

Accreditation Rules of DMI Deutsches Mikrofinanz Institut e.V.

Version 3.0

01/07/2013

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This document is a translation promoted by EMN aisbl as an exercise of Good Practices sharing among the EMN members, due to the interest aroused by the DMI model across Europe. From the original "Akkreditierungsordnung des DMI Deutsches Mikrofinanz Institut e.V. Fassung 3.0", approved by DMI on 01.07.2013

This translation is financed under the European Community program for Employment and Social Solidarity (2007-2013), which is managed by the Directorate-General for Employment, social affairs and equal opportunities of the European Commission. It was established to financially support the implementation of the objectives of the European Union in the employment and social affairs area, as set out in the Social Agenda, and thereby contribute to the achievement of the Lisbon Strategy goals in these fields.

The seven-year program targets all stakeholders who can help shape the development of appropriate and effective employment and social legislation and policies, across the EU-27, EFTA-EEA and EU candidate and pre-candidate countries. PROGRESS mission is to strengthen the EU contribution in support of Member States' commitments and efforts to create more and better jobs and to build a more cohesive society. To that effect, PROGRESS will be instrumental in:

- providing analysis and policy advice on PROGRESS policy areas;
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 - promoting policy transfer, learning and support among Member States on EU objectives and priorities; and relaying the views of the stakeholders and society at large
- For more information see: http://ec.europa.eu/employment_social/progress/index_en.html

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Annexes and integral parts of the Accreditation Rules:

- Annex 1 Code of Honour of DMI e.V.
- Annex 2 Quality Criteria for Microfinance Institutes (QfM)
- Annex 3 Accreditation Application
- Annex 4 Fee Schedule for Accreditations
- Annex 5 Standards for the Monitoring of Portfolio Risks of Microfinance Institutes
- Annex 6 Benchmarking of the Accredited Microfinance Institutes

Introduction - The cooperative model

The first principle

The first principle of the cooperative is based on the requirement that tasks of the credit business are not assumed by an organisation, but that several partners cooperate instead and that each partner takes on the part to which they can respectively contribute in the best and most efficient way. The model was derived from necessity due the nearly lacking possibility for banks to provide services for small loans efficiently. The loans involve great effort, are associated with high risk and stand alongside (relatively) low interest earnings.

Against this background, the founders and members of the DMI Deutsches Mikrofinanz Institut e.V. (DMI) [German Microfinance Institute inc. soc.] have developed the "Cooperative Model" for grants of microcredits.

Partners

The partners in the Cooperative Model are:

- The microfinance institutes (MFI) assuming all customer-related tasks. They advise the customers starting from the initial contact to credit approval and leading and also including intervention in the event of impairments in repayment and the complete redemption of the loan.
- Sponsors sharing in the costs of granting microcredits with the motivation to serve welfare or social commitments.
- The bank responsible for granting and managing credits.
- The guarantee fund that assumes the credit risks to essential part.
- The quality assurer who sees to it that the partners cooperate according to the agreed upon quality standards.

Quality assurance

A special role is attributed to quality assurance in the scope of the Cooperative Model: All partners have to rely on the other partners acting within the framework set by the agreed upon rules. The investors must be able to rely on the MFIs applying great care in their credit recommendations in such a way as if it were their own money. Each MFI must rely on the "Colleague MFIs" treating the customers in an unobjectionable manner in the market. The bank must rely on the fund for the assumption of its liability being available without impairments in the event of a credit default. All partners must rely on the quality assurer monitoring the partners impartially without considerations for persons and status, and that it will intervene in cases of impairments and adjust the rules if necessary. This enumeration is intended to list examples and can be expanded at option.

The DMI is currently the only quality assurer operating in Germany.

Elements of quality assurance

The elements of the DMI's quality assurance are:

1. the Code of Honour,
2. the Accreditation Rules,
3. the Quality Criteria for Microfinance Institutes (QfM),
4. the Risk Standards,
5. the Benchmarking,
6. Quality assurance measures

The contents and application of the elements are described in the following Accreditation Rules.

1 Object and effect

The Accreditation Rules are the rules of the accredited microfinance institutes (MFI). All MFI undertake to work in accordance with these rules. The recognition of the Accreditation Rules is the prerequisite for the accreditation.

These Accreditation Rules are effective as of 01/07/2013. From now on, all accreditations and extensions of accreditations will only be granted on the basis of these Accreditation Rules. They have been developed in the time between the summer of 2012 and the spring of 2013 and were confirmed by the Assembly of Accredited Institutions on 06/06/2013.

The following have formed the basis of this process:

- the accreditation procedure of the DMI that has been continuously developed further since 2004;
- the qualification requirements that have resulted from daily work and which have been collected by the MFI at various events;
- the requirements of GLS Bank;
- the requirements of the Microcredit Fund Germany;
- the requirements of the "European Code of Good Conduct for Microcredit Provision" of the European Commission.
- The evaluation reports of eleven MFI in the scope of the EU programme JASMINE (Joint Action to Support Microfinance Institutions in Europe).

As these Accreditation Rules concern a very fundamental revision, at least 5 pilot applications in the scope of audits for accreditation extension are to be conducted by the end of 2013. The insights of the pilot applications, insofar as required, will be integrated into a new version, which will then take effect at the end of the year.

In the implementation of the Accreditation Rules, the different sizes of the MFIs are considered for the required verifications and evaluations, in particular also with regard to the Quality Criteria for Microfinance Institutes (QfM). This means that the requirements for "large" MFI are stricter than the requirements for "small" MFI.

2 Objective

The objective of these Accreditation Rules is to ensure a problem-free and efficient cooperation among the MFI and with the other partners of the Cooperative Model.

3 Code of Honour

The Code of Honour is the guideline for all actions of the members of the Association. It is issued by the Members' Assembly. The MFI undertake to adhere to the Code of Honour. It is an annex and part of the Accreditation Rules in its respectively valid version.

4 Quality fields – Quality requirements for MFI

4.1 Customer relations

The aim of microfinance is the fight against social and financial exclusion. The MFI are aware of their special responsibility to the customers and will not take advantage of the customers' situation for their own benefit and simultaneous detriment of the customers. They will only conclude contracts with the customers where they have a clear view of the advantages and benefits for the customers.

In external relations, the MFI observe the following principles:

1. Truth and clarity
All information disseminated to the outside is true. The truth can be seen at the first glance.
All statements are clear. Interpretations are not required.
2. Comprehensibility
All statements are understandable to the target group. Any form of "hidden communication" is ruled out.
3. Completeness in terms of costs and additional services
All costs that are related to obtaining a loan are shown clearly to the outside. This also includes any additional services the customers are to or have to draw on in order to obtain credits.

The MFI ensures that the employed personnel is oriented on ethical principles. It is ruled out specifically that customers are excluded from access to the offered services on the basis of their origin, sex, a disability, their religion or sexual orientation.

The MFI has to introduce a complaints management and regular customer surveys. Information of the results will be provided upon request.

4.2 Investor relations

MFI treat the investors' funds carefully. In all their actions they keep an eye on the concerns of all investors at all times. The MFI render account for their activities in suitable form. They will inform the investors upon request. The kind and scope of the rendering of account is determined by the size of the MFI.

In particular, MFI do not recommend loans for which they would be accepting own losses from credit default in order to engage in parallel business relationships with the customer. If a violation of this rule is suspected, the disclosure of all additional business relationships that are entertained by an MFI with the customer may be requested after prior consultation with the Committee of Accredited Institutions. Also all business relationships are affected thereof,

- which are maintained by the customers with companies where the identities of owners and persons at the MFI coincide, if the coinciding identities concern more than 5% of the ownership structure;
- in which the MFI directly or a shareholder of the MFI holds a financial stake directly or through participations.
- The aforesigned rules apply to both the shareholder/s of the MFI as well as to their family members.

The MFI ensures that the disclosure is possible under the law, and in particular also in terms of data protection laws. If the MFI does not disclose the business relationships within 7 working days, the accreditation may be suspended immediately.

4.3 Management

The MFI undertakes to act providently as an enterprise. For this purpose it will prepare a business plan that includes the current business year and the next two business years. At a minimum the

business plan includes the presentation of the revenue situation, cash flow, liable capital as well as a description of products and target groups.

It will regularly review the business plan within the current year. The review and if necessary, the required adjustments will be documented. The business plan and the documentation of internal reviews are subjects of the extension audits. The documentation may however also be requested by the Association outside of the audits. The kind and scope of the business plan is determined by the size of the MFI.

In the scope of the accreditation application, the MFI describes its strategy in the business plan and respectively in the initial accreditation. Parts of this are in specific the target group, products, methods of credit decision and the number of planned credits in the subsequent years. Deviations outside of agreements from the original strategy as stated in the accreditation have in the past entailed considerable risks for the MFI. Against this background, the described strategy becomes an integral part of the accreditation. Changes to it must in all cases be coordinated in advance with the Association. The Association may object to the change if it cannot be clearly seen that the MFI backs up the new strategy with the needed resources, such as staff, equipment and know-how.

The MFI establishes a supervisory committee, which monitors the course of business at least four times a year. The kind and scope of the supervision is determined by the size of the MFI. The committee should be composed of at least three persons of whom at least one person is not a member of the management board and who is independent from the instructions given by the management and shareholders of the MFI. The independent person may be an employee of another MFI or the Association, whereas a reciprocal supervision is not possible.

The MFI ensures by suitable substitution rules that it will be able to act at all times even in the event individual persons are not available.

4.4 Risk management

The MFI has to establish a risk management system that includes at least the following elements:

1. monitoring of key risk figures (section 5)
2. Decision for credit recommendation: decision-making process, decision criteria (by products), decision-making powers, documentation of decisions, 4-eyes principle for decisions.
3. Portfolio risk: regular analysis of the risk at portfolio level, in particular the analysis of the sub-portfolio, e.g. by target group, industry, award period, product, person recommending, cooperation partners.... in comparison, making suitable decisions.
4. Analysis of permanently non-performing loans: analysis of causes related to commonalities, decision-making, intervention, collateral,...
5. Risk of fraud: monthly analysis of the granted credits as to irregularities that might indicate systematic fraud, such as identical purposes for payment, identical collateral, groups of guarantors, identical employers or same addresses. It is mandatory to document the monthly analysis and it must be signed by the management.
6. Cooperation partners: allocation of the newly disbursed and non-performing credits to cooperation partners and distribution channels.

The risk management system is documented in the Manual (4.9). The Manual describes the internal rules and processes of the MFI. The execution of the described processes has to be documented. The review of and compliance with the described processes is a subject of the audits. The review may however also be conducted by the Association outside of the audits. The kind and scope of the risk management is determined by the size of the MFI, meanwhile the above numbers 1-6 are the minimum requirements.

4.5 Reporting standards

Social investors and public authorities support the granting of microcredits. Transparency in the handling of the provided funds is an important factor to ensure that this support will continue to be given. The MFI therefore prepare an annual report that describes their work. The contents of the report are guided by the European standards described in the "Quality Criteria for Microfinance Institutes". In summary, these are the following:

1. Financial figures
2. Social effect
3. General information: number of credit grants, volume, key risk figures, credit default, number of complaints

The kind and scope of the report is determined by the size of the MFI.

4.6 Management information system

The MFI uses a management information system (MIS) that specifically supports the analyses and reports named in 4.3, 4.4 and 5. For this purpose the Association makes the Association's own software "Inthepro-DMI" available. The software can be adjusted to the requirements of each individual MFI. The kind and scope of the MIS has to be appropriate to the size and risks of the MFI.

4.7 Personnel

The MFI employs exclusively qualified personnel. The qualification is appropriate to the tasks and the responsibility of the job.

The MFI ensures that the employees are familiar in outlines with the objectives of micro-financing in Germany, the Cooperative Model, and its actors and thereby have the required specialist know-how for the respective task.

The microcredit managers who contribute to the preparation of the credit decision are required to additionally have well-founded know-how of microcredits with regard to credit decisions, monitoring, crisis intervention and risk management. Basic knowledge of the banking industry is preferred.

Managerial employees are required to have all knowledge, in addition to the qualifications of a microcredit manager, which is required for the management of an MFI.

The MFI sees to it that new employees will acquire the necessary knowledge within an appropriate time. This can be accomplished by internal or external qualification measures. The qualification and the respective qualification measures will in all cases be documented for each employee.

The Association issues the "Minimum requirements to the human resources of an MFI". These requirements include both qualitative as well as quantitative provisions.

4.8 Collaboration with cooperation partners

In the standardised volume business, the collaboration with cooperation partners is associated with great risk. In the past, most of the difficulties deemed serious within the microcredit system have been created through cooperation partners. In light of this, separate rules have been adopted in this regard, which have to be strictly observed and tightly monitored in the interest of all parties involved. Violations of the following rules will lead to the immediate suspension of the accreditation.

"Cooperation Partners" in the meaning of these Accreditation Rules are all persons and organisations with whom the MFI collaborates. The status is independent of the particular tasks the cooperation partner assumes and furthermore regardless of whether or not written agreements exist for this purpose. Deemed a collaboration is, for example: the acceptance of contact data, provision of application documents, provision of exclusive information, active (bilateral) cooperation for events or (bilateral) publication of the offer. In the case of doubt, the Association may define who is or is not a cooperation partner of an MFI.

The MFI is accountable for all actions of a cooperation partner in respect of the micro-financing as if these were its own actions. This applies in particular with regard to the customer relationship (4.1) and the code of conduct (6).

The MFI is aware of the special risks that exist because of the collaboration with cooperation partners. It takes suitable measures to counteract these risks.

The MFI adopts suitable rules that are appropriate for the size and extent of the collaboration with cooperation partners. The rules are documented in the Manual (4.9). The rules include at least the following points:

- Objective of the collaboration
- Selection criteria: positive characteristics and exclusion criteria;
- roles and responsibilities of the cooperation partner;
- financial agreements with the cooperation partner;
- familiarisation or training of the cooperation partner;
- information flow with the cooperation partner;
- Quality assurance
- Bases of contract

Several types of cooperation models can be described. The emphases on the individual points must be appropriate to the kind and extent of the collaboration.

The review of and compliance with the described rules is subject of the audits. The review may also be conducted outside of the audits.

4.9 Manual

The MFI ensures the quality of its services independent of persons. Serving as the basis for this is an internal manual that conforms to the kind and extent of the MFI's scope of business. The manual includes at least the description of the following points:

1. Products: description of the target group, the criteria of decision and the decision-making process.
2. Handling of non-performing credits: description of the monitoring, crisis intervention and enforced collection proceeding.
3. Risk management: (as described above).
4. Collaboration with cooperation partners (as described above).
5. Customer surveys and complaints management.

The manual must be structured in such a way that a person familiar with the subject-matter can obtain an overview of the MFI's processes within an appropriate time. The first manual must be submitted at the latest nine months following the initial accreditation. The adherence to the described processes will be reviewed in the scope of the extension audits. For this purpose the MFI documents the processes in suitable form.

5 Quality Criteria for Microfinance Institutes (QfM)

5.1 Quality characteristics

The requirements for quality posed to an MFI are described in the foregoing as an overview. They are operationalised and made commensurable by means of the "Quality Criteria for Microfinance Institutes (QfM). The QfM are developed jointly with the Committee of Accredited Institutions and interested members, and are issued by the management of the Association. They are an annex and part of the Accreditation Rules in their respectively valid version.

5.2 Quality measurement

The quality is measured in the evaluation as to how far the quality criteria are met at an MFI. The size of the MFI is taken into consideration in this process. For each quality criterion the following scores can be reached:

- Fully applicable 4 points
- Mostly applicable 3 points
- Conditionally applicable 2 points
- Not applicable 0 points

Furthermore, the quality criteria and quality areas are weighted. By this method a score achieved in each quality area is derived.

5.3 Grant of the accreditation

It is required for the accreditation that the achieved score equals at least 60% of the maximum score in all quality areas.

The sum of all point scores must reach at least 70% of the maximum value.

In addition there are "priority characteristics" that have to be scored with "mostly applicable". These are marked separately in the QfM.

5.4 Case of hardship in extension audits

If an MFI does not reach the required score in the scope of the extension audit, it may file an application and request that the accreditation remain valid. It has to be demonstrated practically and commensurably in the formless application, how the quality deficit will be made up in the shortest possible time. The application will be decided on shortly after consultation with the Committee of Accredited Institutes. In all cases, the retention will be conditional on that the quality deficit as described in the application be removed.

6 Accreditation procedure

6.1 Initial accreditation

A description of the individual accreditation steps is published on the homepage of the Association at www.mikrofinanz.net. Currently the following steps are provided:

- Step 1: Foundational event
- Step 2: Draft of a short form application
- Step 3: Introductory event
- Step 4: Final short form application
- Step 5: Strategy workshop
- Step 6: Formal accreditation procedure
- Step 7: Qualification of responsible actors

Basic prerequisites for the accreditation are:

1. Adequate specialist competence in the field of financing for small enterprises.
2. Adequate experience in advising the relevant target groups.
3. Willingness and capacity to provide credit management for the recommended borrowers.
4. Verification of the technical and organisational conditions for the proper implementation of the Cooperation Model; verification of corresponding training and qualifications.
5. Legal independence from the cooperating banks and the Association.
6. For the purpose of initial accreditation, the MFI introduces itself and its planned work in the scope of the accreditation application. The accreditation application in its respectively valid version is an annex and part of the Accreditation Rules.

The membership in the Association is obligatory for the accredited MFI. Withdrawal from the Association generally also leads to the expiration of the accreditation. The Association may in justified cases also accredit non-members or continue their accreditation. The provisions of the Accreditation Rules apply to all accredited institutes.

6.2 Extension audit

The extent and frequency of the extension audit depends on the respective size of the MFI.

Size class I:

up to	100 credits p.a.
Form:	review of documents in writing and by telephone
Interval:	every three years

Size class II:

up to	400 credits p.a.
Form:	review of documents, on-site audit
Interval:	every two years

Size class III:

more than	400 credits p.a.
Form:	review of documents, on-site audit
Interval:	every year

6.3 Audit for failure

Failures might arise in the course of cooperation that will lead to the suspension of the accreditation (section 11). Depending on the severity and the reason as well as duration of the suspension, the cancellation of the suspension may be made dependent on a complete audit being performed. Such an "audit for failure" may only be initiated after consultation of the Committee of Accredited Institutes.

6.4 Costs

The costs of the accreditation are coordinated within the bodies of the Association. They are summarised in the "Fee Schedule for Accreditation". It is an annex and part of the Accreditation Rules its respectively valid version.

7 Risk standards for monitoring portfolio risks

Every MFI builds a suitable system on its own that monitors the risks of the business operations (section 4.4). In addition the Association issues uniform risk standards that apply to all MFI for the purpose of monitoring the portfolio risks. These risk standards are binding values which serve as guidance for the investors.

The risk standards are documented in the "Standards for Monitoring the Portfolio Risks for Microfinance Institutes" (abbreviated "Risk Standards"). They are an annex and part of the Accreditation Rules in their respectively valid version.

The agreements with guarantee funds and investors are based on the risk standards. It is possible that individual investors provide for additional or narrower risk limits because for example, this may be methodologically sensible. The MFI is aware that the risk rates may also be changed unilaterally by the liable parties for the future. Which risk rates apply to what extent of liability is likewise defined in the Risk Standards.

The data required for the risk monitoring is collected and processed centrally at Inthepro-DMI. The kind and scope of the data supply is defined in the "Risk Standards". The MFI undertakes to enter all requested data into Inthepro or to keep the data stock up-to-date there and import data to it. The MFI ensures that the data transfer is possible under the law, and in particular also in terms of data protection laws. If the MFI is in delay with the supply of data for more than 2 working days, the accreditation will be suspended.

8 Ongoing quality assurance measures

Besides the accreditation and the monitoring of the Risk Standards, the Association conducts quality assurance measures that monitor the fulfilment of the QfM during the current year. The focus points are the quality areas 1 "Customer relations" and 8 "Cooperation partners".

The quality assurance actions are developed and implemented jointly with the Committee of Accredited Institutes. The most important actions are described in the following. There may be additional actions.

Customer surveys

Customer surveys may be conducted by telephone, via electronic channels or in writing. A random sample may be examined or a complete data acquisition may be performed. The MFI provides the requested contact data. The interview questions or the questionnaire will be made available to the MFI in advance. Provided the insights will not be diluted, the MFI may contribute to the question's wording.

Test purchases

Test purchases are generally initiated if there have been repeated complaints about an MFI. The MFI will not be informed in advance of the test purchases. It will only receive the information and results thereof in the follow-up.

Survey of investors and cooperation partners

This measure is generally only carried out after advance information was provided and consultation was held with the MFI.

By acknowledgement of the Accreditation Rules the MFI authorises the Association to conduct the aforestated quality assurance measures. It undertakes to provide all information required for conducting the measures.

The Association undertakes to limit the kind and scope of the information acquisition to a measure as required for the quality assurance. It furthermore undertakes to treat the received information and data as confidential and in particular not to disseminate it to third parties. The MFI ensures that the transfer of the customers' personal data is permissible under data protection laws. If the requested contact data is not delivered within 5 working days, the accreditation will be suspended.

Benchmarking

For the further joint expansion of the microfinance system, transparency and shared learning is essential. An important element in this process is regular benchmarking. The most important key data and key figures are composed for each MFI in the "Benchmarking Report".

The report is solely used for internal purposes for the MFI and the partners of the Cooperative Model. The MFI undertake not to disseminate the report to third parties.

The kind and scope of the benchmarking and the report is determined by the Committee of Accredited Institutes. The rules are documented in the "Benchmarking of Accredited Microfinance Institutes". The document in its respectively valid version is an annex and part of the Accreditation Rules.

9 Conduct of the microfinance institutes in relation to partners

All partners of the microfinance system are aware that the success of the sector can only be achieved with united efforts. External parties more or less attribute the misconduct of individuals to the totality of all partners. A differentiation can only be made to limited extent. Against this background the members and bodies of the DMI have developed rules of conduct that serve for ensuring a good cooperation and living in a strong community.

"Partners" in the meaning of these Accreditation Rules are:

- All accredited MFI.
- All banks and funds that use the accreditation of the Association as a quality assurance system for their work.
- All members of the Association.
- The Association itself.

Not only are the respective organisations deemed partners but also the individuals who are employees or members of the bodies of the partners.

The MFI are accountable for the conduct of their employees, their representatives and cooperation partners as if it were their own conduct.

9.1 General rules of conduct

The partners undertake to observe the following rules of conduct:

General conduct

All partners act in relation to the partners as they would like others to act in relation to them.

Code of honour

All partners orient their conduct on the Code of Honour of the Association.

Colleagueship and communication

The partners undertake to treat each other in a fair, collegial and respectful manner. They maintain open and appreciative communication among each other. In particular this also applies to emails distributed to a larger list of recipients and to contributions to the forums within the Association.

Competition

In the context of competition, the MFI undertake reciprocally to treat each other with care. The common rules of competition are observed.

Confidentiality

The partners undertake to maintain confidentiality in relation to third parties of all matters, processes, contracts and business relationships of other partners they have learned of.

Refraining from discrediting

The partners specifically refrain from discrediting other partners. If there is a reason to suspect misconduct by a partner, a partner will approach the other partner and request clarification. If this is not intended or if a clarification cannot be obtained, the partner will call upon the Committee of Accredited Institutes or the management to handle the alleged misconduct.

A violation of this rule may lead to the immediate suspension of the accreditation. In particularly serious cases, the accreditation may be revoked.

9.2 Liability for the conduct of third parties

Always only natural persons are capable of "conduct". The MFI however are normally legal entities. In the context of the Accreditation Rules the following applies:

1. The MFI is liable for the conduct of its representatives, committee members, employees and cooperation partners.
2. The MFI bears the consequences of and sanctions for the acts of the persons named in 1.

9.3 Arbitration proceeding

If a serious conflict arises between partners, the MFI undertakes in all cases to call upon the Committee of Accredited Institutes or the ombudsman of the Association and to cooperate earnestly in an arbitration proceeding prior to engaging a lawyer or involving a court. The confirmation that the cooperation in the arbitration proceeding was earnest can be given by the Chair of the Committee of Accredited Institutes or a member of the Association's management or the ombudsman.

A violation of this rule will lead to the immediate suspension of the accreditation which will normally stay in effect for the time until the proceeding is closed. Exceptions may be made in consultation with the Committee of Accredited Institutes. The rules according to section 11.1 are likewise applicable.

10 Suspension and revocation of the accreditation

10.1 Suspension for a violation of the Accreditation Rules

Warning

If an accredited MFI violates the Accreditation Rules, it will receive a warning. The MFI undertakes to take all necessary measures directly upon receiving the warning so to remove the causes that have led to the violation. The MFI informs the Association on weekly basis regarding the measures taken and the progress made.

Suspension of the accreditation

If the MFI violates the rules again despite warning or if the measures taken prove to be ineffectual, the accreditation may be suspended. This will be closely consulted with the Committee of Accredited Institutes. There must be a period in between the warning and the suspension to provide the opportunity for the MFI to remove the causes that have led to the violation.

Serious violations

In the event of serious violations, a suspension may be imposed without prior warning. Some of these violations are stated in the Accreditation Rules. There may be additional ones.

Cancellation of the suspension

When the causes that have led to the violation have been remedied, the MFI may file an application for the cancellation of the suspension. A formless application is filed for this. The MFI explains in the application how the violation arose, which measures have been taken and which actions are to ensure that no additional violations will occur again in the future. The application will be decided on by the management after consultation with the Committee of Accredited Institutes.

10.2 Suspension for exceeding the key risk figures

The accreditation will also be suspended if the key figures according to the Risk Standards (section 7) are not observed. For a cancellation of the suspension, the MFI has to submit an actions plan describing suitable measures for sustainably returning to comply with the risk quotas. The actions plan must be accepted by the Association as being suitable.

10.3 Revocation of the accreditation

If it has to be assumed that compliance with the provisions of the Accreditation Rules can no longer be maintained permanently, the accreditation may be revoked. Generally such has to be assumed if the suspension cannot be cancelled within 9 months.

The accreditation can also be revoked if particularly grave violations against the provisions of the Accreditation Rules have occurred.

11 Inthepro-DMI

In the scope of these Accreditation Rules several requirements are posed to the MFI. The work of the MFI, such as obtaining and providing information and the assessment of the key risk figures, etc. is supported by the internet-based software "Inthepro-DMI". The software includes the following types of applications:

Application for all MFI

The application for the MFI supports the processes of the MFI. The data stored there is the data of the MFI. Use is not mandatory but recommended. Inthepro offers interfaces to the MFI's own CRM systems. The supported processes are standard processes of an MFI as they are used in the majority of cases.

Custom MFI application

If requested the MFI can have its own individual processes be supported by Inthepro. For this purpose, an MFI-own Inthepro application is set up at "<https://nameMFI.inthepro.de>" and adjusted to the requirements of the MFI. The costs for it will be borne by the MFI.

Application of the Association

The application for the Association supports the Association's processes, in particular regarding the QfM and the monitoring of risk standards. The data stored there is the Association's data. The Association does not have a right to copy data from the MFI applications into its own application. All forms of data transfer must be triggered actively by the MFI. Insofar as intended by the MFI for simplification, the MFI will ensure that the relevant provisions of the data protection laws are observed.

12 Additional provisions

12.1 Cancellation of the confidentiality obligation

The employees and members of the Association's bodies as well as the cooperating banks and funds receive detailed information in the course of their work regarding the MFI, its processes and acting persons. The employees and members of the bodies are generally obligated for confidentiality.

By acknowledgement of the Accreditation Rules, the MFI will release the aforementioned group of persons as the proper fulfilment of the Association's responsibilities and those of the partners requires. In particular, the MFI agrees that the aforementioned group of persons may reciprocally engage in a detailed and complete exchange of all information.

12.2 Data protection and data transfer

In the scope of these Accreditation Rules the MFI is obligated at different junctures to pass on data to the Association. The Association uses these requests only occasionally and reduces its requests to the required minimum. It has a comprehensive data protection concept for the proper handling of data.

Insofar as the data passed on to the Association concerns data that can be attributed to individuals, the MFI will ensure that they have requested the person to provide their necessary consent in light of data protection.

12.3 Information obligation and disclosure

The MFI undertakes to provide all relevant information at request and disclose all documents that are suitable to verify the compliance with these Accreditation Rules. At request from the MFI the consent of the Committee of Accredited Institutes may be required for this purpose.

13 Complaint proceeding and arbitration board

If differences of opinion arise between the DMI and an accredited microfinance institute in the context of these Accreditation Rules, the MFI will have the opportunity to file complaint to the Supervisory Board within a period of 3 weeks. The complaint has to be addressed to one of the two MFI representatives delegated to the Supervisory Board by the Committee of Accredited Institutes. The Supervisory Board will decide within two weeks on the complaint.

The MFI can appeal the decision before the Association's arbitration board in the second instance. The provisions regarding the arbitration board and the arbitration proceeding will be determined in the second half year of 2013, at the latest however as soon as a complaint arises.

14 Adjustment of the Accreditation Rules

The microfinance sector is developing at rapid speed. This necessitates a regular adjustment of these Accreditation Rules. Required changes are discussed with the Committee of Accredited Institutes and the investors of the fund and the cooperating banks. They are generally communicated at least three months before taking effect.

Annex 1 - DMI Code of Honour

Adopted by the Members' Assembly on 16/09/2011

The mission of our Association:

We develop and secure the quality in responsible grants of microcredits.

Responsible grants of credit means to us:

- We treat the customers in such a manner as we ourselves want to be treated.
- **We approach our customers with respect and appreciation.** We take them seriously and also require the same from our customers. We do not equate "social" with inconsistency.
- **Our offers are solely oriented on the customers' needs.** Our additional offers are worth their price. We only make offers the customers can afford and that provide a benefit to them.
- **Our credits support the customer's development.** The situation of the customers is to be better after the grant of credit than before. We do not finance any "macro holes" with microcredits. We do not grant any credits that "prolong dying".
- **We consider the personal and financial capacity of the customers.** We support the customers in assessing their capacities realistically and to expand them.
- **We do not support any unethical projects with our credits.**

Against this background the DMI and the accredited micro-finance institutes (MFI) undertake to observe the following Code of Honour that is based on the "Code of Good Conduct" of the EMN European Microfinance Network and the World Bank.

1 Customers

We conduct ourselves in relation to our customers according to the following principles:

- **Avoidance of over indebtedness**
We only grant credits if according to all information available to us, the repayment appears to be secured and if there is no risk of over indebtedness. We proceed prudently in obtaining information. We ensure that other products and services (e.g. consulting services) that we offer are in an appropriate price-performance relationship.
- **Transparent and responsible pricing**
Our activity is transparent. Pricing, terms and conditions, conditions of financial products (including interest charge, fees, etc.) are transparent and published in a form the customers can understand. These terms are on the one hand financially feasible for the customers and on the other hand allow us to work sustainably.
- **Appropriate practices for funds received**
We only use collection procedures that are not based on threats or coercion. Our collection procedures weigh the necessity for settling non-performing credits against the social situation of the customer. We treat the social situation of the customers with responsibility.
- **Ethical conduct of the employees**
In the cooperation with customers we fulfil high ethical standards. As a provider of products and services we ensure appropriate protection measures for uncovering and correcting corruption and abusive treatment of customers.

- **Appropriate complaint processes**
We have quick processes capable of response for the processing of complaints and problems of our customers.
- **Protection of assets entrusted to us**
We protect the values entrusted to us by the customer. Among these are material objects, such as credit balances, letters of comfort or impersonal securities, likewise as immaterial objects such as contacts, know-how or references.
- **Protection of customer data**
Customer data is treated as confidential and only used for other purposes with the explicit consent of the customer.
- **General equality of the genders and non-discrimination**
We promote and protect with regard to employees and customers the equality of genders and non-discrimination. We treat all people equal, independent of their ethnic origin, their gender, religion, sexual identity, world view, a disability or their age.

The DMI applies its efforts so that accredited MFIs take the necessary measures for the observation of said principles. Insofar as an accredited MFI cannot observe one or several of these principle, it must state strong reasons for this.

2 Our activities

We do not offer any support, cooperation or service to organisations or persons who

- exercise activities professionally or privately that violate international treaties or conventions on working conditions or human rights, which includes in particular aspect of unfair wages, child labour, exploitation of women and sexual exploitation;
- exercise activities professionally or privately that intentionally destroy or damage the environment, e.g. illegal exploitation of natural resources, exhaustive exploitation on these resources, unnecessary or excessive environmental pollution;
- exercise activities professionally or privately that are illegal or constitute a violation of the prevalent social and cultural rules and disturb a just social order;
- exercise activities professionally or privately in which it must be assumed to all likelihood that they infringe on personal rights or human rights;
- exercise activities that violate national social, tax and labour laws and regulations;
- who fail to provide appropriate working conditions for their colleagues and employees.

3 Management and employees

- In employment of staff we emphasise national standards, values and laws. We remunerate our employees according to the locally applicable standards.
- We do not partake in unethical or uncontrollable transactions.
- We neither discredit persons nor services of others in our advertising campaigns. In our advertising campaigns we do not depict our activity and/or results in a one-sided or exaggerated way.
- In the management of our business we observe international standards and pursue complete transparency.
- We undertake to this Code of Honour being known to all of our employees and cooperation partners, and their employees. All employees are to sign this Code of Honour and undertake to observe it.
- Permissible sanctions may and are to be taken against employees who violate this Code of Honour according to the valid labour law and according to their employment contract.
- If we hire relatives, friends or partners, grant contracts to them or cooperate with them in any other way, we only do so when we have obtained the necessary approval from our supervisory committees. In award and hiring procedures we observe the common rules of commerce. Our decisions are transparent, meanwhile we protect business secrets.

4 Member of the Supervisory Board and the Committee of Accredited Institutes

- The members of the Supervisory Board and the Committee of Accredited Institutes may participate in the consortia/projects that are initiated, managed or headed by the Association itself or by the members of the Association. At the same time, they are not to hold a managing, administrative or supervisory role.
- The members of the Supervisory Board and the Committee of Accredited Institutes inform the other members of the body about their activities in such consortia/projects.

5 Miscellaneous

- The Association is introducing a process that offers the opportunity to everyone to file requests and complaints and to report possible violations of this Code of Honour.
- The Association is taking suitable measures to make this Code of Honour known to all parties and prospects involved.

Berlin, on 16/09/2011.

Annex 2 - Quality Criteria for Micro-Finance Institutes

Quality areas	Quality criteria
1. Customer relationship – MFIs undertake to	<ul style="list-style-type: none"> disclose in the advertising all costs that are directly or indirectly related to a microcredit; provide the customer with pre-contractual information; provide precise information regarding the credit in the annual information; take measures that ensure that the customers understand the terms of contract and its execution; check if the customer can afford and repay the credit; specify the indebtedness limit for borrowers in their loan principles; immediately inform borrowers about payments not made or made in insufficient amounts; regularly verify customer satisfaction; pursue a business policy that provides for the examination of complaints; set up mechanisms for the processing of complaints; ensure that the customers are informed of the right to complain; determine acceptable and unacceptable practices in the recovery of debt claims; pursue explicit principles regarding acceptable securities; provide for written data protection provisions applicable to customer data; inform customers on the use of the information and their rights regarding the revocation of a permission in this regard.
2. Investor relationship – MFIs undertake to	<ul style="list-style-type: none"> provide expedient information so that investors can make substantiated decisions; only acquire investors who are aware of the risks; take measures in the prevention of money laundering for the verification of the investor's identity; provide investors information regularly on the application of funds (in terms of content, in terms of risk); disclose the methods for creating reserves for credit defaults in relation to financiers and investors.

3. Business management – MFIs undertake to

	<p>prepare a business plan for a period from 3 to 5 years, which will be reviewed regularly;</p> <p>ensure that the business plan covers a minimum of business aspects, among them:</p>
	<ul style="list-style-type: none"> - Business mission, objectives and requirements - Customer and product composition, including testing and launching of new products and acquiring new customer groups - Sales model, including current and future need for staff, sales partners - Legal and institutional form, including proposed changes to the legal and institutional structure of the establishment - Detailed budget and forecasts, including income, expenses, value adjustments, cash flow and balance sheet - Capital equipment, including income and debt financing - Identification and spread of key risks
	<p>measure the financial and social viability, to publish and improve it;</p>
	<p>employ instruments for business steering and performance management;</p>
	<p>establish an administrative board or equivalent committee that consists of at least 3 persons and meets at least quarterly;</p>
	<p>make reports on the portfolio quality as well as the financial and revenue situation available to the committee;</p>
	<p>ensure that the personnel and/or the management do not hold any majorities in the committee;</p>
	<p>ensure that the members of the committee have the appropriate qualifications;</p>
	<p>disclose conflicts of interests on part of the committee members.</p>

4. Risk management – MFIs undertake to

	<p>have a process in place for the assessment, test and prioritisation of risks;</p>
	<p>appoint a person responsible for the risk management.</p>
	<p>consider risks in the development of credit products;</p>
	<p>limit credit risks starting from certain credit amounts or for certain kinds of credits by application at least of the four-eye principle in the credit approval;</p>
	<p>assess the overall risk in terms of concentrations of credit risks;</p>
	<p>measure and track the performance of the credit portfolio;</p>
	<p>regularly revise the reserve rates for credit defaults and methods for creating reserves;</p>
	<p>have explicit principles established for depreciations and to apply these consistently;</p>
	<p>have processes available in place for the refinancing of credits;</p>
	<p>have principles and procedures established for handling securities.</p>



5. Reporting standards – providers of microcredits undertake to	
	observe the general measuring and reporting methods:
	<ul style="list-style-type: none">- Current credit portfolio- Gross credit portfolio- Net credit portfolio- Active borrowers- Operating income- Operating expenses- Portfolio at risk- Depreciations- Risk precautions and expenditure for reserves- Assets- Debt- Operative sustainability ratio- Financial sustainability ratio- Adjustment of sustainability ratio in consideration of subsidies
The following has to be published:	
	<ul style="list-style-type: none">- Social mission- Average credit volume paid out- Median credit volume in % of the gross domestic product- Key figures relating to certain target groups, e.g.- % rate of female/male customers,- % rate of low-income customers,- % rate of newly founded companies equipped with capital,- % rate of customers belonging to ethnic minorities or indigenous population groups,- percentage rate of customers receiving welfare
to grant public access to the following information:	
	<ul style="list-style-type: none">- Number of active borrowers- Number and volume of granted and outstanding credits- Value of the current, the gross and the net portfolio- Portfolio at risk- Total value of assets and liabilities- Operative sustainability ratio- Financial sustainability ratio- Number of credit managers and (total number of) employees- Number of complaints from applicants, former and current customers- Percentage rate of complaints from applicants, former and current customers



6. Management information systems (MIS) – MFIs have MIS that

create the most important activity and financial reports; among these are: - Profit and loss statement - Balance sheet - Daily reports, key figures and trends in credits and defaults
work according to the generally accepted accounting principles;
can monitor and steer quality and functions of the credit portfolio;
administer and update customer information;
enable the management level, the employees working in the department of credit approvals and the administrative board (committee) members, the cooperation partners to access the relevant data quickly;
are able to support and integrate new products, multiple branch offices, services and sales channels;
have capacity for the planned growth;
limit the access to the data recorded in the MIS;
work with different levels of user access rights and have security mechanisms for the avoidance of unauthorised or accidental change of data;
can generate logs for important business processes.

7. Personnel – MFIs undertake to

conduct employee interviews at regular intervals;
train employees regarding the protection of personal and financial information of the customer;
have a formal training and introduction program;
ensure that employee incentives are not only tied to the approval of credits;
offer employees training and/or manuals;
ensure that the employees are familiar in outlines with the objectives of micro-financing in Germany, the Cooperative Model, and its actors and thereby have the required specialist know-how for the respective tasks;
ensure that microcredit managers who contribute to the preparation of the credit decision have well-founded know-how of microcredits with regard to credit decisions, monitoring, crisis intervention and risk management.
ensure that managerial employees have all knowledge, in addition to the qualifications of a microcredit manager, which is required for the management of an MFI.
ensure that new employees will acquire the necessary knowledge within an appropriate time. This can be accomplished by internal or external qualification measures. The qualification and the respective qualification measures will in all cases be documented for each employee.
And they furthermore undertake to ensure that the "Minimum requirements to the human resources of an MFI" according to the Accreditation Rules are observed in qualitative as well as in quantitative respects.

8. Collaboration with cooperation partners – MIFs undertake to

have suitable rules for the collaboration with cooperation partners in place which are defined in writing;
agree on the aim of the collaboration in writing;
monitor the selection criteria (positive characteristics / exclusion criteria) on continuous basis;
define financial agreements with cooperation partners in writing;
document the familiarisation and/or continuous training of the cooperation partners;
integrate the cooperation partners appropriately in the MIS;
involve the cooperation partners in the quality assurance.

9. Manual – MFIs undertake to

introduce a manual that in terms of its kind and scope is appropriate for the size of the MIF;
describe the offered products (target groups, decision criteria, decision-making processes);
describe the handling with impaired credits (description of the monitoring, crisis intervention and enforced collection procedure);
describe the risk management (see 4);
describe the collaboration with the cooperation partner (see 8)

Annex 3 - Accreditation Application

<p>01.</p> <p>Information on the legal carrier (in case of new foundation, regarding the initiators of the carrier): Company / legal form / foundation date / legal representatives</p> <ul style="list-style-type: none"> • Responsible persons of the organisation (incl. legitimation, police record, credit check self-declaration, CV) • Staff structure / qualifications • Responsible person for the microfinance business segment and the credit managers intended at the start (incl. legitimation and CV) • Additional staff intended at the start including specification of the function (as applies, including legitimation) • Contractual commitment of the staff to the accrediting organisation 	
<p>Please enter your answers into this field and attach to the accreditation application a current register excerpt as well as copies of the national ID cards of the undersigned (legitimation check). Thank you.</p>	
<p>02.</p> <p>Information on public sponsorship from municipalities, federal state and/or national government</p> <ul style="list-style-type: none"> • Sponsor, amount of subsidy, term, measures sponsorship or institutional sponsorship, subsidies for certain target groups • Presentation for the previous year and the current year 	
<p>Please enter your responses into this field. Thank you.</p>	
<p>03.</p> <p>The business development of the current year and the past two years as well as the future planning</p> <ul style="list-style-type: none"> • Turnover in the respective business fields • Annual financial statements of the past two years • Plan calculations for the period of the planned credit terms, i.e. up to 3 years • Provision of securities for covering the first loss liability 	
<p>Please enter your answers into this field and attach the relevant documents to the accreditation application. Thank you.</p>	
<p>04.</p> <p>Documentation of the present work</p> <ul style="list-style-type: none"> • Monthly reports • Self-evaluation 	
<p>Please attach additional documents to the accreditation application as applies. Thank you.</p>	
<p>05.</p> <p>Description of the quality management</p> <ul style="list-style-type: none"> • Employed instruments (ISO, BQZ, DGF, EFQM, LQW, others) • Results/Experience 	
<p>Please attach additional documents to the accreditation application as applies. Thank you.</p>	

06.	<p>Description of networking How exactly can your present work be used for building up the business field of micro-financing? What are your objectives?</p> <ul style="list-style-type: none"> • Active partnerships • Strategic partnerships • Relations to chambers, associations, banks • Other collaborations
<p>Please enter your responses into this field. Thank you.</p>	
07.	<p>Target groups in the business field of microfinance; statistical data; how are these target groups to be reached?</p>
<p>Please enter your responses into this field. Thank you.</p>	
08.	<p>Products in the business field of micro-financing: Which products cover the needs of the target group(s)? What are these products like exactly?</p>
<p>Please attach additional documents to the accreditation application as applies. Thank you.</p>	
09.	<p>Presentation of the present experience in the field of micro-financing as well as planning</p> <ul style="list-style-type: none"> • Present volume (number, in EUR) provided your organisation has already been active in the microfinance sector • Planned volume in the next three years (number of credits per quarter, average credit volume per quarter) • in reference to the target groups named in 7 • in reference to the products named in 8 • Describe the extent of default you expect (number of cases, volume respectively at the end of a year) • What is the development of your risk quotas 1 to 3 assumed by you (number, volume respectively at the end of the quarter)
<p>Please attach additional documents to the accreditation application as applies. Thank you.</p>	
10.	<p>Regarding the work method in the microfinance sector: What are the credit approval methods that are tied to the respective products?</p> <ul style="list-style-type: none"> • Credit recommendation (from individuals, approval board, internal and/or external persons or organisations, etc.) • Credit managers (profile, competence) • Existing or planned processes/procedures • Credit products (relating to point 8) (Stepped loans, start-up financing, floating capital, etc.) • Security models • Additional methods for limiting default risks
<p>Please enter your responses into this field. Thank you.</p>	

11.	Description of monitoring and coaching (crisis intervention), i.e. how are impairments in the repayment of credits and the credit defaults intended to be minimised? <ul style="list-style-type: none"> • Description of the contents/methods • Description of the planned processes
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Please enter your responses into this field. Thank you.

12.	Prior to the start of your work you will be prepared for the future work as microfinance provider through participation in the two DMI training events. Aided by which suitable qualification measures and participation in additional DMI training modules will you be able to maintain your quality or improve further? Where do you need more support before starting business operations? <ul style="list-style-type: none"> • Description of contents • Naming the modules • Description of the specific need for support
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Please enter your responses into this field. Thank you.

This accreditation application is based on the methods developed by the DMI and the microfinance structures in Germany, as well as the quality standards set forth and updated therein. You can find more information on this topic at www.mikrofinanz.net.

In the event of accreditation through the DMI, the microfinance provider undertakes to maintain the achieved quality standard and advance the standards developed by the DMI for this purpose. The achieved status has to be reported to the DMI annually in the scope of a benchmarking.

An accreditation is generally granted for the period of two years. It expires if the DMI is not presented any reports according to paragraph 2 or if a quality audit by the DMI discovers gross violations of the defined quality standards.

For the fulfilment and advance development of the quality standards, the DMI offers training and qualification measures on an ongoing basis and at separate cost.

The DMI cooperates with GLS Bank. After the accreditation a cooperation agreement on the granting of microcredits can be concluded with GLS Bank.

In the event of accreditation the applicant undertakes at the present time already not to make any credit recommendation for the financing of companies where the companies' business operations discriminates against people or causes serious damage to the environment.

The documents submitted along with this accreditation application are forwarded to GLS Bank for the conclusion of a cooperation agreement and serve there as applies as a basis for decision. GLS Bank may request additional documents for the decision-making process.

Place, date
.....
Applicant

Annex 4 - Accreditation Fee Schedule

The following fees are charged for the accreditation

Initial accreditation

The following fees are charged for the initial accreditation:

Step	Price for members
Foundational event	€70 per person
Introductory event	€9; the costs are currently assumed by GLS Bank
Strategy workshop	€800 plus travel expenses
Formal accreditation procedure	€1,500
Accreditation training	€2,700 for 3 persons; €600 for each additional person

The process can be terminated unilaterally by the applicant. The fees will only need to be paid for the services started until then.

Extension audit

For the extension audit the following fees are charged according to the table below:

	Regular price	Price for members
Size class 1	€1,200	€800
Size class 2	€1,800	€1,200
Size class 3	€1,800	€1,200

All aforementioned fees are understood in addition to the statutory value added tax.

The fees have to be paid in advance.

Travel expenses are calculated by cost and are oriented on the tax limits.

Audit for impairment

Insofar as an audit for impairment becomes necessary, the fees will be calculated by actual cost. The cost rate amounts €100/hour

Berlin, on 05/06/2013.

Annex 5 - Standards for the Monitoring of Portfolio Risks of Micro-Finance Institutes

The following key risk figures and limits apply:

Key figure	Calculation	Analysis limit	Intervention-limit
Risk quota 1	Current total balance of the loans with at least one performance impairment (payment delays of more than 15 days) relative to the current total balance of all loans	10% in 2 consecutive months or 3 times in 6 months	15%
Risk quota 2	Current total balance of the credits with at least one contract change (repayment suspension, repayment reduction) relative to the current total balance of all credits	---	25%
Risk quota 3	Current total balance of the credits with at least one performance impairment (payment delays of more than 15 days) or contract change. The respective loans remain in this risk quota until the complete repayment	25%	---
Default quota	Credits of the past 12 months deleted from accounts relative to the average loan balances of the last 12 months	7%	10%
Risk of increase, short term	Increase of the total debt obligation compared to the previous month	10%	20%
Risk of increase, long term	Increase of the total debt obligation compared to the same month year-to-date.	100%	200%

Analysis limits

If an analysis limit is exceeded, the MFI is obligated to analyse the created risk and take suitable measures to mitigate the risk. The measures to be taken have to refer both to individual credits as well as to the entire portfolio. The measures have to be documented in an action plan. The action plan has to be prepared and submitted without request.

Intervention limits

If an intervention limit is exceeded, the accreditation will be initially suspended. The suspension will be cancelled when an MFI is again below the intervention limit or when the MFI presents an action plan that shows how the top limits will be observed again.

Berlin, on 01/07/2013.

Markus Weidner
Managing Director
DMI Deutsches Mikrofianzinstitut e.V.

Annex 6 - Benchmarking of the accredited microfinance institutes

In the scope of the benchmarking of the accredited microfinance institutes the following information is reported:

1. Key risk figures according to the Risk Standards
2. Number and amount of the granted credits in sum and course of time
3. Number and amount of the granted credits in sum and course of time, broken down by
 - a. Gender
 - b. Migration background
 - c. Receipt of welfare services according to SGB [German Social Security Code] II and III
 - d. Employment status at application

The MFI is obligated to enter the relevant information into Inthepro for the previous month by the 20th day of the following month or to transfer the data in anonym form to the Association via Inthepro.

Berlin, on 01/07/2013.