



**International  
Finance Corporation**  
World Bank Group

# IFC Access to Finance Advisory Loan Portfolio Monitoring and Workouts Program

## Best Practices in Collections For MFIs

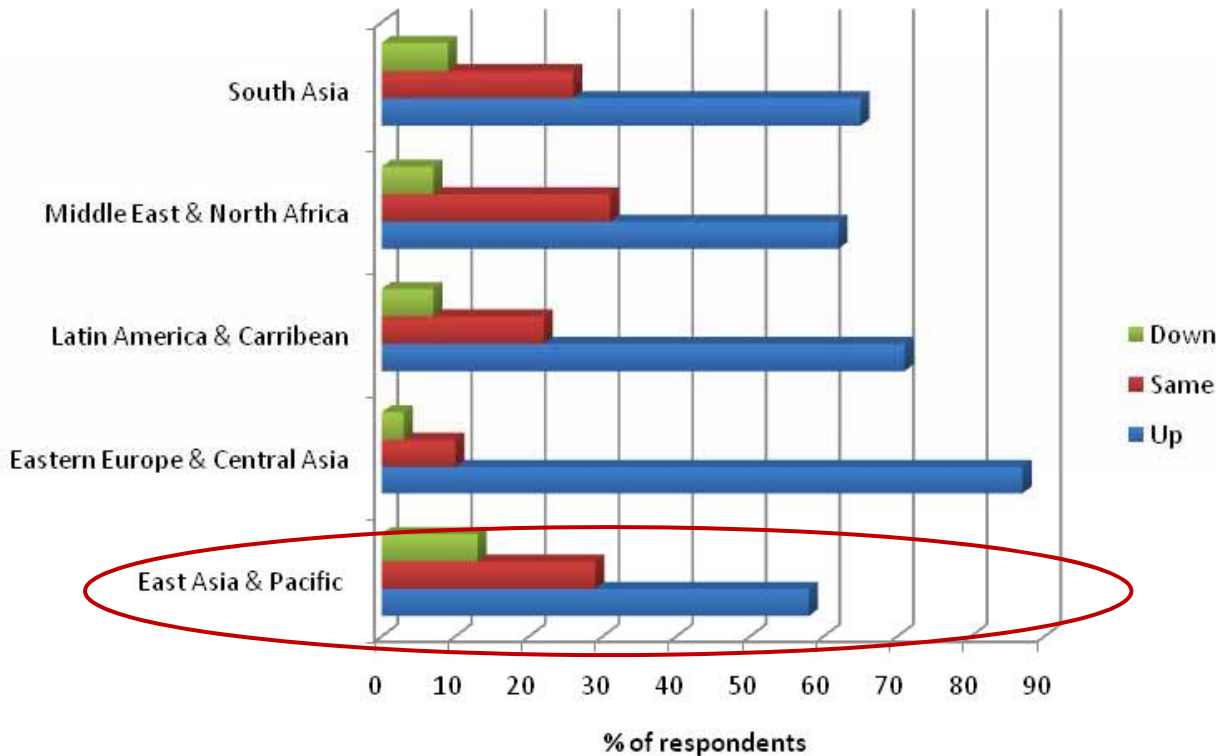
Cambodia's Microfinance amid the Global Financial Crisis  
Phnom Penh, Cambodia  
August 2009

# Agenda

- ❖ Some Observations
- ❖ Best Practices in MFI Collections

# PARs are Mostly Up in Today's Global Landscape

## Portfolio at Risk Last 6 months



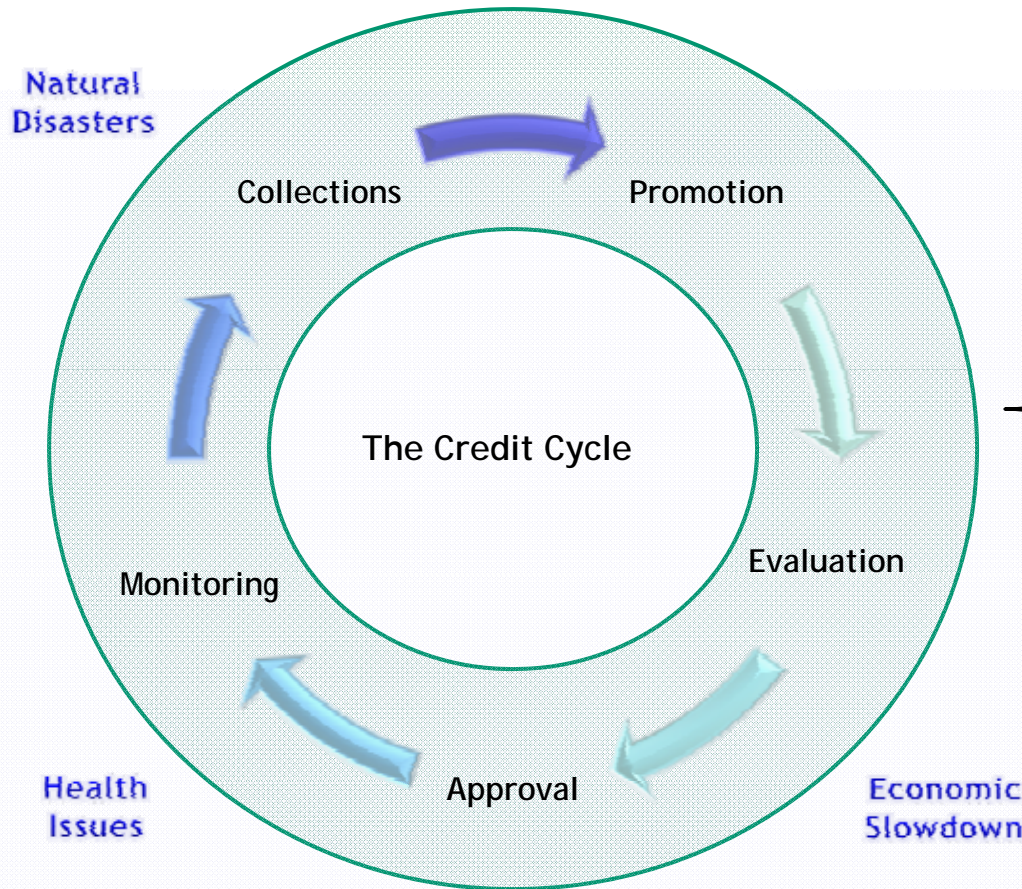
Although East Asia & Pacific region is hit by the crisis, relatively fewer MFIs report rising levels of portfolio at risk than in other regions

Source: March 2009 CGAP Survey of 400 MFI managers globally

## Delinquency management is a crucial issue for microloans due to:

- Most microloans have no or weak collateral
- Loan amortization is more frequent
- Loans become non-performing much quicker
- Motivation to repay based on continued access to MFI products and services
- Limited legal recourse
- Recovery cost/benefits limited by small loan size

# Defaults have their roots throughout the credit cycle and beyond....



High delinquency rates may also stem from:

- Lack of **collections** strategy
- Inadequate analysis & anticipation of the **problem**
- **Repayment not always tied to cashflow**
- Lack of **staff training**

# Guide to Best Practices in MFI Collections....

## Credit Policies

- Appropriate products
- Easy access to quality info
- Limit indebtedness
- Credit approval systems

## Monitoring

- Efficient / effective process
- Use of technology
- Use of appropriate indicators

## Collections

- Proactive strategies
- Information gathering & management
- Collections procedures & policies

## Customer Protection

- Transparency
- Codes of conduct
- Financial education
- Addressing complaints

# Credit Policies

Promotion



- Develop appropriate product

Evaluation



- Better evaluate clients & ability to repay
- Use Credit Bureaus & available info
- Ensure client is not over indebted

Approval



- Implement robust credit approval & risk management system

# Monitoring

- **Meaningful delinquency monitoring** is a **crucial diagnostic tool**
- **Use delinquency indicator dashboards & frequent data analysis**
- **No single delinquency indicator** works well for all MFIs: most MFIs should **use multiple indicators**
- **Renegotiated loans** should be **closely monitored & segmented** from other loans
- To the extent possible, MFIs should **disaggregate loan portfolio delinquency monitoring** by: **region, product, branch, loan officer,** and even by **client characteristics**

# Monitoring

## Delinquency Indicators

- On-time collection rates:

$$\frac{\text{amounts paid on time}}{\text{amounts falling first time due}}$$

- Cumulative collection rates:

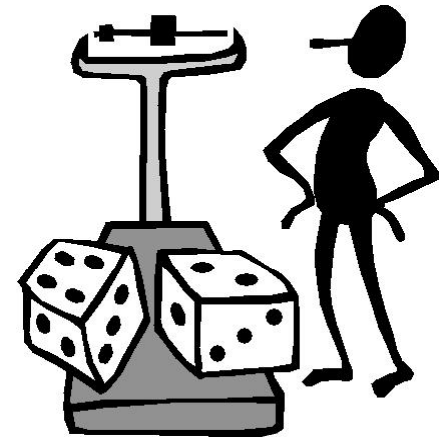
$$\frac{\text{all principal payments received}}{\text{all principal payments fallen due}}$$

- The sole use of arrear rates could understate risk:

$$\frac{\text{late payments}}{\text{total loans}}$$

- Portfolio at risk (PAR) using various vintages:

$$\frac{\text{outstanding balance of overdue loans}}{\text{total outstanding loan balances}}$$



*See an excellent and practical discussion on these indicators at: "Measuring Microcredit Delinquency: Ratios Can be Harmful to Your Health", Occasional Paper No.3, CGAP.*

# Collections

## Adopt Proactive Strategies



- Address the problem **before** there is a **problem**
- **Transparent policies** & good communication
  - Educate borrowers about product features & collection charges
  - Establish mutually agreeable payment dates
- Be **customer driven**
  - **Address** customer **complaints quickly**
  - Use positive reinforcement
- If **outsourcing**, ensure **ethical collections** practices

*Best practices adopted from Accion Insight, Number 26, November 2008*

# Collections

Improve  
Information  
Gathering & Mgmt.



- Establish efficient **information gathering & reporting** systems
  - Institute monitoring & reporting systems (MIS)
  - Ensure quality client information
  - Maintain history of actions & activities implemented
- **Process** information for **follow-up actions**
  - Consider a **collections committee**
  - Establish **systems to analyze** information
  - Use **specialized** collections **software**

*Best practices adopted from Accion Insight, Number 26,  
November 2008*

# Collections

## Develop Clear Procedures & Policies



- Define **appropriate procedures**
  - Hiring specialized collections agency vs. creating internal collections unit
- **Select & train** staff
  - Define clear roles & responsibilities
- Institute **staff incentives**
  - ID clear targets & parameters
- Establish **client contact policies**
  - Weigh cost/ benefits of methods
- Use **customer segmentation**
  - ID cause of delinquency & classify client based on attitude, capacity to pay, solvency, location, etc...
- Design **payment alternatives**
  - Go beyond refinancing & restructuring

*Best practices adopted from Accion Insight, Number 26, November 2008*

# Customer Protection

## At Industry / Country level:

- Establish 3rd party independent avenues to solve disputes
- Improve financial literacy & education

## At MFI level:

- Explain customer rights & responsibilities in simple form
- Simplify pricing
- Institute code of ethics for staff dealing with collections
- Define customer complaint process & service standards
- Train staff to prevent mistreatment of customers
- Establish an audit process to test compliance

# Customer Protection

## Good and Ethical Treatment of Customers can be a WIN-WIN

<p><b>Not Willing But Able</b></p> <p><u>Possibly a Healthy Customer</u></p> <ul style="list-style-type: none"><li>• Find out what is wrong. Did customer complain?</li><li>• <b>Good treatment solves</b> the complaint and <b>retains the customer</b></li></ul>	<p><b>Not Willing And Unable</b></p> <p><u>A Problem Customer</u></p> <ul style="list-style-type: none"><li>• <b>Good treatment resolves</b> the customer relation with the least possible friction</li></ul>
<p><b>Willing And Able</b></p> <p><u>A Healthy Customer</u></p> <ul style="list-style-type: none"><li>• Try to remind customer</li><li>• <b>Good treatment retains</b> the customer</li></ul>	<p><b>Willing But Unable</b></p> <p><u>Possibly a Healthy Customer</u></p> <ul style="list-style-type: none"><li>• Try to workout a solution</li><li>• <b>Good treatment increases</b> chances for recovery</li></ul>