsible for repaying any portion of the gross loan portfolio. Borrowers with multiple loans should be counted as a single borrower.

- **Size category:** The provider will be automatically assigned to a size category on the basis of the number of staff and number of active borrowers.
- **Date completed:** This field should be used to indicate when the self-assessment tool was completed.
- **Contact person:** The provider should nominate a person to be the main contact for the evaluation. This person would deal with any enquiries and queries from the evaluators.
- **Contact details:** The provider should use this field to provide contact details for the nominated contact. This should include both a telephone number and email address.
- **Languages spoken by contact person:** The provider should indicate which languages the nominated contact person speaks and indicate which language he or she would prefer to communicate in.
- **Other comments:** Here the provider can make any other comments pertinent to the evaluation.

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

- **Clause number:** This column lists the number of the clause (e.g. 1.1, 5.12 etc).
- **Priority:** This column indicates if the clause is a priority clause.
- **Large only:** This column indicates if the clause is for large providers only.
- **Clause:** This column lists the short description (as listed in the overview matrix in the Code) of the clauses.
- **Guiding questions:** This column lists a series of questions for each clause. These are intended to serve as guidance on what constitutes compliance. Where providers can answer yes to these questions, they are likely to be complying with the associated clauses.
- **Comments:** The column entitled 'Comments' provides, where appropriate, additional comments

to specify or clarify aspects of the clause, including examples of practice constituting compliance, exceptions and possible ways of evidencing compliance.

- **Suggested evidence of compliance:** This column suggests documents which may provide evidence of compliance. It must be stressed that the documentation of compliance is likely to vary from provider to provider. Thus the documents listed only constitute suggestions.
- **Compliance:** The provider should use this column to indicate if they are complying with the clause or not by selecting 'Complies' or 'Does not comply' from the drop-down menu.
- **Provider comments – compliance:** The provider should use this field to comment on how they comply with this clause and refer to supporting documentation.
- **Not applicable to institution:** This column contains a drop-down menu with the options 'applicable' and 'not applicable'. The default setting is 'applicable.' The provider will use this drop-down function to indicate clauses that are not applicable to the provider.
- **Reason why not applicable:** Where providers have indicated that a clause is not applicable, they should use this column to suggest reasons for why the clause in question is not applicable. It contains a drop-down menu with the options 'Contravenes national regulation,' 'Not material or relevant' and 'Other.'
- **Provider comment – applicability:** Where providers have indicated that a clause is not applicable, they should use this field to provide further comment and direct the evaluators to supplementary documentation. See Section 4.3 for guidance on evidence non-applicability.
- **Weighting:** This column details the weighting attached to the clauses.
- **Applicability (Evaluator):** Where providers have indicated that a clause is not applicable, the evaluators should verify or reject this by selecting 'Applicable (verified)' or 'Not applicable (verified)' from the drop down menu.
- **Evaluator comment applicability:** Where evaluators deem, contrary to the judgement of a provider, that a clause is indeed applicable, they

should comment on the reason for the decision using this column.

- **Compliance (Evaluator):** Where providers have indicated that they comply with the clause, the evaluators should verify or reject this by selecting 'Complies (verified)' or 'Does not comply (verified)' from the drop down menu.
- **Evaluator comment compliance:** Evaluators can use this column to comment on the compliance of the provider with the clause in question. This is particularly important in cases where evaluators deem – contrary to the judgement of a provider – that the provider does not comply with the clause.
- **Weighting (Evaluator):** This column will generate the weighting for the clauses that the evaluator has verified that the provider is complying with.

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

Both sections contain the following fields:

- **Total value of weighted clauses:** This field details the total value of weighted clauses that are applicable to the provider. The field is calculated automatically.
- **Total value of weighted clauses complied with:** This field calculates the weighted total of the clauses that the provider complies with. The field is calculated automatically.
- **Percentage of weighted clauses complied with:** This field calculates the percentage of the weighted total of the clauses that the provider complies with. The field is calculated automatically.
- **Global marking:** This field details the global marking that the provider needs to reach to comply with the clause. The field is fixed to 80%, which is the total marking agreed.
- **Compliance with the Code:** This field will indicate if the provider has surpassed the global marking and complied with all the priority clauses. The field is calculated automatically.

4. During the evaluation

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

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

4.1. Checking completeness of information

Once the provider has indicated that it is ready to start the evaluation and has submitted the self-assessment tool, the evaluator needs to ensure that the information is complete. First of all, the evaluator should examine the self-assessment tool ensuring that the provider has filled in the information required about the organisation. In the self-assessment tool, the provider will indicate which clauses they comply with and refer to documents submitted that evidence this compliance. As a second step, the evaluator should ensure that the provider has included references to the various supporting documents in the self-assessment tool both in relation to non-applicability and compliance. Prior to assessing compliance, the evaluator will need to check:

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

4.2. Verifying size of provider

In the Code, there are a number of clauses that only apply to large institutions. These are indicated by the symbol (▲), displayed after the clause. Large institutions are here defined as providers that have more than 7 000 active borrowers and more than 70 employees. In the further guidance to the clauses, references are also made to small and medium providers. Small providers refer to organisations with fewer than 4 000 customers and 35 employees, while medium providers have 4 000-7 000 customers and 35-70 employees.

The self-assessment template automatically assigns the provider to one of these categories based on the data it inputs on the first page. The evaluator needs to verify that the provider has inputted the correct data. Active borrowers are defined as individuals who currently have an outstanding loan balance with the microcredit provider or are primarily responsible for repaying any portion of the gross loan portfolio. Borrowers with multiple loans should be counted as a single borrower. The number inputted should match that provided to comply with Clause 4.4.1. The number of employees covers full and part-time employees.

4.3. Determining applicability

The number of clauses that a provider will have to comply with will depend on the number of clauses that are applicable to the institution. There are only three valid reasons for not applying a clause:

- There are 10 clauses that only apply to large providers. If the provider falls outside this category, the clause is not applicable.
- A provider may be precluded from implementing a clause because it contravenes the national regulatory or legal framework. Examples of such barriers would include legal restrictions on providers to their own lending (i.e. Germany) and the governance structures of

mutual and cooperative providers (preventing the implementation of some clauses in the governance section). National regulatory frameworks may also affect the extent to which clauses can be implemented. For example, the extent to which pricing can reflect risk may be curtailed by national restrictions on interest rates. Providers must refer to the specific laws and clauses within it that preclude the provider from implementing the clauses in question.

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

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

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

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

4.4. Overview of clauses, weighting and global marking

The Code consists of a total of 186 clauses covering customer and investor relations, governance, risk management, common reporting standards and Management Information Systems (MIS). There are three types of clauses: main clauses, sub-clauses and overhead clauses (Table 1).

There are 10 overhead clauses. These are not clauses in their own right, but contain a number of sub-clauses that require implementation. This means that there are 176 clauses that the providers can implement. Of these, 69 are sub-clauses and 107 are main clauses.

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

There are three levels of weighting: medium, high and priority. These are attached a weighting of 0.75, 1.00 and 1.25 respectively. Sub-clauses are classed as medium unless they are priority clauses, in which case they are classed as high. Main clauses are high unless they are priority clauses, in which case they are assigned to the priority weighting level. Overhead clauses are not assigned any weighting. The weighted total of all the clauses is 166. In order to comply with the Code, providers must comply

Table 1: Types of clauses

Main clauses	107
Sub-clauses	69
Overhead clauses	10
Total number of clauses	186

with all the priority clauses and 80 % of the weighted total of the clauses. This is referred to as the global marking.

The weighting is calculated automatically by the self-assessment tool. The weighting is calculated by multiplying each clause by the weighting attached. The weighted total of all the applicable clauses is calculated as follows:

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

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

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

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

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

4.5. Assessing compliance

The self-assessment tool details what constitutes compliance with each clause. The definition of compliance falls into a number of categories including: the existence and content of certain documents (e.g. business plan addressing certain aspects); the existence of processes and procedures to prevent or promote certain practices (e.g. assess repayment capacity to prevent overindebtedness); existence and documentation of rights for customers and investors (e.g. right of customer to early repayment enshrined in credit agreement); and the disclosure of certain information or practices (e.g. disclose mission).

There are also some cross-cutting issues concerning compliance that the evaluator needs to consider, namely:

- **National context:** It is important to consider the national context when assessing compliance. On the one hand, there may be different definitions of recognised good practice in different countries. Good practice refers to practice that is recommended by regulators, trade bodies or other relevant organisations. On the other, the systems and processes put in place by the provider will and should reflect the environment in which it operates. For example, providers in countries with limited infrastructure to support electronic payments may need to put greater emphasis on client visits as part of internal audit to verify that the loan officers collect the appropriate amount in repayments compared with providers in countries with highly developed financial infrastructure.
- **Type of institution:** Compliance will also depend on the type of institution the provider is. Larger providers operating with multiple offices or branches will require more formalised procedures, training and systems compared with small single-office providers.
- **Compliance for non-microcredit activities:** Many providers will deliver services or engage in activities not directly related to microcredit as per the definition of the European Commission (loans of up to €25 000 to microentrepreneurs), including larger loans, personal microcredit, housing loans and social enterprise loans. This raises the question of which part of the provider the clauses should apply to. This depends on the type of clause. For clauses directly relating to the provision of the loan (i.e. provision of info, right to early repayment, assessment repayment capacity etc), it is sufficient for the providers to prove that they apply these clauses to their microcredit portfolio, though they may choose to apply them to their other products as well. In terms of the clauses relating more broadly to the structure, management and governance of the provider, it is recognised that it may not be practical or desirable to have separate structures for the microcredit portfolio. As long as the board, management and processes enable the effective

Table 2: Weighting of clauses

Weighting level	Medium	High	Priority
Weighting	0.75	1.00	1.25
Clauses	Sub-clauses	Main clauses	Priority main clauses
		Priority sub-clauses	
Number clauses	53	110	13

management and governance of the microcredit activities (as per the Code), the providers do not need to have separate structures, management or board for these activities. The same applies to the external audit, MIS and risk management. For the clauses relating to disclosure, the provider must disclose portfolio-specific data for the microcredit portfolio only. In terms of the organisation-wide indicators relating to operational and financial costs and revenue, the provider may rely on data for the whole organisation, including non-microcredit activity, though where the microcredit activity is a minor part of the overall activity it is advisable to try and separate out the costs related to the provision of microcredit. In any case, the provider should specify where the indicators relate to microcredit only and where they concern the overall organisation.

4.6. Documenting compliance

When filling in the self-assessment tool, providers will indicate which clauses they comply with. The onus is on the providers to document that they are indeed complying with these clauses. The documents the provider will use to evidence compliance are likely to vary considerably. Larger and more mature providers are likely to have written and formalised procedures. They may also have a greater number of manuals and policy documents compared with smaller and younger providers. The latter may have more unwritten guidance and may have to produce documents specifically for the purposes of the evaluation.

Nevertheless, Table 3 suggests eight types of documents that may help providers to evidence compliance and evaluators to assess compliance. The self-assessment tool suggests a document type for each clause. There are also some other possible ways of assessing compliance. These are discussed below the table.

Table 3: Documentation of compliance

Business plan: The business plan may be used to document compliance with several clauses as it contains information on the mission, vision and business planning of the provider and as several clauses require a provider to have a business plan.

Credit or lending policy: The credit or lending policy may include guidance on underwriting for loan officers, write-off policy, collateral policy, debt collection procedures and related aspects. This document or group of documents may be used to evidence compliance with a wide range of clauses, especially in Chapter I and III of the Code.

Human resources and staff policy: This policy may cover a range of aspects relating to staffing including staff training, job descriptions and incentives, and may be used to document compliance with a wide range of clauses.

Governance policy or documents: This document or group of documents may include board and AGM minutes and papers, board rules and governance framework. They may be as evidence of compliance with a range of clauses in Chapter II of the Code.

Risk management policy or documents: These may include a risk register, the internal audit procedures, overall risk framework and descriptions of internal controls, and are particularly relevant for assessing compliance with clauses in Chapter III of the Code.

Customer and investor policy or documents: This policy may include credit agreements, marketing material, scripts for loan interviews and investor prospectus. A data protection policy may also be included here, though it is more likely to be found in documents on monitoring and reporting. The customer and investor documentation are especially relevant for evidencing compliance with clauses in Chapter I.

Monitoring and reporting policy or documents: This document or groups of documents may include loan and delinquency monitoring, descriptions of MIS and data protection procedures. They pertain particularly to the clauses in Chapter IV and V.

External audit and accounting documents: This group of documents relate to the accounting policy of the provider and may include external audit report and associated paper and descriptions of the accounting policy.

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

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

4.6.1. JASMINE online data verification

By signing up to the Code, providers commit to disclosing a number of social and financial performance indicators in JASMINE Online. It is part of the remit of the evaluators to verify this information prior to it being published. The data that the providers have to submit is detailed in the JASMINE Online data submission sheet in Appendix E. The data submitted has to relate to the most recent financial year.

The nature and extent of the verification will depend on the level of independent verification of the reliability of the data submitted. According to the methodology of the MicroBanking Bulletin, there are three types of data:

- **Independently generated:** The most reliable data is generated by an independent third party (i.e. a reputable rating agency) through a detailed financial analysis.

- **Backed by accompanying documentation:** The second most reliable form of data is supported by audited accounts, annual reports, independent programme evaluations or similar documentation produced or verified by a third party. This may include data reported to national regulators.
- **Self-completion:** The least reliable data is simply inputted by the provider without any form of independent verification.

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

- **Consistency with other data submitted:** The evaluator should check the extent to which the data provided is consistent with the other data and information submitted by the provider. For example, is the financial revenue stated consistent with the interest rate charged, the size of the portfolio and the loan loss provisioning rate? Similarly, when divided by the number of personnel, do the salary costs seem reasonable in light of the national mean income for such staff categories?
- **Consistency with comparable providers:** Where such data is available, the evaluator can compare the data for the provider with that of similar types of institutions or providers operating in the same geographical area or region. Indicators that form outliers to overall figures for the group of institutions should be queried with the provider. Such data may be found in the EMN Member Survey and MIX.
- **Ask to see raw data:** The evaluator may want to ask to see the raw data used to calculate or estimate the indicator in question.
- **Verified by board:** The provider may enhance the reliability of the data by getting the board to verify it.

5. After the evaluation

After the evaluator has assessed compliance of a provider with the Code, the findings need to be written up, and communicated to the steering group and the provider, and the provider needs to be given the opportunity to respond to and address the issues raised in the write-up. This section provides some guidance and information on how evaluators can do this.

5.1. Post-evaluation recommendations

The first step after having completed the evaluation is to write up the findings and make a recommendation concerning the award. There is an evaluator report format in Appendix D to assist providers in this. The report is submitted to the steering group, which makes the final decision concerning whether to award or not. It is also

sent to the provider together with the award decision letter. The report needs to present the findings and the recommendations in a clear and concise manner allowing the steering group to make a decision and enabling the provider to reach the global marking or improve the level of compliance.

5.2. Verifying post-evaluation amendments

After it has been informed about the award decision, the provider may decide to make a number of changes to improve its level of compliance or reach its global marking. If so, the provider will submit evidence of the changes for review by the evaluator, who will inform the steering group if the changes are sufficient to ensure compliance.

Appendixes

Glossary

Evaluation terminology

Global marking: The global marking refers to a minimum percentage of the weighted clauses the providers have to comply with, which is 80% of the weighted clauses.

Designated contact: The designated contact is the European Commission's Directorate General for Regional Policy and serves as the first point of contact for organisations wanting to sign up to the Code.

Endorsement template: This template will be used by partner organisations wanting to endorse the Code.

Evaluator: The evaluator is responsible for evaluating compliance with the Code of individual providers. The evaluator only makes a recommendation and the steering group makes the final decision on award.

Provider: Short for the microcredit provider and applies to any organisation that expresses an interest in subscribing to the Code.

Self-assessment tool: The self-assessment tool is intended to assist both providers and evaluators in assessing compliance by detailing what constitutes compliance and the weighting attached to individual clauses. The tool also enables providers and evaluators to calculate the proportion of clauses the provider complies with in relation to the global marking. Further information on the template can be found in Section 3.1.1 of the 'Evaluator Methodology' and Section 3 of the 'Provider guidelines.'

Sign-up form: This form is to be used by the providers wanting to sign up to the Code.

Steering group: The steering group is composed of industry experts as well as representatives from the Commission and the lead organisation of the evaluators. The purpose of the group is to decide on the award based on the recommendation of the evaluator. The group will

also consider any appeals and complaints about the evaluation.

Weighting: The clauses are weighted according to the importance of the clause. There are three levels of weighting: medium, high and priority.

Documentation of compliance

Business plan: The business plan may be used to document compliance with several clauses as it contains information on the mission, vision and business planning of the provider and as several clauses require a provider to have a business plan.

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Monitoring and reporting policy or documents: This document or groups of documents may include loan and delinquency monitoring, descriptions of MIS and data protection procedures. They pertain particularly to the clauses in Chapter IV and V.

Technical glossary

Annual General Meeting (AGM): Meeting of directors and shareholders of a company of incorporated firms. Often required by law, the AGM (sometimes called annual meeting) approves annual accounts, elects board members and deals with other matters.

Annual Percentage Rate: The annual rate that is charged for borrowing, expressed as a single percentage number that represents the actual yearly cost of funds over the term of a loan. Includes any fees or additional costs associated with the transaction.

Audit trail: Paper or electronic trail giving step-by-step documented history of a transaction. Enables tracing financial data from general ledger to source document (e.g. invoice, receipt etc). The general ledger is a repository of accounting information of an organisation in which summaries of all financial transactions during the accounting period are recorded.

Borrowing rate: Interest rate expressed as fixed or variable percentage applied on an annual basis to the amount of credit drawn down.

Business Development Services: Business Development Services (BDS) can be defined as ‘a broad range of non-financial services that boost competitiveness through higher productivity, better product design, improved service delivery and/or enhanced market access. The main categories of BDS are management training, vocational skills training, marketing assistance (for inputs and output), technology access, technical assistance, productivity and product design,

accounting and legal services and access to various sorts of information (about standards, regulations, ideas in the enterprise field)⁽¹⁾.

Business plan: A detailed document describing the past, present and future financial and operational objectives of a company or organisation. Serves as a road map that sets out the direction of the organisation within a set time period, usually 3–5 years. Guides an organisation’s policies and strategies and is underpinned by financial data.

Cash flow statement: Shows origin and usage of an organisation’s cash over time according to income-earning activities, investing activities (spending intended to generate future income) and financing activities (payments from or to investors, borrowers and funders).

Collateral: Traditional collateral tends to refer to property deeds, while non-traditional collateral tends to refer to personal guarantees, household assets and forced savings. Collateral substitutes refer to peer-guarantees.

Conflict of interest: Conflicts of interest include related-party (insider lending), the hiring of family members, expensive board trips of limited value to the organisation and the provision of services to the provider by a board member or staff member. ‘Related-party transaction...finds board members engaging in an activity that benefits one institution on whose board they serve to the detriment of another institution on whose board they also serve’⁽²⁾. ‘Related-party (‘insider’) loans — whether to members of an MFI’s management, governing body, or parties related to them — should be fully disclosed, including outstanding amounts, interest rates, collateral, and repayment status. Small loans generally available to all employees can be reported showing only the total amount, number, interest rate, and degree of late payment on such outstanding loans. Policies on both types of insider loans should be described precisely’⁽³⁾.

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

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

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

Credit risk: This is the risk to earnings or capital because of a customer's failure to meet the terms of the lending agreement. Principally this is the risk that borrowers will not repay their loan.

External audit: 'An *external audit* is a formal, independent review of an entity's financial statements, records, transactions, and operations, performed by professional accountants to lend credibility to financial statements and other management reports, ensure accountability for donor funds, or identify weaknesses in internal controls and systems. The scope of external audits can differ significantly according to the objectives of each audit'⁽⁴⁾.

Financial statement analysis: Process of identifying financial strengths and weaknesses of an organisation by establishing a relationship between items of a balance sheet and profit and loss account.

Forecasting: Planning tool using past and present data to produce projections for a given period in the future based on a number of assumptions. Given possible uncertainty associated with forecasting, it is common to assign a range of values to the uncertain factors, known as sensitivity analysis.

Loan delinquency: Delinquency in microcredit provision is another term for default. Loans tend to be considered as delinquent when two or more payments have been missed.

Portfolio at Risk (PAR): The value of outstanding loans that have one or more payments past due more than a given number of days. Often displayed as a ratio and divided into categories according to the number of days it is overdue.

Quorum: Minimal number of officers and members of a committee or organisation, usually a majority, who must be present for valid transaction of business.

Refinancing of loans This refers to the disbursement of loans to enable the borrower to repay prior loans they otherwise would have been unable to pay.

Rescheduled loans: The rescheduling of loans is the process of renegotiating or modifying 'the originally scheduled payments of principal'⁽⁵⁾.

Restricted funds: Grants, investments or donations that require funds to be used in a specific way or for a specific purpose according to the wishes of the funder, such as serving. The fund may be for delivering a set of services to a specific target group or it may be earmarked to cover certain costs (e.g. pay, equipment etc).

Risk matrix: A risk matrix or register identifies risks, determines the likelihood and the severity of the risks (e.g. low, moderate or high), and produces an aggregate risk profile combining the measures (likelihood and severity). A related tool is a risk management matrix, which incorporates the quality of existing risk management in terms of controlling the risk (e.g. strong, acceptable or weak).

Secured lending: Secured lending is when a loan is made in exchange of a pledge of an asset as collateral. If the loan is unpaid, the lender can repossess the collateral to recoup any losses.

Unrestricted funds: Grants, investments or donations that can be spent at the discretion of the recipient organisation.

Variance analysis: Process aimed at calculating the difference between actual and budgeted or targeted levels of costs or income and identifying causes for difference or variance.

Write-offs: According to the Microfinance Consensus Guidelines, loans that have been written off 'have been recognised for accounting purposes as uncollectible. The process of recognising an uncollectible loan is called a write-off... A write-off is an accounting procedure that removes the outstanding balance of the loan from the gross loan portfolio and from the loan-loss allowance. Thus the write-off does not affect the balance of the net loan portfolio, total assets, or any equity account, unless the loan-loss reserve was insufficient to cover the amount written off.'

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

⁵ Microfinance Consensus Guidelines.

Sign-up form



Organisation name:

Our organisation is committed to delivering a quality service to its customers.

To achieve this goal we adhere to the

European Code of Good Conduct for Microcredit Provision

We commit ourselves to put this Code in practice within 18 months, starting from the date of signature of this engagement form. To that purpose, we will ascertain the actual state of implementation of the clauses of the Code within our organisation by filling in the self-assessment form provided by the Commission, and update it on a regular basis (every 6 months) in light of the progress achieved in complying with the provisions of the Code.

We give our consent to the publication of our commitment on JASMINE Online.

We acknowledge that clauses may change in light of developments in recognised good practice.

Date

CEO:

Name*

Signature.....

Board Members:

Name*

Signature.....

(* BLOCK LETTERS)



JASMINE online – Code of Good Conduct fields

FIELD ID	FIELDS (INPUT AND CALCULATED FIELDS)	INPUT (I) VS. CALCULATED FIELD (C)	FORMULA (FIELDS)	FORMULA	CLAUSE NUMBER	TOOLTIP OR EXPLANATION NEXT TO THE FIELD	TYPE OF FIELD
I. CUSTOMER AND INVESTOR RELATIONS							
C1	Borrowing rate	I			1,1	Microcredit providers will disclose lending costs in their advertising. This will include borrowing rate, charges and an illustrative example.	Number
C2	Charges	I			1,1		Number
C3	Illustrative costs example	I			1,1		Number
C4	Costs as Annual Percentage Rate	I			1,2	Microcredit providers will disclose the cost as Annual Percentage Rate of Charge. This clause has been identified as a priority clause because disclosing the cost of borrowing is crucial to enable the customer to make informed financial decisions. The Annual Percentage Rate of Charge must be disclosed in a credit agreement and in any advertising. This refers to the annual value of all commitments, drawdowns, repayments and charges, including fees and taxes paid by the customer and known to the creditor.	Number
II. GOVERNANCE							
G1	Board members	I			2,11	All microcredit providers shall have a board. The majority of the board members will be independent.	Text (multiple names)
G2	Loan-Loss provisioning Information	I			3,11	Microcredit providers will disclose their loan-loss provisioning methodology to their funders and investors.	Text with document upload possibility
IV. COMMON REPORTING STANDARDS							
COMMON FINANCIAL REPORTING STANDARDS							
F1	Current loan portfolio	I		= Sum of all loans (input, i.e. not calculated field)	4.1.1	Refers to the outstanding value of all loans that do not have any instalment of principal past due excluding accrued interest. See <i>European Code of Good Conduct – Chapter 4: Reporting standards</i> .	Number
F2	Gross loan portfolio	C	F3+F4+F5	= Current Loan + Delinquent loan + restructured loans	4.1.2	Refers to the outstanding principal balance of all outstanding loans, including current, delinquent, and restructured loans, but not loans that have been written off or interest receivable. See <i>European Code of Good Conduct – Chapter 4: Reporting standards</i> .	Number
F3	Current Loan	I					Number
F4	Delinquent loan	I					Number
F5	Restructured loans	I					Number

FIELD ID	FIELDS (INPUT AND CALCULATED FIELDS)	INPUT (I) VS. CALCULATED FIELD (C)	FORMULA (FIELDS)	FORMULA	CLAUSE NUMBER	TOOLTIP OR EXPLANATION NEXT TO THE FIELD	TYPE OF FIELD
F6	Net loan portfolio	C	F2-F7	= Gross loan portfolio – impairment loss allowance	4.1.3	Net loan portfolio is calculating by subtracting the impairment loss allowance from gross loan portfolio less. <i>See European Code of Good Conduct – Chapter 4: Reporting standards.</i>	Number
F7	Impairment loss allowance	I					Number
F8	Active borrowers	I		input	4.1.4	Active borrowers refers to individuals who currently have outstanding loan balance with microcredit provider or are primarily responsible for repaying any portion of gross loan portfolio. Individuals with multiple loans with microcredit provider should be counted as a single borrower. <i>See European Code of Good Conduct – Chapter 4: Reporting standards.</i>	Number
F9	Financial revenue	C	F10+F11	= Financial revenue from loan portfolio + Financial revenue from loan investments	4.1.5		Number
F10	Financial revenue from loan portfolio	I				Financial revenue from loan portfolio refers to revenue from interest earned, fees, and commissions (including late fees and penalties) on the gross loan portfolio only. Includes interest paid in cash and interest accrued but not yet paid.	Number
F11	Financial revenue from investments	I				Financial revenue from investments refers to revenue from interest, dividends, or other payments generated by financial assets other than gross loan portfolio, such as interest-bearing deposits, certificates of deposit, and treasury obligations. Includes interest paid in cash and interest accrued but not yet paid.	Number
F12	Operating revenue	C	F9+F13	= Financial revenue + Revenue from 'other financial services'	4.1.6		Number
F13	Revenue from 'other financial services'	I				Fees and commissions for non-credit financial services not considered financial revenue. May include revenues linked with lending, such as membership fees, ATM card fees, transfer fees, or other financial services, such as payment services or insurance. It may include net foreign currency gains/losses.	Number
F14	Personnel expense	I		Input	4.1.7	Covers wages and salaries, other short-term employee benefits, post-employment benefit expense, termination benefit expense, share-based payment transactions, other long-term benefits and other employee benefits.	Number
F15	Administrative expense	I		Input	4.1.8	Covers non-financial expenses excluding personnel directly related to the provision of financial services or other services that form an integral part of an MFI's financial services relationship with customers.	Number
F16	Financial expense	I		Input	4.1.9	This includes all interest, fees, and commissions incurred on all liabilities, including deposit accounts of customers held by MFI, commercial and concessional borrowings, mortgages, and other liabilities. It may include facility fees for credit lines. Includes accrued and cash interest.	Number

Final evaluator methodology

FIELD ID	FIELDS (INPUT AND CALCULATED FIELDS)	INPUT (I) VS. CALCULATED FIELD (C)	FORMULA (FIELDS)	FORMULA	CLAUSE NUMBER	TOOLTIP OR EXPLANATION NEXT TO THE FIELD	TYPE OF FIELD
F17	Portfolio at Risk – PAR30	I		Input	4.1.10	This refers to the value of all loans outstanding that have one or more instalments of principal past due more than a certain number of days. Includes entire unpaid principal balance, both past-due and future instalments, but not accrued interest. It does not include loans that have been restructured or rescheduled. Providers should at least measure PAR 30 or 45 days. It is advisable that providers disclose PAR 30 as this is the internationally recognised measure.	Number
F18	Portfolio at Risk – PAR45	I		Input	4.1.10	This refers to the value of all loans outstanding that have one or more instalments of principal past due more than a certain number of days. Includes entire unpaid principal balance, both past-due and future instalments, but not accrued interest. It does not include loans that have been restructured or rescheduled. Providers should at least measure PAR 30 or 45 days. It is advisable that providers disclose PAR 30 as this is the internationally recognised measure.	Number
F19	Write-offs	I		Input	4.1.11	Value of loans recognised as uncollectible for accounting purposes. A write-off is an accounting procedure that removes the outstanding balance of the loan from the gross loan portfolio and impairment loss allowance, but does not affect the net loan portfolio, total assets, or any equity account. If impairment loss allowance insufficient to cover amount written off, excess amount will result in additional impairment losses on loans.	Number
F20	Impairment loss allowance and provision expense	I		Input	4.1.12	Impairment loss or loan loss allowance is the portion of the gross loan portfolio that has been provisioned for in anticipation of losses due to default.	Number
F21	Assets	I		Input	4.1.13	Sum of property, plant and equipment, investment property, goodwill, intangible assets other than goodwill, other financial assets, loans and receivables, Investment accounted for using equity method, biological assets, non-current assets classified as held for sale, inventories, current tax assets, deferred tax assets, trade and other receivables, and cash and cash equivalents.	Number
F22	Liabilities	I		Input field?	4.1.14	Sum of total trade and other payables, provisions for employee benefits, other provisions, deferred revenue, other financial liabilities, other non-financial liabilities, current tax liabilities, deferred tax liabilities and liabilities included in disposal groups classified as held for sale.	Number
F23	Operational sustainability ratio		F12/(F16 + F27 + F17 + F18)	Operating revenue/ (financial expense + loan loss provision expense + personnel expense + administrative expense)	4.1.15	This clause has been identified as a priority clause because it is a core indicator of performance of a microcredit provider. It measures the extent to which a provider is covering its costs through operating revenues. This is calculated using the following formula: Operating revenue/ (financial expense + loan loss provision expense + personnel expense + administrative expense).	Number
F24	Loan loss provision expense	I		Input	4.1.12		Number

FIELD ID	FIELDS (INPUT AND CALCULATED FIELDS)	INPUT (I) VS. CALCULATED FIELD (C)	FORMULA (FIELDS)	FORMULA	CLAUSE NUMBER	TOOLTIP OR EXPLANATION NEXT TO THE FIELD	TYPE OF FIELD
F25	Financial sustainability ratio		F12/(F16 + F24 + F14 + F15 + F34)	Operating revenue/ (Financial expense + Loan loss provision expense + personnel expense + administrative expense + subsidy adjustments)	4.1.16	The financial sustainability ratio measures how well a provider is covering its costs through operating revenues, taking into account subsidy adjustments. Subsidy adjustments are hypothetical revenues and expenses, which take into account subsidised cost of funds and in-kind subsidy which better allow for comparisons of performance between organisations. This is calculated using the following formula: Operating revenue/ (financial expense + loan loss provision expense + personnel expense + administrative expense + subsidy adjustments).	Number
F26	Subsidised cost-of-funds adjustments	C	F31-F32 (only adjusted if positive)		4.1.17	Subsidised cost-of-funds adjustment tries to account for the difference between MFI's financial expense and financial expense it would pay if all funding was priced at market rates. It is commonly done by multiplying MFI's average funding liabilities by some shadow price – market interest rate – then subtracting actual financial expense. The difference is the amount of adjustment and is treated as an expense.	Number
F27	Last year's borrowing	I		Input	4.2.2	Microcredit provider's borrowings from previous year.	
F28	This year's borrowing	I		Input		Microcredit provider's borrowings from this year.	
F29	Average borrowings	C	(F27+F28)/2				
F30	Market rate	I		Automatic (linked to country/region selected)		Shadow rate – to be explored in pilot/agreed with EIF/Commission.	Link to data
F31	Market rate cost of funds	C		F29*F30			
F32	Financial expense on borrowings	I		Input		Microcredit provider's stated financial expense on borrowings.	
F33	In-kind subsidy adjustment	I		To be explored in pilot		In-kind subsidy adjustment is the difference between what a MFI is actually paying for goods or service and what it would have to pay for the same good or service on the open market. These adjustments are hypothetical and are not included in the annual accounts of a provider.	Number
F34	Subsidy adjustments	C	F26+F33		4.1.17	Adjustments to sustainability ratios taking into account subsidies.	Number
COMMON SOCIAL REPORTING STANDARDS							
R1	Social mission				4.2.1	*This clause has been identified as a priority clause because disclosing the social mission is important to enhance transparency around a key aspect of the provider's business model.	Text
R2	Total number of loans disbursed this year	I		Input	4.2.2		
R3	Total value of loans disbursed this year	I		Input	4.2.2		
R4	Average disbursed loan size	C	R3/R2		4.2.2		Number
R5	Median loan size as % of gross national income	I		Input	4.2.3		Number
R6	Gross national income per capita	C		Automatic (linked to country/region selected)			Link

Final evaluator methodology

FIELD ID	FIELDS (INPUT AND CALCULATED FIELDS)	INPUT (I) VS CALCULATED FIELD (C)	FORMULA (FIELDS)	FORMULA	CLAUSE NUMBER	TOOLTIP OR EXPLANATION NEXT TO THE FIELD	TYPE OF FIELD
R7	Median loan size as % of gross national income	C	(R5/R6)*100				
R8	Total number of customers	C	F8				Number
R9	Total number of women customers	I			4.2.4		Number
R10	% women borrowers	C	(R10/R8)*100				
R11	Number of urban/rural customers		Input		4.2.5	Select urban rural.	Link
R12	% urban/rural customers	C	(R11/R8)*100		4.2.5		List box
R13	Poverty line	C		Automatic (linked to country/region selected)	4.2.6	Nationally/regionally defined income level below which households are considered poor.	Link
R14	Number of customers below poverty line	I		Input	4.2.6		
R15	% customers below poverty line	C	(R14/R8)*100		4.2.6		
R16	Number of customers graduating to mainstream finance			Input	4.2.7		Number
R17	% customers graduating to mainstream finance	C	(R16/R8)*100		4.2.7		Number
R18	Number of customers with ethnic minority background			Input	4.2.8		List box
R19	% customers with ethnic minority background	C	(R18/R8)*100		4.2.8		
R20	Number of loans for start-up businesses	I		Input	4.2.9		
R21	% loans for start-up businesses	C	(R20/R2)*100		4.2.9		Number
R22	Number of customers on welfare benefit			Input	4.2.10		
R23	% of customers on welfare benefit	C	(R23/R8)*100		4.2.1		Number
COMMON DISCLOSURE STANDARDS							
R24	Number of active borrowers	C	F8		4.4.1	Microcredit providers will, on annual basis, publicly disclose the following indicators. Clause 4.4.1: Number of active borrowers This refers to the number of individuals who currently have an outstanding loan balance with the provider or are primarily responsible for repaying any portion of the Gross Loan Portfolio. Individuals who have multiple loans with a provider should be counted as a single borrower.	Number
R25	Number of loans issued	I	qq		4.4.2		Number
R26	Total value of loans issued	I			4.4.2		Number

FIELD ID	FIELDS (INPUT AND CALCULATED FIELDS)	INPUT (I)/VS CALCULATED FIELD (C)	FORMULA (FIELDS)	FORMULA	CLAUSE NUMBER	TOOLTIP OR EXPLANATION NEXT TO THE FIELD	TYPE OF FIELD
R27	Number of outstanding loans	I			4.4.2		Number
R28	Total value of outstanding loans	I			4.4.2		Number
R29	Value of current portfolio	I			4.4.3		Number
R30	Value of gross portfolio	I			4.4.3		Number
R31	Value of net portfolio	I			4.4.3		Number
R32	Portfolio at Risk – PAR 30	C	F17		4.4.4	Providers will disclose PAR 30 or 45 days. It is advisable that providers disclose PAR 30, as this is the internationally recognised measure.	Number
R33	Portfolio at Risk – PAR 45	C	F18		4.4.4		
R34	Total value of assets and liabilities	C	F21		4.4.5		Number
R35	% of cost per loan subsidised				4.4.8		Number
R36	Total number of employees	I		Input	4.4.9		Number
R37	Total number of loan officers	I		Input	4.4.9		Number
R38	Total number of applicants	I		Input			
R39	Total number of complaints by applicants in current year	I		Input	4,5	All issues that an applicant, or active or past customer, reports through the formal complaint procedures should be recorded as a complaint.	Number
R40	Complaints as % of applicants	C	(R39/R38) *100		4,5		
R41	Total number of past customers	I		Input	4,5		
R42	Total number of complaints by past customers	I			4,5		Number
R43	Complaints as % of past customers	C	(R42/R41) *100		4,6		
R44	Total number of complaints by current customers	I		Input	4,6	All issues that an applicant, or active or past customer, reports through the formal complaint procedures should be recorded as a complaint.	Number
R45	Complaints as % of current customers	C	(R44/F8) *100		4,6		
	Complaints as % of applicants and past and current customers	C			4.6.2	This clause has been identified as a priority clause because the reporting and disclosure are important in instilling market discipline in enhancing customer care.	Number

Evaluator report format

About provider

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

Applicability

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

Compliance

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

Recommendation

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



Award letter format

Reference number.....

Date.....

Location.....

Dear...,

I am writing concerning the evaluation of compliance of PROVIDER with the *European Code of Good Conduct for Microcredit Provision* (henceforth, 'the Code').

I am delighted to inform you that on DATE the steering group formally recognised that PROVIDER complies with the Code. I attach the certificate of compliance. The certificate is valid until DATE, at which point PROVIDER will have to undergo another evaluation of compliance.

The decision by the steering group was based on the evaluator report on PROVIDER submitted by EVALUATOR on DATE (attached). The EVALUATOR found PROVIDER to be complying with all the priority clauses and X% of the clauses of the Code. This is above the global marking of 80%.

Summary of comments by evaluator (i.e. concerning applicability of/compliance with clauses, areas of improvement etc).

Summary of comments by steering group (i.e. areas of disagreement with evaluator, proposed next steps).

If you have any questions or comments, please do not hesitate to get in touch with me.

Many thanks and best wishes,

SIGNED CHAIR OF STEERING GROUP



Non award letter format

Reference number.....

Date.....

Location.....

Dear...,

I am writing concerning the evaluation of compliance of ORGANISATION NAME with the *European Code of Good Conduct for Microcredit Provision* (henceforth, 'the Code').

I am sorry to inform you that on DATE the steering group decided that it is not satisfied that ORGANISATION NAME complies with the Code.

The decision by the steering group was based on the evaluator report on ORGANISATION NAME submitted by EVALUATOR on DATE (attached). The EVALUATOR found ORGANISATION NAME to be complying with all/NUMBER of the priority clauses and X% of the clauses of the Code. To comply with the Code, the provider would have to comply with all the priority clauses and 80% of the clauses that are applicable to the provider.

Summary of comments by evaluator (i.e. concerning applicability of/compliance with clauses, areas of improvement etc).

Summary of comments by steering group (i.e. areas of disagreement with evaluator, proposed next steps, proposed timeline for implementation etc).

If you have any questions or comments, please do not hesitate to get in touch with me.

Many thanks and best wishes,

SIGNED CHAIR OF STEERING GROUP



Endorsement template

The *European Code of Good Conduct for Microcredit Provision* (henceforth, 'the Code') provides guidelines and standards in the provision of microcredit for non-bank microcredit providers. It was developed in close consultation with key stakeholders in the European microcredit sector.

We recognise the importance of the Code and endorse it as a tool to raise standards for the benefit of providers and customers. We value the principles developed as a means to establish good practice in organisations which have signed up to the Code.

By endorsing the Code, we commit to promoting the Code and recommending that non-bank microcredit providers sign up to it.

We acknowledge that clauses may change in light of developments in recognised good practice, subject to appropriate consultation.

We understand that we retain the right to withdraw our endorsement.

Signed by authorised staff or board member

Name*

Position*

(* BLOCK LETTERS)



European Commission

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