CODE OF CONDUCT ASSESSMENT FOR THE MICROFINANCE SECTOR

A Macro and Micro View of MFIs' Compliance to the Code of Conduct

SUBMITTED TO:

SIDBI

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This report presents a macro and micro view of Microfinance Institutions' compliance with the Code of Conduct and Fair Practices Code prescribed by the Microfinance Institutions Network, Sa-Dhan and the Reserve Bank of India. The report consolidates the ndings of wide-ranging Code of Conduct Assessment studies that were conducted with fty Indian MFIs by ve rating and evaluation companies.

BY:

MicroSave

Market-led solutions for financial services

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ACRONYMS

AP	Andhra Pradesh
ADDO	Approval, Documentation, Dissemination and Observance
BoP	Bottom of the Pyramid
BC	Business Correspondent
CoC	Code of Conduct
COCA	Code of Conduct Assessment
CGT	Continuous Group Training
CCs	Cluster Coordinator
GRT	Group Recognition Test
IFC	International Finance Corporation
KYC	Know Your Customer
MFIN	Microfinance Institutions Network
MFIs	Microfinance Institutions
MIS	Management Information System
MD	Managing Director
NBFC	Non-Banking Finance Company
PFRDA	Pension Fund Regulatory Development Authority
RBI	Reserve Bank of India
SIDBI	Small Industries Development Bank of India
SPM	Social Performance Management
UM	Unit Manager

EXECUTIVE SUMMARY

Associations of Microfinance Institutions such as Sa-Dhan and the Microfinance Institutions Network developed a Code of Conduct (CoC) for Microfinance Institutions. They were supported in this effort by the Small Industries Development Bank of India and other institutions, after the Fair Practice Code that had been mandated by the Reserve Bank of India came into existence in 2013. The objective was to create acceptable standards and prescribe expected levels of responsible finance and lending by MFIs. SIDBI took the responsibility for ensuring that MFIs implemented the Code of Conduct and Fair Practice Code seriously. Ever since SIDBI provided support for the Code of Conduct Assessment (COCA) studies, more than 50 MFIs, big and small, have been assessed and provided with inputs on their current state of play in terms of their compliance with the Code of Conduct and the Fair Practice Code. They have also been given guidance on the way forward.

SIDBI commissioned *MicroSave* to consolidate reports of COCA studies of 50 MFIs done by five rating and evaluation companies. The objectives were to generate learning through insights that were gleaned from the sector, to streamline the future format of COCA reports and to reveal the overall lessons that could be learned from these individual assessments.

This report presents the consolidated findings of the Code of Conduct Assessment reports for 50 MFIs in India. The MFIs represent diverse legal structures and a range of business sizes and scales of operation. The MFIs are also representative of varying geographical presence, as they all varied in their outreach in different states across the country.

The reports have been analysed using a framework built on five key pillars that are critical to the implementation of the Code of Conduct. The five pillars are Integrating Social Value into Operations; Credit Processes and Policies; Human Capital; Transparency and Fairness; and Regulatory Compliance.

Compliance with the CoC has been analysed at two levels – the macro and the micro level. The macro level analysis focuses on the overall performance of the MFIs at an aggregate level in terms of the five key pillars mentioned above. The micro level analysis uses three main criteria, which are Outreach or Number of Clients; Legal Structure, and Geographical Presence.

In terms of outreach, MFIs are grouped into three tiers. Around 28% are Tier 1 MFIs, 26% are Tier 2 MFIs, and 46% are Tier 3 MFIs. In terms of their legal structure, the majority (64%) of MFIs are NBFCs, followed by Section 25 Companies and Societies (12% each). Trusts and cooperatives make up for the rest of the sample. In terms of geographical presence, only 14% of the MFIs assessed had a presence in more than 10 states. About 4% of the MFIs operate in 5 to 10 states, while 82% of them operate in up to five states.

Macro Level Analysis

MFIs scored an average rating of 77% on "Integrating Social Value into Operations'. The score is based on an assessment of the MFIs' intentions and actions towards double and triple bottom lines. It was found that almost all the MFIs have a pro-poor mission and vision and vibrant boards that have brought a broad range of experience to their governance. In about 54% of the MFIs, independent board members make up over one-third of the board, which is a clear sign of improved corporate governance. However, this needs to be adopted across the sector by all MFIs, irrespective of their size, legal constitution, and scale of operation. In addition, there is a need to sensitise board members to the importance of practising the Code of Conduct across all institutional functions, and monitoring compliance with it. Only 57% of the MFIs have put in systems where compliance to the Code of Conduct is discussed in board meetings. This is a cause of concern and industry associations need to prescribe directives that drive the boards of MFIs to comply in this matter.

Social Performance Management has not been adopted as a prominent full-scale function yet within most MFIs. Only 37% of the MFIs have a documented SPM policy in place. To have a CoC without having a larger SPM policy in place indicates that MFIs still see these issues as mere compliance formalities instead of being committed towards the cause and purpose of SPM.

MFIs have started diversifying their product range; however, more needs to be done in this area. MFIs need to make concerted efforts by collaborating with banks, the Pension Fund Regulatory Development Authority, and insurance companies to offer savings, pensions, and a diverse range of loan products. Housing, water and sanitation and emergency loans are some of the products that are on top of customers' lists.

MFIs obtained an average score of 76% on 'Credit Processes and Policies'. The objective of scoring MFIs on this indicator was to see how well MFIs are doing in terms of focusing on the 'bottom of the pyramid' while avoiding unnecessary competition and over indebtedness. The score is based on the availability, robustness, and adaptation of the various processes and policies related to area selection, client selection, and loan appraisal. MFIs are doing fairly well on these parameters. However, assessment of clients' capacity to repay is an area that needs to be strengthened. Furthermore, the criteria relating to client household income needs to be reviewed by policy makers with respect to current ground-level realities and actual practice by the MFIs. There could be two major reasons why MFIs are casual in their compliance to income criteria. Firstly, before RBI prescribed the income criteria, MFIs were servicing clients with incomes above the prescribed upper limit. After the RBI guidelines came into effect, it was difficult for the MFIs to jettison these clients. In addition, strict adoption of RBI's income criteria is perceived to restrict growth. Secondly, it is difficult and costly for MFIs to put systems in place to assess clients' household incomes.

MFIs scored high with an average rating of 81% on 'Human Capital'. This indicator is rated on quality of staff training, staff behaviour with clients and staff awareness of the Code of Conduct. MFIs seem to understand the importance of staff training and have institutionalised systems of orientation training, on-the-job training, and refresher training for their staff. A few MFIs also conduct dedicated training on the Code of Conduct for their staff. The COCA teams did not come across any complaints related to staff behaviour during the course of the study. MFIs have also developed and documented policies on staff visits to clients' residences/places of business and on delinquency management. This helps maintain healthy and acceptable staff-client interactions while dealing with delinquent clients. In 94% of cases, it was reported that staff are aware of the Code of Conduct; however, the level of awareness needs to be improved.

MFIs fared well with an average score of 82% on 'Transparency and Fairness'. Client data security, client feedback, product and service offerings, fairness, and transparency relating to price and client education are the indicators used to determine MFIs' performance on this pillar. MFIs keep client data confidential - they generally have separate sections in loan application forms to obtain clients' consent to share their information with credit bureaus and insurance companies. In the case of an automated Management Information System, data access is password protected. However, in some cases, branch staff members share their passwords with their colleagues thus defeating the purpose of password-protected access.

Almost all MFIs (96%) have a toll free number to register customers' complaints. A few MFIs also have defined turnaround times to resolve customer complaints. Although clients are provided with grievance redressal systems in 70% of MFIs, clients rarely use these facilities (low usage figures are based on actual complaints received and registered). About one-third of MFIs have in-house systems to record actions taken in response to customer complaints. This is certainly a 'best practice' that needs to be propagated across the sector. However, MFIs need to do better by recording, analysing, resolving, and reporting the status of customer complaints to their senior management and to their boards.

In terms of compliance with other guidelines such as interest rate margins, collateral free loans, and proportion of qualifying assets, there is considerable scope for improvement on the part of MFIs. While 94% MFIs have been complying with the guidelines on qualifying assets, and about 89% have been providing collateral-free loans, there are still some MFIs that accept collateral in one form or another such as security deposits and liens on fixed deposits (FDs). This is clearly against RBI guidelines of collateral free lending. COCA studies should carefully examine and highlight such practices by MFIs.

Micro level analysis

The micro level analysis of compliance with the Code of Conduct was based on three criteria - outreach, legal structure, and geographical presence. On the outreach indicator, the MFIs' performance, on an aggregate basis, shows a positive trend with an increase in their number of clients. Tier-1 MFIs perform better with an average score of 79% as compared to Tier-3 MFIs that have a score of 75%. A positive correlation between improvement in compliance and size of customer base could be due to MFIs' increased capacity for hiring professional managers and building better systems and processes.

In terms of legal structure, there is an upward trend in performance from less regulated to highly regulated legal entities. Non-Banking Finance Companies and Section 25 Companies score equal ratings of 77% as against 73% by Trusts.

Analysis of MFIs' performance based on geographical distribution shows that MFIs with a presence in 5-10 states perform better than the other two groups of MFIs.

Recommendations

The following recommendations are worth considering as they would assist in improving compliance with the Code of Conduct by institutions in the Microfinance Sector:

- SIDBI should offer guidelines and set conditions that must be met by MFIs in order to improve corporate governance practices. Greater sensitisation of MFI board members with respect to the need for and importance of Social Performance Management and the Code of Conduct is a step towards better corporate governance.
- MFIs must increase their offerings in terms of financial products and services. More loan products - for emergencies, housing, water, and sanitation – and more savings, insurance and pension products are needed in the Indian microfinance market. This will greatly increase outreach and will significantly mitigate risk for clients and the microfinance sector as a whole. SIDBI needs to incentivise MFIs to increase their product range by providing them with the technical assistance to design such products as well as specialised funding vehicles that will support them in delivering such products on a large scale.
- SIDBI should initiate discussions in the sector on the feasibility of prescribing income criteria for assessing the eligibility of microfinance clients. The stakeholders could suggest ideas to RBI for its consideration. More reasonable and practical criteria with regard to the household income of clients are needed, as inflation has rapidly eroded current levels of income. More practicable income criteria, which can be implemented in letter and in spirit, need to be evolved.
- SIDBI should, as part of its loan conditions, make it a requirement for each one of its client MFIs to obtain membership of a credit bureau and provide client data to the bureau. MFIs, on their part, should cross verify credit bureau information before granting loans to clients. This weakness inherent in the microfinance model, indeed in its target segment, brought the sector to the brink of collapse once, in the past. All efforts must be made to ensure that such client over-indebtedness does not happen again.

The Code of Conduct Assessment has provided a wealth of information to the sector in terms of the current state of practice of the Code of Conduct. This information needs to be analysed meaningfully and disseminated across the sector. Certain weaknesses were observed by the team in the various COCA reports that were compiled by five rating and evaluation companies. These pertain to differences in the way information was presented and analysed across indicators by each rating and evaluation company. The study provides the following recommendations to SIDBI to improve the content and quality of the assessment report:

- Prescribe a broad framework specifying a comprehensive set of indicators that must be looked at and reported on by the rating and evaluation companies. This will help to ensure uniformity in the rating reports and confirm that no aspect has been overlooked by the assessment tools. A standardised structure for COCA reports is suggested, so that there will be uniformity in future rounds of Code of Conduct Assessments.
- Develop a comparability matrix that compares the different scales of each assessment agency. This matrix could be used for comparing the performance of MFIs, at least internally by SIDBI.
- Analyse the consolidated data to study trends and performance of the MFIs, on an on-going basis. The release of such data on a periodic basis will be an effective way of disseminating the state of practice with specific reference to the Code of Conduct and Social Performance Management.

1. ABOUT THE STUDY

1.1 Background And Objective

In 2013, RBI released the Fair Practices Code for microfinance institutions in India. The industry associations of MFIs, such as MFIN and Sa-Dhan, immediately responded to this directive by coming up with a unified Code of Conduct (CoC) for their member institutions, aided in no small measure by institutions such as SIDBI and International Finance Corporation (IFC). The aim of the Code of Conduct guidelines was to provide a set of standards for MFIs on expected levels of responsible lending. SIDBI, being the top institution in the sector, took upon itself the responsibility for encouraging MFIs to follow the industry Code of Conduct seriously. SIDBI steered its partner MFIs towards implementing the Code of Conduct and supported their efforts with generous grants.

SIDBI commissioned five rating and evaluation companies namely, MCRIL, SMERA, M2I, ACCESS ASSIST, and ICRA, to assess the implementation of the Code of Conduct by its partner MFIs. Each of the rating and evaluation companies developed their own COCA tools to gauge the level of MFIs' compliance to the prescribed Code of Conduct. Although the framework, methodology, and approach of the rating and evaluation companies differed from each other, the underlying designs of their assessment tools were based on the Fair Practice Code and Code of Conduct issued by the central bank and the industry associations respectively.

In total, 50 MFIs from across India were evaluated for compliance with the Code of Conduct. These MFIs differ widely in their legal structures and their scales of operation and thus represent the entire Indian microfinance sector. This report consolidates the evaluation findings from 50 COCA studies supported by SIDBI and attempts to discern trends, if any, in the nature and level of compliance across MFIs with different scales of operation, with dissimilar legal structures, and with varying coverage in different states across the country. It also brings out, at a consolidated level, a macro picture of compliance to the prescribed Code of Conduct and Fair Practice Code in the Indian microfinance sector.

1.2 Report Structure

This report is divided into five sections. This section describes the background and objective, report structure, approach and methodology of the study and also its limitations. Section 2 provides snapshots of the profiles of MFIs including their outreach, legal structures, and geographical coverage. Sections 3 and 4 present the macro and micro pictures, respectively, on compliance to the Code of Conduct. The last section contains recommendations on how compliance to the prescribed Code of Conduct can be further ensured. It also suggests a proposed structure of the COCA report to guarantee uniformity of reporting by rating and evaluation companies and to ensure comparability of reports for future analysis.

1.3 Approach and Methodology

The rating and evaluation companies used their own COCA tools, which consisted of a set of parameters further divided into indicators. In addition, there were variations in the scales used by each firm to rate the MFIs. Some of the indicators rate the institutions in similar ways, but other indicators have defined and/or classified the institutions in different ways. For the purposes of this study, we have built our analytical framework on five key pillars that, we believe, are critical to the implementation of the Code of Conduct. These five pillars have been classified to include all the parameters and indicators used by the rating and evaluation companies. The five pillars are:

1. Integrating Social Value into Operations
2. Credit Processes and Policies
3. Human Capital
4. Transparency and Fairness
5. Regulatory Compliance

The five pillars have been further divided into indicators that are closely mapped to the indicators used by the rating and evaluation companies.

Each of the above-mentioned pillars has been analysed using the ADDO[1] principle prescribed by SIDBI and generally used by all rating and evaluation companies.

The report presents the analysis of compliance with CoC at two levels – macro and micro.

[1] ADDO framework refers to assessment of an institution's practice with respect to Approval, Documentation, Dissemination, and Observance of the given practice.

The macro level analysis focuses on the overall performance of the MFIs at an aggregate level in terms of the five key pillars mentioned above.

The micro level analysis used three main criteria – outreach or number of clients, legal structure, and geographical presence.

Criterion 1: This criterion is based on outreach i.e. the number of clients managed by MFIs. MFIs are classified in three tiers. Tier 1 consists of large MFIs managing more than 250,000 clients. Tier 2 consists of medium sized MFIs - those managing between 50,000 to 250,000 clients. Tier 3 consists of small MFIs managing less than 50,000 clients. The three-tier classification has been followed to see if compliance with the Code of Conduct varies with the size of MFIs. The three-tiered analysis is further consolidated and analysed in depth to understand overall compliance with CoC by MFIs across the country.

Criterion 2: This criterion correlates compliance with the Code of Conduct with the legal structure of the MFIs, and assesses whether levels of compliance are influenced by an MFI's legal structure.

Criterion 3: This criterion evaluates compliance with the COC according to the geographical areas in which MFIs operate. Performance on CoC is analysed to assess whether it is differentiated along geographical lines.

Figure 1: Classification of MFIs

The rating and evaluation companies have used different scales to rate MFIs on CoC. To bring about uniformity and ensure comparability across reports, we have converted the ratings into a percentage scale. Furthermore, to consolidate qualitative information and comments against each indicator, we have used tally sheet based frequency distribution. The frequency distribution helped us analyse the occurrence of various observations/responses against each indicator across different assessment reports. The aggregate frequency of an indicator provides a score against each parameter. To highlight specific observations, caselets have been drawn from different reports. These caselets are inserted in the relevant sections of the reports to enable on-ground practices to be reflected in the report. The following table illustrates the relationship between the score and the performance of MFIs in terms of level of compliance to the Code of Conduct.

Performance Score Range	Performance Definition
80%-100%	Excellent Compliance
70%-79%	Good Compliance
50%-69%	Moderate Compliance
Less than 50%	Low Compliance

Table 1: Score Definition

1.4 Limitations of the Report

The analysis in the report is based entirely on secondary information available from the COCA studies conducted by various rating and evaluation companies. We have not been in direct contact with any of the MFIs included in the study. Hence, our analysis of compliance to the CoC is limited by the quality and extent of data available from COCA reports.

After the ratings of each institution were converted into percentage-based scales, the scores under each pillar/indicator were averaged out. As each of the rating and evaluation companies used different frameworks, indicators and scoring systems to assess compliance to the Code of Conduct by the MFIs, it was challenging to consolidate observations of different studies into the five pillars. Hence, we advise the readers not to consider the scores in isolation but to read specific qualitative observations. Linking the scores with the qualitative descriptions under each parameter will give a more comprehensive understanding of the current state of compliance with CoC in the microfinance sector.

The assessment reports were studied in-depth to interpret the level of compliance of the MFIs according to various parameters. However, due to differences in the methods of assessment and reporting structures of the rating and evaluation companies, information on certain indicators was not available in some reports. In such cases, we have assumed that the given indicator was not practised or followed in the concerned MFI.

The COCA studies of 50 MFIs were conducted at different points in time during 2010-2014. The performance of MFIs whose CoC assessments were carried out in earlier years may have changed and may not reflect current practices. Wherever SIDBI commissioned a second round of COCA study, which was the case with a few MFIs, we used the most recent COCA reports available for those MFIs to make the observations more relevant.

Readers are requested to keep these limitations in mind while drawing any conclusions from this report.

2. PROFILE OF MFIs

2.1 Outreach

Of the 50 MFIs covered under the study, 28% are Tier I MFIs. The medium-sized MFIs account for 26% of the sample. A significant proportion (46%) of MFIs still falls into Tier III.

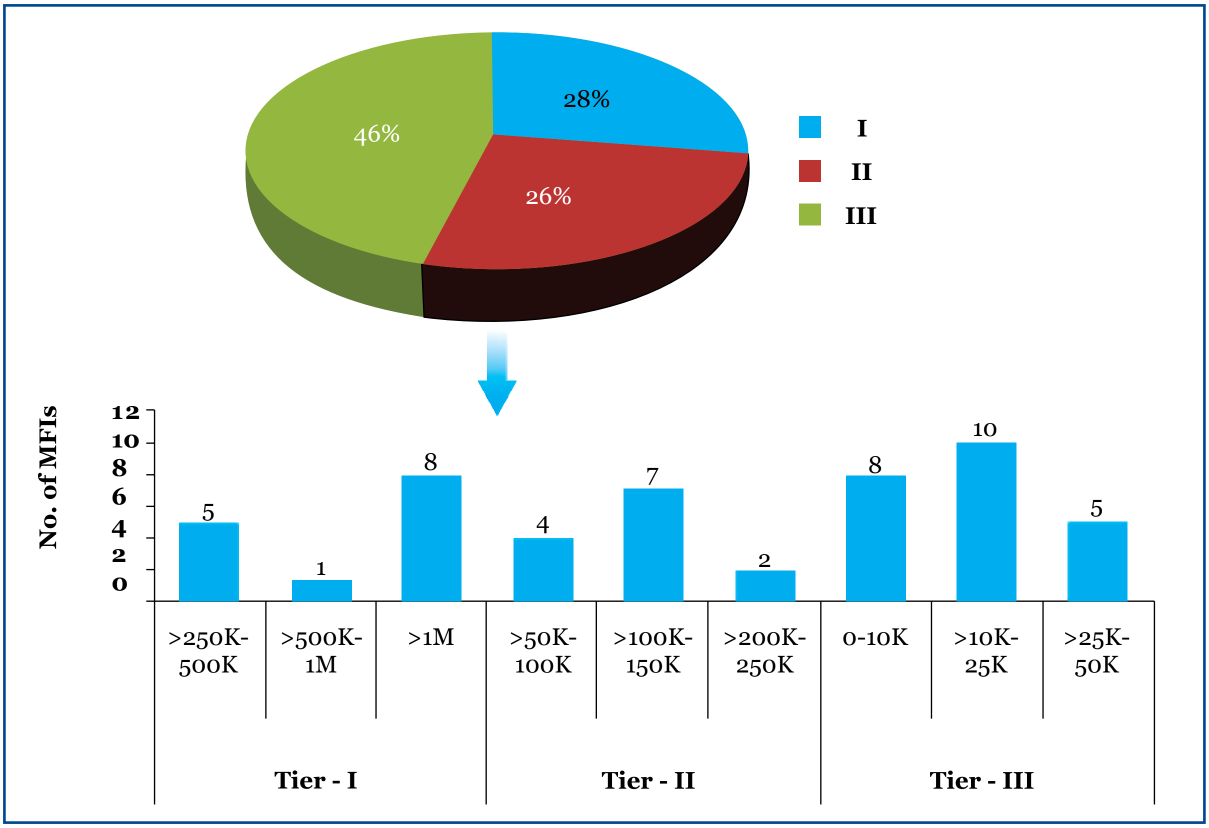


Figure 2: Tier Wise Distribution of MFIs

Further classification of Tier I MFIs indicates that eight MFIs have an outreach of more than 1 million clients each. Five MFIs have client bases of a quarter of a million to half a million clients. Only one MFI has a client base between half a million to one million.

The majority (seven) of Tier II MFIs have 100,000-150,000 clients followed by MFIs that have between 50,000 to 100,000 clients.

The Tier III segment includes 10 MFIs that have client bases between 10,000-25,000 people. Eight institutions have less than 10,000 clients each.

2.2 Legal Structure

64% of MFIs are Non-Banking Finance Companies, followed by Section 25 companies and Societies (12% each). Trusts account for 10% of the sample.

Trusts, Co-operatives, and Societies are largely clustered in Tier 3, while NBFCs are the leading legal structure across all the three tiers – reflective of the general shift in organisational form of MFIs towards the NBFC format.

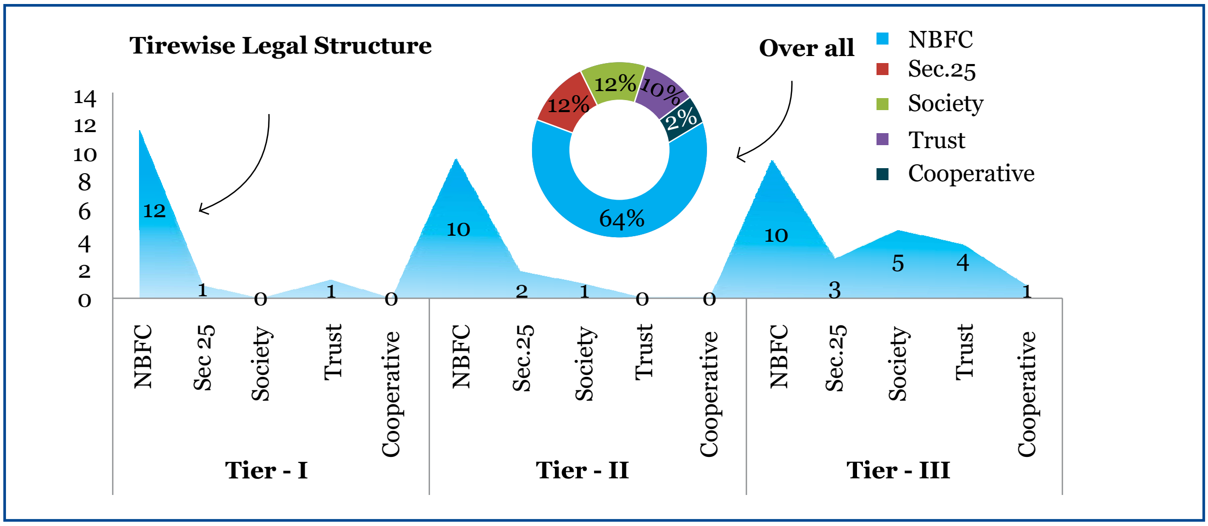


Figure 3: Legal Structure

2.3 Geographical Coverage

82% of MFIs operate in fewer than 5 states, indicating that MFI operations are still limited to regional presence. Only seven MFIs (all belonging to Tier I) have a presence in most parts of the country, with a network in more than 10 states. Of these, only one MFI operates in twenty states. After the AP crisis, MFIs seem to have realised the importance of geographical diversification as a way of mitigating risk. They have been trying to diversify their portfolio by spreading to adjacent states and beyond.

A staggering number of MFIs – 17 in fact - are still confined to just one state, and all of these are in Tier III. Only one MFI in Tier III has operations over five states.

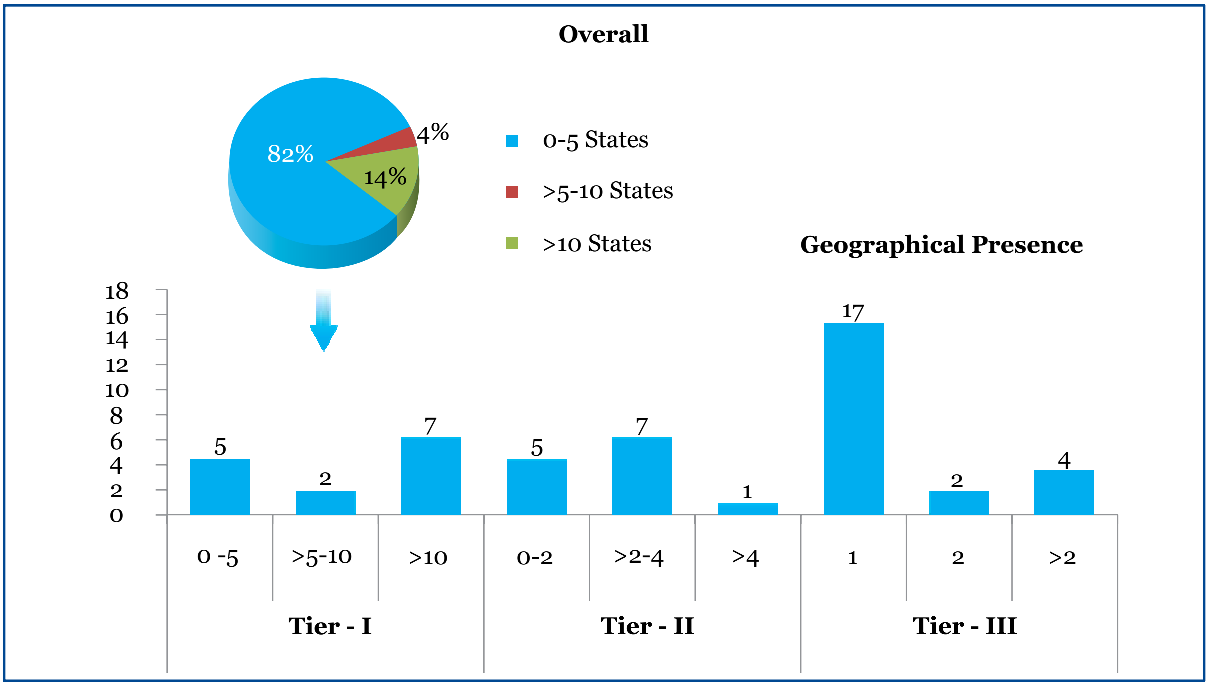


Figure 4: Geographical Coverage

3. COMPLIANCE WITH THE CODE OF CONDUCT- A MACRO VIEW

This section describes consolidated performance of MFIs on compliance with the Code of Conduct prescribed by Sa-Dhan and MFIN and the Fair Practices Code prescribed by RBI for NBFC- MFIs.

The performance has been analysed on the five key pillars mentioned in the previous section. These are:

1. Integrating Social Value into Operations
2. Credit Processes and Policies
3. Human Capital
4. Transparency and Fairness
5. Compliance with Regulatory Guidelines

The five parameters encompass key indicators of the prescribed Code of Conduct and the Fair Practices Code. Indicators used by the five different rating and evaluation companies have been classified into these pillars.

There are significant variations in the assessment tools and the indicators used by the rating and evaluation companies. For the purposes of analysis, we have chosen commonly used indicators to synthesise the findings, despite variances in the approaches adopted by the rating and evaluation companies. The rating on each of these pillars denotes the average of the rating scores obtained by MFIs on this category of indicators.

3.1 Integrating Social Value into Operations

This indicator measures the intention and action of MFIs towards double and triple bottom lines. It describes the MFIs' role in the social upliftment of their clients as well as the environmental impact of their operations, if any. In various COCA reports, this has been measured through the MFIs' mission and vision statements. These are used to gauge their focus on 'bottom of the pyramid' sections of the population. The mission and vision statements are also evaluated to see whether they mention social and/or environmental achievements in addition to the delivery of financial services. Intentions could also be reflected in the constitution and quality of an MFI's board. Whether MFIs are taking action on the social and environmental aspects of their mission and vision or not can be gauged by examining their product range. Products such as emergency loans to help clients in times of need and loans for environment friendly equipment such as solar lamps and smokeless chullahs, which have significant health and environmental benefits not just for clients but for the community at large, indicate that an MFI is taking action to integrate social value into its operations. Furthermore, the MFIs could transform their intentions into actions by offering credit plus services such as health facilities, financial and environmental awareness training, and support towards higher education for their clients' children etc.

Overall, the MFIs scored an average rating of 77% on this pillar. The rating scores are further assessed in terms of MFI's compliance with the four basic principles of ADDO –Approval of policies and procedures, Documentation, Dissemination, and Observance.

Integrating Social Value into Operations

One MFI in Tier-2 has adopted a practice of earmarking one day in every quarter as 'Social Day' across all the regions in which it operates. The activities conducted on social days focus mainly on health camps and camps for eye checkups, planting trees, water, and sanitation etc. Each regional 'Social Day' camp serves close to 200 beneficiaries. The MFI has tie-ups with local hospitals and eye clinics to provide free health checks. In addition, clients are offered Janshree Bima Yojana – a life insurance product of LIC India - by paying a premium of 0.5% of the loan amount and Rs. 100 p.a. for their spouse.

3.1.1 Approval

Almost every institution has its mission and vision statement aimed at the 'bottom of the pyramid' (BoP) section of the population. Most MFIs (91%) have a diverse and experienced board with the number of board members ranging from three to fifteen. Board members mainly have financial sector backgrounds with prior experience of working in banks, investment and venture capital firms, advisory and consulting companies. Some board members have background in social and development sectors and in information technology. In most cases they actively participate in the affairs of the board.

54% of MFIs have boards on which over one-third of the board members are independent. There is considerable scope for improvement by the MFIs on this parameter. The new

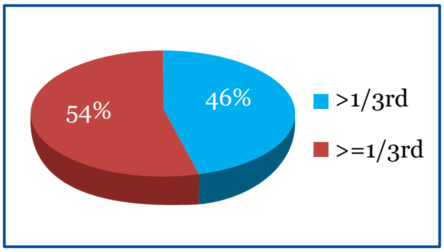


Figure 5: Independent Board Members

Corporate Governance Code of the Companies Act is coming into force, and MFIs should begin to focus on having a fair proportion of independent board members. Having independent members on the board not only provides an independent and neutral voice on the matters being discussed, but also adds tremendous weight to the board as executive decisions can be looked at from different angles to help the institution attain its objective. Independent board members also help MFIs to align their stated intentions with actions.

There is a greater need to sensitise the board members on the importance of practising the Code of Conduct across all institutional functions, and monitoring compliance with it. Only 57% of the MFIs are reported to have put in systems where compliance to the Code of Conduct is discussed in board meetings. This is certainly a cause of concern and industry associations need to prescribe directives that drive the boards to comply in this matter.

62% of the MFIs have approved policies for offering credit plus services. These include financial literacy training sessions, environmental awareness camps, extending support to educate clients' children, organising health camps, and extending savings products through the business correspondent (BC) model. Commitments to these interventions have helped microfinance institutions showcase their dedication to providing social value to various stakeholders, especially to their clients.

One in almost every ten MFIs offers emergency loans and four out of every ten offer housing and water & sanitation loans. This is not satisfactory, considering the size and growth of the microfinance sector in India; however it is a step forward. Despite the lessons from the crisis that shook the sector three years ago, MFIs still rely heavily on a single product growth model. The basket of credit products that does exist is filled with slight variations of the ubiquitous MFI credit product. Emergency loans are lifelines for low-income clients, who still depend on moneylenders for their financial needs in times of emergency. Loans for housing, water, and sanitation help improve living conditions for the target community in rural, semi-urban, and urban areas. With improved technology and increased availability of funding for such initiatives, MFIs are well placed to increase their array of products.

3.1.2 Documentation

> Only 37% of the MFIs have a documented SPM policy.

All MFIs in the sample have documented their mission and vision statements to provide a strategic direction for their growth. The mission and vision statements are largely focused on the 'bottom of the pyramid' and the underserved section of the population. However, MFIs have recorded dismal performance on the social performance management parameter. Only 37% of the MFIs are reported to have a documented SPM policy in place. Code of Conduct is one of the key ingredients of SPM policy and practices. To have a CoC without having a larger SPM policy in place indicates that MFIs still see these issues as mere formalities instead of being committed towards the cause and purpose of SPM. A rather discouraging feature of some COCA reports is that the rating and evaluation companies have not made any mention of whether the MFI has an SPM policy in place, which is an adverse reflection on the robustness and suitability of their tools.

About half of the MFIs have independent committees, or at least an audit committee of the board. However, only about one third of the MFIs are reported to have documented the roles and responsibilities of their board members. MFIs would have more accountable and active governance if they defined the collective responsibilities of their board members and assigned specific functional roles to individual members, such as chairs of sub-committees of the board. COCA reports do not talk about the frequency of board meetings and participation of board members at the meetings. This information is critical to assess the quality of governance and an MFI board's commitment towards steering the institution in the right direction.

3.1.3 Dissemination

MFIs have largely displayed a unified Code of Conduct in all their offices including the branch offices. In some cases, however, it is reported that the Code of Conduct is not written in the language of the region or explained in the vernacular and that it is not prominently displayed. Only a few MFIs have dedicated training modules on a unified Code of Conduct for their staff. Most (95%) of the MFIs generally train their staff on the Code of Conduct during orientation and refresher trainings. MFIs also use opportunities such as weekly and monthly staff meetings and one to one interactions with supervisors and field staff to train their front line staff on these aspects. The Code of Conduct is also discussed with clients during group training sessions, collection meetings and other training events and workshops.

3.1.4 Observance

Non-existence of SPM policies in MFIs is reflected in their poor score in terms of observance of these policies. Only a few MFIs (13%) have dedicated SPM departments and teams supported by SPM systems. There are MFIs, though only a few, that have a separate SPM committee of the board. The SPM system provides a critical platform for MFIs to show their commitment to the social objectives of their organisation.

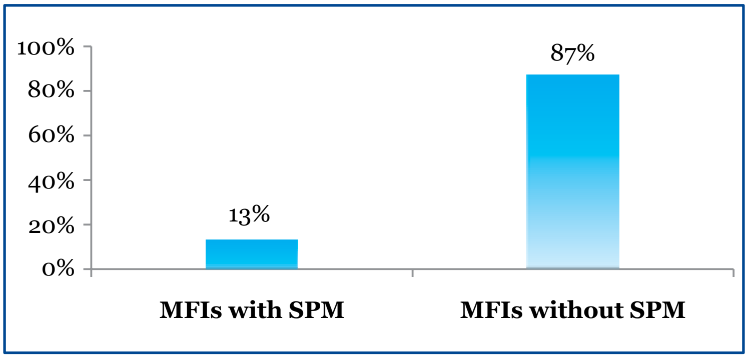


Figure 6: MFIs with an SPM System

The dominance of single product in the microfinance programmes of MFIs is further substantiated by the fact that only about 11% of the MFIs offer emergency loans to their customer. There are two prevalent schools of thought about emergency loans. In times of emergency, clients generally fall back on costly loans from moneylenders and hence, one school of thought says that MFIs must serve this critical need of clients and offer loans for emergencies. The other school of thought does not undermine the importance of emergency loans but it feels that these loans are difficult to administer for the following reasons –

- Emergency loans are prone to misuse by staff; there are many reported cases where staff have used emergency loans to cover up defaults on repayments of current loans;
- MFIs cannot provide emergency loans exactly when the client needs them, as client disbursement happens either at a centre meeting or at a branch on a pre-determined date and time;
- Emergency is a relative term and, therefore, it is difficult to define and decide on what constitutes an emergency.

With improved internal control systems, more effective risk management practices and advancement in technology, MFIs can overcome these challenges and increase their array of products. Emergency situations can also be clearly defined, especially health emergencies.

In almost all cases, MFIs have trained their staff on the client selection process. Well-trained staff ensure that client selection is in line with defined client selection criteria. This helps to show the MFIs' commitment towards helping the poor.

Close to 60% of the MFIs submit a report on compliance to the Code of Conduct to their board. Though this is an encouraging trend, far more needs to be done to ensure that boards are sensitised on the importance of the Code of Conduct and monitor compliance with it on a regular basis during their meetings.

3.2 Credit Processes and Policies

Credit processes and policies comprise two sub indicators - client origination and loan appraisal including loan pricing. These indicators have been rated separately, but together

Credit Processes and Policies

- In one MFI's branch office, which was located in a highly competitive area, the COCA team observed that the field staff was not recording any information on other borrowings by clients in their application forms. During the interactions, however, several clients revealed that they had taken loans from other MFIs as well, and some of them had taken loans from two other MFIs.
- Another MFI maintains an explicit policy of not lending money as a second lender to any client. However, the MFI is not a member of a credit bureau, which limits its ability to check the real status of indebtedness of its clients.

assess the MFI's pro-poor approach. This pillar assesses whether the MFIs are able to focus on BoP segments and protect the interests of clients by protecting them from over indebtedness. The pro-poor approach can be assessed by looking at the MFIs' client selection processes to check if these are designed to weed out non-poor clients. MFIs' capacity to protect clients' interests can be assessed by looking at the MFIs' loan approval processes and pricing methods and checking if the processes are robust enough to prevent multiple lending and over indebtedness.

3.2.1 Client Origination

MFIs scored an average rating of 76% on this parameter. The score was based on the following indicators:

- Availability and robustness of area selection parameters and processes. The parameters should be able to filter out those areas which are highly competitive and have nonpoor clients.
- Availability and robustness of client selection parameters and processes. MFIs score high if the parameters are able to filter out non-poor clients.

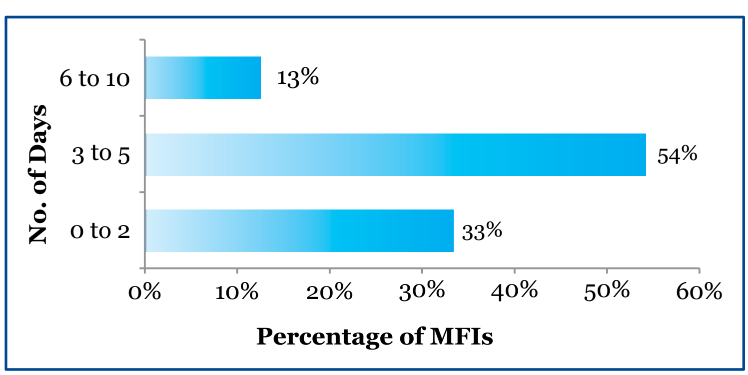


Figure 7 : Clients' Training

- Robustness of pre-loan disbursement training to clients. Training should be designed to develop clients' awareness of loan details including eligibility, price and pricing methods, documents required and other terms and conditions.
- Who is involved in client selection and if there are any inducements that influence staff behaviour.

3.2.1.1 Approvals

Almost all the MFIs have approved policies for client selection. Most (almost 91%) of them follow the RBI approved income criteria for client selection.[2] MFIs rely on self-declared income statements from clients and do not use any tools to cross-verify clients' household incomes. Some of the COCA reports mention that clients have more income than they declared in their loan applications.

The self-declaration approach seems to be inherently faulty. MFIs are dis-incentivised to build appropriate in-house systems to capture client household income, as that would expose their non-compliance to this guideline. Another weakness in the self-declaration approach is the potential for possible collusion between the clients and the field staff to falsify income statements for their mutual benefit. On the one hand, if clients declare their income to be above the prescribed limit they will not be able to access loans, while on the other hand loan officers/MFIs will never verify clients' declared income to be higher than the prescribed limit because they will lose potential clients.

A Weakness in Internal Control

In a branch of one MFI, a member of the field staff approved loans ranging from Rs.25,000 to Rs.30,000 each to 5 clients. For each client, the loans were split into two loans of Rs.15,000 each or one loan of Rs.15,000 and another loan of Rs.10,000 (thus keeping the loan size to Rs. 15,000 and below). The loans had the same duration (12 months) and the same repayment frequency (fortnightly). The concerned staff member had the understanding that by opening two separate loan accounts for each client he had ensured that compliance had been maintained with the RBI directive regarding loan tenure. This indicates a weakness in the organisation's internal control.

Based on the findings of this assessment, the MFI initiated steps to increase the repayment duration of all loans over Rs. 15,000 to 24 months. The company has also initiated comprehensive training of all its field staff to ensure proper understanding of and compliance with RBI's guidelines.

[2] Clients' household income should be below Rs. 60,000 in rural areas and Rs. 1.2 lakh in urban areas.

Almost all MFIs have a policy of verifying clients' identities by obtaining the prescribed KYC documents. There are numerous cases, however, where clients have struggled to provide proper KYC documents. In such cases, clients get their identity proof verified by local authorities such as the *Gram Pradhan*. Such KYC practice is in line with RBI guidelines.

Many MFIs have a policy of avoiding intensely competitive areas. This policy was introduced so that they could avoid being second or third lenders as well as protect clients from over indebtedness. Pre-loan-disbursement training is one of the critical components of the client origination process. Generally MFIs conduct continuous group training (CGT) to orient clients on their loan policies, loan terms and conditions, interest rates and the basis on which interest rates are calculated, the importance of loan utilisation and on time payments etc. This training provides a platform for MFIs to inform and educate their clients and deepen relationships with clients by building trust. Earlier, in most MFIs, this training was conducted for one hour every day over seven days, but MFIs have now reduced the duration of this training to achieve operational efficiency. The number of training days has also been reduced as clients are now better informed due to the presence of other MFIs in their vicinity. About one third of the MFIs spend only one to two days on client training, which appears inadequate to orient clients on loan policies and procedure. However, more than half of the MFIs spend three to five days on client training which seems to be sufficient from the point of view of training clients on basic product policies and processes. A few MFIs supplement client training with a separate client education program. The quality, effectiveness, and viability of such training programmes, however, are unknown.

3.2.1.2 Documentation

In almost all MFIs (96%), the institutions have documented policies and processes for client selection. This includes village selection processes and criteria such as the socio economic status of the area, the general condition of infrastructure like road connectivity, transportation facilities, bank networks, competition and law and order in the area. MFIs avoid discriminating against geographical areas based on caste or religion.

MFIs have also documented client selection criteria such as age, the number of years that the client has lived in the area, track record of social behaviour, availability of identity proof, capacity to repay the loan, amounts of loans taken from number of MFIs and poverty status.

3.2.1.3 Dissemination

MFIs generally train their field staff in credit policies and processes before they are deployed to the branches. The staff training modules (orientation and refresher) are designed to ensure that staff know the mission, vision, values, operational processes, and the internal codes of conduct of the organisation, as well as how to deal with clients, particularly in adverse situations. On the job training, coaching by supervisors and handholding training are some of the other methods used by MFIs to train their staff.

COCA reports inform that all the MFIs have systems to train their staff on various processes including client selection. About 61% of the MFIs have included Code of Conduct in the stafftraining curriculum and some of the MFIs have organised dedicated training sessions to train their staff on Code of Conduct.

3.2.1.4 Observance

COCA reports have documented the incentive policies of MFIs. About 41% of MFIs have incentive systems linked to client acquisition. MFIs introduce such incentives at the beginning of their operations to enable them to reach critical mass. However, incentives linked to client selection motivate field staff to achieve the targets to maximize benefits. The negative fallout of such incentive schemes is that overzealous client selection, very often, leads to inappropriate selection of clients. This malpractice is perpetuated by cases where supervisors incentives e.g. branch managers' incentives are also aligned with the incentives of the loan officers.

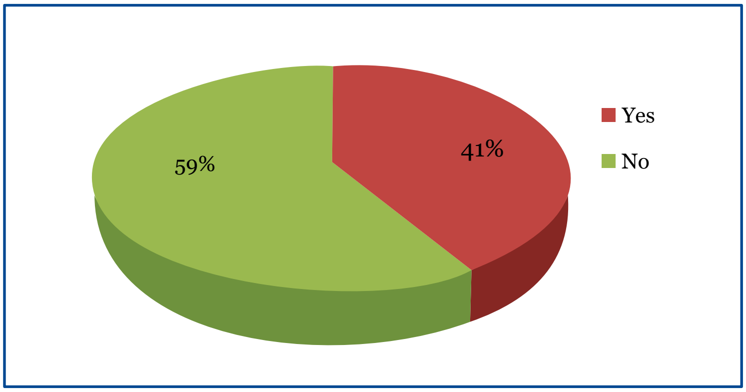


Figure 8: Incentive for Client Acquisition

Though such inducements can potentially lead to inappropriate client selection, they can be mitigated by putting proper internal controls in place. Internal controls can be ensured through internal audits and periodic checks by supervisors who are not directly influenced by the monetary incentives.

About 53% of the MFIs provide incentives linked to portfolio quality. This aspect can potentially keep staff under continued pressure and some of the pressure might be passed on to clients. MFIs have detailed processes to handle delinquency and this, to some extent, abates the risk of violating the Code of Conduct.

It is reported that MFIs, in general, have not involved agents in client selection. However, a few reports do mention that some MFIs do not have explicit policies to avoid involvement of unauthorised persons/agents in the client recruitment process. Lack of an explicit policy and an incentive structure that encourages larger outreach can induce staff to accept the help of unauthorised persons in group formation.

Nine out of every ten MFIs conduct second level checks to make sure the client selection is in line with prescribed criteria. MFIs call this process a group recognition test (GRT), which is typically conducted by branch managers or the next level of field supervisors. In some cases, internal audit teams also randomly check the quality of client selection.

MFIs endeavour to avoid multiple lending; they do not want to be the third lender to any of the borrowers. With few exception (not more than 5%), all MFIs are members of credit bureaus. They seek information from credit bureaus about the client's current loan liabilities and take this into consideration before sanctioning the loan. A few big MFIs have a de-duplication system built into their management information system (MIS) which helps them to check if a client is trying to take loans from different centres using the same ID.

Loan Appraisal by Branch Manager

In February 2012, five members of Centre Number 42 at a branch of MFI 'A' received loans of Rs. 45,000 each. At the time of disbursement, all the clients had loans from MFI 'B' (ranging from Rs. 10,000 to Rs 15,000). Some of these clients also had loans from a third MFI 'C'. After the loan disbursement from MFI 'A', it was likely that the total indebtedness of the clients was in excess of Rs.50,000. A review of the loan documents of the group revealed that only the loan amount from MFI 'B' was mentioned.

Subsequent to the loan disbursement from MFI 'A', the group members also availed of loans of Rs. 10,000 each from a retail microfinance bank. The total monthly loan instalment for most of the group members, for the MFIs and bank taken together, was about Rs 4,000. The monthly household income recorded by MFI 'A' for the clients was only Rs.5,000 for each household.

The concerned branch manager of MFI 'A' had only considered half the value of the loan (Rs. 45,000) while computing overall indebtedness for a year, as the loan was to be repaid in 24 months. Another branch manager with whom the assessment team interacted also had the same understanding. This shows that the understanding and interpretation of 'over indebtedness' varies across the sector.

The COCA team observed that MFIs are over reliant on credit bureau information and do not cross verify the information during loan appraisals. As a result, in a few cases, clients are able to obtain loans from more than two MFIs.

3.2.2 Loan Appraisal

A stringent loan appraisal system ensures accurate assessment of the loan absorption capacity of clients, which in turn, helps to prevent indebtedness. MFIs have scored an average rating of 75% on this indicator owing to their reasonably well-structured loan appraisal system. The following key parameters are considered while rating loan appraisal systems:

- MFIs' policy of checking over indebtedness
- Compliance with RBI guidelines; explicit efforts not to be the third lender
- Loan appraisal process
- Tools and techniques used by MFIs to assess clients' capacity to repay
- Competency of MFIs' loan sanctioning authorities

HR Internal Management (Policies and Procedures)

In one MFI, a proper recruitment process is followed for each level of staff. This consists of a written test and a personal interview. Recruitment is conducted with reference checks. Regular appraisal of Credit Officer (CO) is carried out every 12 months. The monthly incentives are calculated on a transparent performance review (portfolio quality, outreach, conduct, discipline, and punctuality of the member of staff). In addition, the annual bonus is not linked to disbursement. In the same MFI a dedicated system of grievance redressal is also observed.

3.2.2.1 Approvals

Almost all MFIs (91%) have shown commitment to check over indebtedness and have board approved policies for it. Adherence to this practice is even more pronounced after the RBI issued guidelines on the issue.

A majority of MFIs have put in place prescribed policies and modules for staff training. They train their staff on loan appraisal processes and techniques through orientation, on-the-job and refresher training.

Three out of every five MFIs have approved loan policies, wherein they have defined upper cap for loans in different loan cycles. Generally, MFIs define upper cap by doing a quick assessment of the economic status and repayment capacity of their target client segments. They allow gradual increment in subsequent loan cycles based on a client's repayment history. Though this is not a foolproof method to check over-indebtedness - as clients may vary in their capacity to repay - MFIs use this method as a rule of thumb, because it is a cost effective method of putting a first level check on over indebtedness. Along with credit bureau information on the number and amount of outstanding loans of each client, this system is good enough to rely on.

3.2.2.2 Documentation

MFIs (almost 100%) have documented loan policies, which also include guidelines on avoiding client over indebtedness. About 89% of the MFIs have mentioned they will not be the third lender to any client. To comply with this policy, they seek and check data from credit bureaus before sanctioning any loan. The assessment reports mention that a few MFIs that are operating in highly dense and competitive markets and are, in practice, third or even fourth lenders. These MFIs claim to have put certain checks and balances in their loan appraisal process to restrict the total indebtedness per borrower within the stipulated limit of Rs.50,000. Nevertheless, this practice grossly violates the RBI's guidelines of not being third lender to any borrower.

About eight out of every ten MFIs have a format for collecting data on client income and expenditure, as a part of their loan application and appraisal form. A few MFIs are also reported to be using cash flow based assessment techniques to assess the client's repayment capacity. In general, MFIs use quickly collected income and expenditure data to assess a client's repayment capacity.

MFIs have documented processes for loan approval. Some of the MFIs have delegated the authority for loan approval to operations supervisors including branch managers, area managers and above, however others have centralised loan approval systems. Both systems have their pros and cons. While the former speeds up the loan approval process, the latter tends to give MFIs better control and a clearer oversight of loan approvals.

3.2.2.3 Dissemination

MFIs organise periodic training for their staff on loan assessment processes and techniques. At the time of joining, staff members are given orientation training and some MFIs assign mentors to provide on-the-job training. MFIs also arrange refresher training to train their staff on new policies, review old policies, and build specific skills - such as client selection skills, loan assessment skills and customer relationship skills. While orientation training covers the basics of loan appraisal, the on-the-job or refresher training further helps to strengthen these skills and provide staff with first hand, practical experience of loan appraisal techniques.

In most of the MFIs, the staff depends on the information furnished by clients on income, expenditure, and assets. The quality and authenticity of such information may affect the outcome of loan decisions. Very few MFIs have trained their staff in assessing clients' repayment capacities based on cash flows. MFIs largely assess repayment capacity based on assets and sources of income; speed of decision-making and operational cost-effectiveness both seem to form the basis for assessing a client's capacity to repay a loan. However, these may not be the best indicators for repayment capacity as income varies with seasons and in most cases assets do not generate cash. MFIs should look for quick cash flow assessment tools to determine clients' repayment capacities.

3.2.2.4 Observance

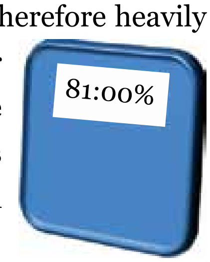
MFIs use various methods to check over indebtedness. This includes putting caps on loan sizes for different loan cycles, analysing clients' repayment capacities through assets and sources of income, cash flow assessments; verifying clients' liabilities (loans) through a credit bureau, auditing the quality of loan appraisal and approvals through internal audit processes and verifying clients' repayment histories through its own MIS.

In 60% of cases it is reported that MFIs have defined maximum loan amounts for different cycles and in 70% of cases MFIs carry out credit bureau checks to ensure clients do not have loans from more than two lenders and that the maximum loan liability is within Rs.50,000. However, only a limited proportion of MFIs (43%) cross check the quality of loan assessments through their internal audit systems.

Proper loan sanctioning is critical for MFIs. It not only enables them to conform to the Code of Conduct but also protects MFIs from developing a contaminated portfolio, at a later stage. A few reports highlight the importance of loan utilisation checks but limit their observations to 'yes' or 'no' i.e. whether the MFI carries out the loan utilisation check or not. The reports are silent on the quality of loan utilisation checks and also on any innovative practices that MFIs may have adopted in this area. The reports also do not comment on the recording and use of loan utilisation information at the aggregate level in MFI head offices. It is important for MFIs to use loan utilisation information and track the loan usage; this will discourage clients from taking unnecessary loans and also provide valuable information to the MFIs on sectors / subsectors where credit is being channelled.

3.3 Human Capital

Microfinance is a human intensive and relationship driven business and is therefore heavily dependent on the quality of the relationships that field staff develop with their clients. To protect the client as well as its own business interests, as there are reciprocal benefits of treating customers with respect, MFIs need to focus on training their teams on client relationship management and building and improving staff skills in this field of expertise.



COCA studies have reported an average rating of 81% for MFIs on this parameter, which is good for the microfinance sector. Though the assessment tools have used different terminologies such as staff conduct, human resource code of conduct and HR strategy, this pillar essentially covers the following parameters –

- MFI policies and process with respect to staff training
- Quality of staff training, which is measured through staff awareness on processes and policies
- Training and staff awareness on the Code of Conduct and Fair Practice Code
- Staff behaviour with clients

3.3.1 Approvals

MFIs understand the importance of quality of staff. Generally, they hire the field level staff straight out of college and take them through pre-designed orientation training. Orientation trainings are generic in nature and cover topics such as institutional mission, vision and value, product policies and processes etc. MFIs try to provide an overview of the institution as part of this training.

MFIs have prepared their own training modules on unified codes of conduct that are in line with the Code of Conduct of Sa-Dhan/ MFIN and RBI's Fair Practices Code. In most institutions, these modules are included in the orientation training. However a few MFIs organise dedicated training sessions on this topic. As part of the training on CoC, MFIs emphasise the need and importance of good behaviour with client and of listening to client grievances. Almost all MFIs train their staff on these aspects, which indicates that the down-stream implementation of the CoC, at least in terms of staff training, is commendable.

A majority of the assessment reports do not report on staff grievance redressal mechanisms in the MFIs. Satisfied staff will service clients happily, therefore, it is imperative to examine MFIs' staff grievance handling mechanism in COCA studies.

MFIs exercise due care while recruiting staff from other MFIs. They call for relieving and 'no dues' letters from the relieving MFIs and also perform reference checks. However, in the case of one MFI, it was reported that the institution has a policy of posting newly recruited staff to the area where they were working before, within a year of recruitment. This policy seems to be followed on both credit officer and branch manager level positions. The MFI probably resorts to this practice to make the working environment convenient for staff, however, this is against the Code of Conduct and has the potential to lead to unhealthy competition in the region.

3.3.2 Documentation

MFIs (almost 100%) have documented policies on staff conduct, which details staff interaction with clients. The Code of Conduct is displayed at branches or a document listing the Code of Conduct exists at MFI branches. In about 40% of the cases, it is reported that MFIs have included the Code of Conduct in their operations' manuals, which are shared with the branch staff. These documents containing the Code of Conduct help branch staff to clarify their doubts and are more helpful for new recruits.

About half of the MFIs that were studied have policies which define appropriate times when staff may visit clients' locations - either residence or business. A policy such as this, which is a clear positive outcome of the Code of Conduct guidelines, protects delinquent clients from undue social abuse and mental stress. Since MFIs have been at the receiving end of criticism for their high-handedness in dealing with delinquent clients in the past, policies on prescribed times when staff are allowed to visit clients helps in building a positive image of MFIs amongst their clients.

3.3.3 Dissemination

In the majority of cases, MFIs have displayed a written version of the Code of Conduct at their branches. Proper display, together with staff training, increases the possibility of better implementation of the Code of Conduct. As mentioned earlier, the majority of MFIs train their staff on the Code of Conduct in different ways. MFIs have also incorporated the Code of Conduct in hand books and manuals which are reference points for their branch staff. In the majority of cases, MFIs have made these manuals and hand books accessible to their staff by keeping at least one copy of such a guide at each of their branches.

MFIs' supervisors such as Area, Divisional, Regional and Zonal Managers are reported to discuss Code of Conduct and ethical microfinance practices during their monitoring visits. This helps to reiterate the importance of CoC to the staff and motivates them to comply with it while dealing with clients.

3.3.4 Observance

During their interactions with the COCA teams, clients have reported that the MFIs' staff behave well with them. No specific case of misbehaviour has been mentioned in any of the reports. However in a few cases, clients have reported service related concerns such as delayed or denied insurance claims. This is an area where MFIs can negotiate more effectively with insurance companies.

About half of the MFIs pay incentives to their staff for managing on time repayment and maintaining high quality portfolios. Despite stringent norms around recovery, there is no documented case of high handedness in any of the reports. In a few cases, it is reported that MFIs have listed staff conduct as one of the parameters for staff incentive calculation. This is certainly a positive development in the sector. Audit and supervisory teams of a few MFIs are watchful of staff members' behaviour with clients and it forms one of the items on their audit checklist.

In nine out of every ten cases, MFIs have trained their staff on staff conduct and the Code of Conduct. In 94% of the cases, it is reported that staff are aware of the staff conduct and Code of Conduct, which confirms the positive impact of staff training. However staff awareness on these matters was found to be high in only about a quarter of the MFIs. A significant proportion (60%) of MFIs had staff with medium levels of awareness on staff conduct and the Code of Conduct. In the remaining cases, the level of awareness among staff was low. MFIs need to think about how training on the Code of Conduct can be made more effective for staff.

Many of the MFIs have a policy of avoiding lateral entry at the level of field supervisors. These positions are usually filled by promoting deserving field staff. This policy helps MFIs to retain trained people, improves retention of staff, and strengthens institutional values.

3.4 Transparency And Fairness

Post the Andhra Pradesh (AP) crisis, transparency, and fairness have become critical aspects of MFI's operations. Both RBI and the industry associations Sa-Dhan and M-FIN have emphasised these aspects in their Code of Conduct and Fair Practice Code, respectively. MFIs have also become vigilant on these aspects and are trying to perform better on these parameters. Most of the assessment tools used the following parameters to assess the MFIs on these aspects:

- Client data security
- Client relationship and feedback

However, some tools have also used parameters such as product and services offerings, price fairness and transparency, and customer education and its effectiveness.

3.4.1 Client Data Security

Sharing client data and information without client consent is considered to be unethical practice under both the Code of Conduct and the Fair Practice Code. The rating and evaluation companies used the following key indicators to assess the performance of the MFIs on this parameter:

- MFIs' policies on client data security
- MFIs' ability to protect client data from unauthorised access
- MFIs' efforts to make their staff aware of the importance of client data security
- Safe keeping of physical documents

MFIs' scored an average of 82% on this parameter, which is a commendable score. This indicates microfinance institutions have strong systems in place to protect client data security and client confidentiality.

3.4.1.1 Approval

In about seven out of every ten cases, MFIs have approved policies regarding client data security. MFIs that have automated MIS have defined access rights for various categories of users with password-protected systems. However, in some cases it is reported that branch level staff share a password with each other, which defeats the purpose of secured access. In cases where documents are kept in physical form, MFIs have defined policies for the custody and safekeeping of documents.

MFIs should have a section in their loan application forms where they ask for the client's permission to share client information with the insurance company they use and with the credit bureau they use. However, some MFIs are reported to have overlooked this crucial aspect and do not have any such client consent section in their application forms.

3.4.1.2 Documentation

In more than half of the cases, MFIs have incorporated data security policy in their operations manual. This provides better clarity to the employees on aspects of client data privacy. Quite a good number of MFIs have incorporated a client data security policy in their Fair Practices Code as well.

3.4.1.3 Dissemination

As well as including client data security policy in their operations manuals, MFIs' supervisory staff discuss these policies in weekly or monthly staff meetings, as the case may be.

3.4.1.4 Observance

Wherever MFIs have automated MIS, the data security systems are fairly good. More than half of the reports state that MFIs have password protected data access. They have provided data modification rights only to senior officers in the IT department or to senior operations managers.

When it comes to physical documents, it is reported that MFIs try to store these documents safely at their branches. In some cases, MFIs have centralised data processing systems where all client related documents are stored at the head office. In such cases, the documents are stored in safe locations where access is limited to authorised persons only. However, in some cases, where physical documents are kept at branches, adequate access control measures have not been developed. This may lead to misuse of client information by staff or even by outsiders.

It is reported that the MFIs' branch staff have good levels of awareness and understanding of the importance of client data security. MFIs with automated MIS have proper systems in place for data backup; which mitigates the risk of data loss in the case of any unexpected events. The MFIs' internal audit team also checks for compliance with data security policy during branch audits.

3.4.2 Client Relationship and Feedback

Lack of attention to client relationships on the part of MFIs in the past has brought the sector into considerable disrepute. This factor was one of the key concerns that finally led to the crisis in 2010. In the first phase of growth of the microfinance sector, (pre-AP crisis), most MFIs simply focussed on growing their outreach and loan books, as well as maintaining timely repayments. Customer service and client relationships did not figure as focus areas for the MFIs and as a result, during and post the AP crisis, MFIs were blamed for many of the problems/ challenges faced by clients and/or by their spouses. The general opinion was that if MFIs had spent time in establishing better relationships with clients, the situation could have been handled a lot better. Nevertheless, the sector learnt its lessons quickly and included client relationship management and proper feedback mechanisms as one of the major components of the Code of Conduct.

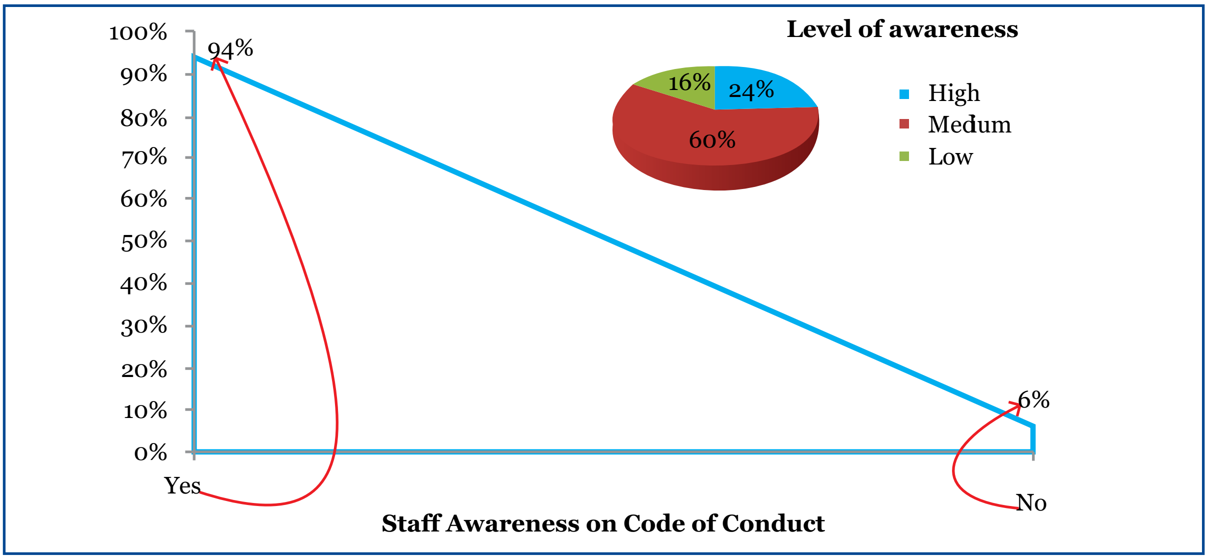


Figure 9: Staff Awareness

MFIs scored an average 71% on this aspect, which indicates their focus on client relationship management.

The score on this parameter was based on the following key indicators:

- MFI policy on customer grievance redressal
- Quality of grievance redressal mechanism
- Action taken on customer grievance
- Customer awareness and use of grievance redressal mechanism
- Staff awareness and sensitisation on grievance redressal mechanism
- Board sensitisation on customer grievances
- Cross verification of effectiveness of grievance redressal mechanism

Staff Interaction with Clients

In one MFI, it was observed that the scope of the internal audit needs to be augmented by including checks on staff conduct and grievance redressal and client awareness. Further, in the internal audit reports, clients' awareness of loan conditions and pricing were not being verified.

In another MFI, it was observed that the contact numbers of Unit Managers (Ums)/CCs and Managing Director (MD) were noted on the loan cards and members were aware that they could reach out to these people in case of any grievances/complaints. The MFI also follows the policy of making disbursements in branch offices, thus requiring the clients to come to the branches. These visits to the branch offices therefore provide open forums for the customers to interact with branch managers and other senior staff. There is, however, a need to put in place a toll free number for customers so that they can avoid incurring calling costs. A structured process for receiving, tracking and resolving the complaints received within a specified period also needs to be put in place.

3.4.2.1 Approval

MFIs have board-approved policies for customer grievance redressal. The policies cover aspects such as setting up of customer grievance systems, the protocol for grievance redressal and compliance with grievance redressal policy.

Policies also cover mechanisms available to customers to lodge their complaints and raise issues and concerns with a designated officer. Almost all the MFIs (96%) have a toll free number while around 62% of them have a complaint box system. Many MFIs have designated officers who receive client complaints through a toll free number and pass them on to the concerned teams for resolution. Some of the MFIs have also defined turnaround times for complaint resolution.

In a few cases, MFIs have included customer grievance redressal in their audit checklist. Auditors conduct random checks with customers to find out whether they are aware of the grievance redressal mechanism and whether they have any unresolved grievances.

3.4.2.2 Documentation

About 72% of the MFIs are reported to have documented policies in the form of office memos, circulars, and/or insertions into the operations manuals. However, there were cases where grievance redressal policies were not detailed adequately. For example, some policies lacked details of how customer grievances would be processed and resolved but they did not explain the classification of complaints according to the extent and severity of the grievance or define the grievance redressal turnaround time etc.

In all cases where MFIs have a help line number, the number is printed on the loan passbook. This gives the client immediate access to the grievance reporting mechanism. Many MFIs have made conscious efforts to disseminate information about the help line number as well as the mechanism for using it. This has paved the way for customers to report and ultimately redress their grievances.

3.4.2.3 Dissemination

MFIs have oriented their staff on their client grievance redressal systems. In about 94% of the cases it is reported that staff are well aware of the grievance redressal system and its importance. It is also reported that staff are sensitised through meetings and interactions with supervisors on handling customer grievances with care.

MFI Board's Involvement in Client Grievance Redressal System

In one MFI, board members visited the clients to gather first-hand information about aspects such as staff behaviour and their MFI's performance on customer service.

3.4.2.4 Observance

In 78% of the cases, it is reported that MFIs have a system to cross verify action taken on client grievance, largely through internal audits.

Although in 70% of MFIs clients do use the grievance redressal systems, the actual usage of this facility by clients is low (based on actual complaints received and registered). Not surprisingly, the complaint box has emerged as a redundant system with hardly any complaints being found in the box. Help line numbers have emerged as the most effective ways for clients to raise their concerns. What is needed is wider dissemination about this facility as well as active and timely resolution of complaints, which will help clients build trust in this channel.

In half of the cases, it is reported that customer complaints received through help line numbers are being documented in a register. In other cases, staff at HO receive the customer complaint and pass them on to the respective officers immediately. In those cases where MFIs have shared the contact details of operations supervisors such as branch managers, the complaints are directly received and handled by them. About one-third of MFIs are reported to have inhouse systems to record the actions taken on customer complaints, which is a very healthy practice and needs to be encouraged across the sector.

In a limited number of MFIs, the institutions present a summary of customer complaints received and action taken as an agenda item in their board meetings.

3.5 Compliance with RBI's Guidelines

This section relates to the MFIs' compliance on other guidelines of RBI that were not covered in the previous sections. These include guidelines on capital adequacy requirements, the nature and extent of qualifying assets, interest rate margins, collateral for loans, membership of and reporting to a credit bureau, flexibility to clients on aspects such as repayment frequency etc.

Almost every MFI (94%) has been complying with the guidelines on qualifying assets prescribed by the RBI. Furthermore, about 89% of MFIs comply with the guidelines for collateral-free loans for qualifying assets. The remaining MFIs seek collateral in one form or the other e.g. security deposits. In one MFI, clients are required to have a fixed deposit in a bank and a lien is marked in favour of the MFI. This is clearly against RBI guidelines for collateral free lending.

In the case of household income, MFIs accept self-declarations from clients. In most instances, the declared income is below the RBI's prescribed limit. However, in many cases, the assessment teams found clients' income to be much beyond what they had declared. Clients are prone to making such false declarations in order to access loans. However, MFIs, on their part, need to build strong systems to comply with these guidelines in letter and spirit.

MFIs have purportedly given flexible repayment options to their clients; however, in many cases, it is reported that MFIs just have a single repayment option, which is against the prescribed guidelines. Nevertheless, the assessment teams did not find any complaints from clients on the repayment frequency options.

However, a review of all assessment reports shows non-uniformity in reporting of data and information under this section. Although SIDBI has prescribed this section as mandatory for reporting on by the rating and evaluation companies, it is observed that some of the rating and evaluation companies have only provided limited data and information on indicators such as capital adequacy, interest rate margins, etc. Lack of data or non-uniformity of data on these critical aspects of statutory guidelines is a major concern. SIDBI should consider prescribing a standard set of assessment criteria and indicators for COCA reports to provide a guide to the rating and evaluation companies. The assessment reports should be thoroughly studied and analysed in detail by SIDBI to not only ensure that data on all sections/indicators is duly reported but that the quality of the data is adequate so that meaningful conclusions can be derived from it.

4. OTHER OBSERVATIONS

Apart from the above observations, the reports have also commented on product offerings, product pricing, and client awareness on product and service details. These observations are critical to gain understanding about MFIs' commitments towards poor clients.

4.1 Product Offerings

In addition to regular income generating loans and life or credit linked insurance, MFIs offer other financial products.

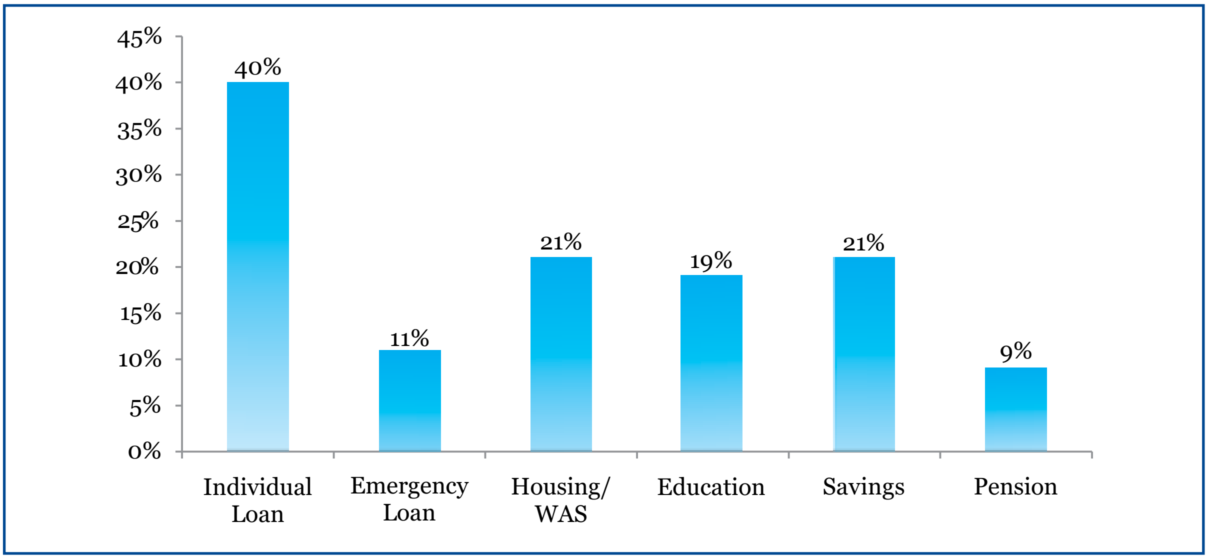


Figure 10: Financial Products Offered by MFIs

The majority of MFIs have added individual loan products for mature clients who look for higher-ticket loans. Generally, these clients do not like to attend centre meetings.

Very few MFIs, about 11%, have introduced emergency loans to fulfil clients' critical emergency needs. In emergencies clients still rely on traditional money lenders and borrow at higher interest rates. Increasingly, MFIs are adding special loan products for house repairs, for building maintenance, water, and sanitation infrastructure and for the education of clients' children. These loans are helping clients improve their living standards. With the help of the business correspondent model offered by banks and the pension schemes promoted by the Pension Fund Regulatory Development Authority, MFIs have also been able to offer savings and pension products. Though these two products are in their initial phase, they have a great deal of potential and could, if promoted well, become the preferred products for clients.

4.2 Product Pricing

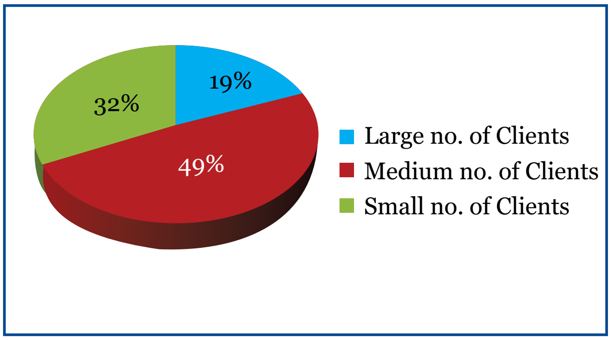


Figure 11: Clients' Awareness of Product Pricing

Largely, MFIs have pegged interest rates at 26% per annum but there are MFIs who charge more than the prescribed limit. On the other hand, a good number of MFIs (38%) charge interest rates lower than the prescribed limit. In addition, there are cases where MFIs charge 26% on group loan products but charge a different rate on other loan products such as individual loans. In some cases it appears that an MFI's interest rate is less than 26%, because of the loan term; however, the effective interest rate goes beyond 26%. For example, some MFIs display their interest rate as 12.5% (flat) per loan term with a loan term of 45 weeks. The effective interest rate, in such cases, works out to approximately 27% per annum (if the remaining loan is assumed to be for a year), though the impression given is that interest rate is around 25%.

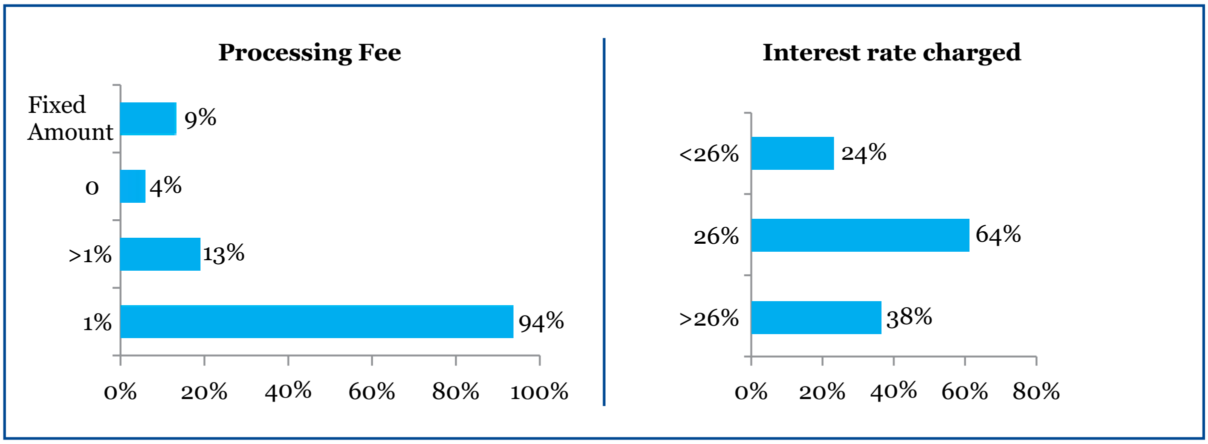


Figure 12: Price Charged by the MFIs

However, MFIs communicate declining interest rates along with flat rates and make the clients aware of the need to remember both interest rates. Clients, particularly illiterate clients, understand flat interest rates better than declining rates, as they have been used to this method for so long – a reason MFIs give to defend their decision to continue communicating flat interest rates.

As far as the extent of awareness of loan terms is concerned, in 19% of the MFIs, a large proportion of clients have basic awareness of product features such as interest rates, loan terms, and the number of instalments to be paid. In about one third of the MFIs, awareness of product features is limited to a small proportion of clients and in about half of the MFIs, awareness of product features is restricted to a medium proportion of clients.

Some of the assessment reports have acknowledged the genuine efforts being made by some MFIs to sensitise their clients on product pricing, terms and conditions and benefits through group training, special training sessions, and workshops and during loan disbursement and other special meetings.

5. COMPLIANCE WITH THE CODE OF CONDUCT - A MICRO VIEW

This section provides a micro level analysis of variations in compliance to the Code of Conduct by classifying MFIs as follows:

a. Outreach (number of clients) – Tier 1, Tier 2 and Tier 3
b. Legal structure – NBFCs, Section-25 Companies, Societies and Trusts
c. Regional presence – presence in five states or less, presence in between five to ten states, and presence in more than ten states

Analysis of data on each of the abovementioned classifications was done under the five key pillars and then further dis-aggregated into the respective parameters. These parameters are – *client origination, loan appraisal, loan pricing, client data security, staff conduct, client relationship and feedback and integrating social value into the operations*. The scores that were given for the parameters were the average scores achieved by the MFIs under a particular Tier. Finally, an overall rating and consolidated scores were provided for each of the parameters.

5.1 Outreach

The following table summarises the scores obtained by each Tier, further dis-aggregated into the various parameters. It also provides a consolidated score of the sample.

On an aggregate basis, the MFIs' performance on the COC tends to show a positive trend with the increase in their outreach size. While Tier-3 MFIs have an overall rating of 75%, this performance is slightly better for Tier-1 institutions.

Outreach				
	Tier -1	Tier -2	Tier -3	Consolidated
Overall rating	79%	77%	75%	77%
Client origination	81%	77%	73%	76%
Loan appraisal	76%	75%	75%	75%
Loan pricing	78%	80%	77%	78%
Client data security	87%	83%	76%	82%
Staff conduct	86%	80%	75%	80%
Client relationship and feedback	72%	69%	69%	70%
Integrating social value into the operations	76%	79%	75%	77%

Table 2: Outreach and COCA Rating

A positive correlation between improvement in compliance and outreach size may be due to MFIs' increased capacity to hire professional managers, and their ability to build better systems and processes. Growth in size is known to add to the bottom line of MFIs which enables them to build capacities and invest in strengthening systems and processes. Tier 1 MFIs have scored high on all systems and processes related indicators such as client origination, loan appraisal, client data security, client relationship and feedback and staff conduct.

Tier 2 MFIs have scored higher than Tier 1 and Tier 3 MFIs on two indictors; loan pricing and integrating social value into operations. This indicates that Tier 2 MFIs have consolidated and focused more on creating value for their customers by rationalizing price and communicating product features well and also by integrating social values into their operations.

5.2 Legal Structure

The overall rating is goes up when we move from less regulated to highly regulated legal entities. NBFCs and Section 25 Companies have scored equally on their overall rating. However on the various parameters the ratings for these two legal formats are marginally different.

Legal Structure					
	NBFC	Section - 25	Society	Trust	Consolidated
Overall rating	77%	77%	76%	73%	77%
Client origination	77%	77%	76%	68%	76%
Loan appraisal	76%	79%	77%	65%	75%
Loan pricing	79%	82%	75%	69%	78%
Client data security	83%	81%	72%	74%	82%
Staff conduct	82%	72%	77%	77%	80%
Client relationship and feedback	71%	63%	71%	71%	70%
Integrating social value into the operations	75%	79%	79%	81%	77%

Table 3: Legal Structure and COCA Rating

Section 25 Companies have scored better than the other three legal formats, as far as loan appraisal and pricing is concerned. This indicates their capacity to evaluate product pricing and also their willingness to pass on the benefits of lowered costs to the end clients. On staff conduct and 'client relationship and feedback', Section25 MFIs have scored less than the other three legal formats. This is difficult to explain; perhaps it is a result of laxity arising from the flux in which Section 25 staff find themselves as they move from an NGO mind-set to the more corporate approach needed for microfinance. As for the parameter on 'integrating social values in to operations', the score shows an upward trend in the reverse direction i.e. as we move from NBFCs to not-for profit entities such as Section 25 Companies, Trusts and Societies. This is easier to explain as not for-profit entities are directed towards achieving social goals and are generally more focussed on business aspects.

5.3 Geographical Presence

In this section, analysis was conducted to understand if geographical expansion has an impact on compliance with the CoC. For this purpose, MFIs were grouped on their geographical presence and an average score was considered.

Regional Presence				
Presence in number of states	0-5	>5-10	>10	Consolidated
Overall rating	76%	88%	77%	77%
Client origination	75%	85%	80%	76%
Loan appraisal	74%	96%	78%	75%
Loan pricing	78%	94%	74%	78%
Client data security	81%	80%	87%	82%
Staff conduct	78%	88%	89%	80%
Client relationship and feedback	70%	88%	67%	70%
Integrating social value into the operations	78%	80%	65%	77%

Table 4 : Regional Expansion and COCA Rating

The data shows that MFIs with a presence in 5-10 states perform better than the other two groups of MFIs. However, as a caveat, this group comprises only two MFIs and both of them seem to be doing well in terms of adherence to the CoC. However, if we compare the first group of MFIs with the third group of MFIs, larger MFIs with a presence in more than 10 states get a better overall score.

The first group of MFIs scored better on a few parameters such as loan pricing, client relationship and feedback and integrating social value into operations.

In the above three tables, patterns based on three different groupings were highlighted. It would be worth exploring such patterns in future COCA studies. If such patterns depict trends, which become visible after a few more COCA studies, SIDBI could consider a separate study to understand the reasons for the emergence of such trends.

RECOMMENDATIONS

The COCA reports have provided a useful repository of information, which can be used to establish the level of compliance by the MFIs in particular and the microfinance sector in general. In addition, the reports present valuable information on the best practices that are being followed and on the negative practices that are still prevalent and have therefore became an issue of concern for us. A negative aspect of some of the reports is that they do not provide any information on some indicators, and this variation exists across rating and evaluation companies and across different reports by the same rating and evaluation company.

This section summarises some of the key recommendations that have emerged from the findings of the study. The recommendations have been grouped into two categories. The first set of recommendations refers to improvements in the practices of the MFIs and the sector at large. The second set of recommendations relate to improvements in the research tools for COCA studies and the usage of these reports.

As a thought leader for the sector, SIDBI needs to take a lead in taking these initiatives forward at all levels: micro level (MFIs), mesa level (industry associations), and macro level (policy makers, RBI etc.).

Recommendations for the Microfinance Sector

- **Strengthen corporate governance practices:** Despite improvements in the size, nature, and composition of MFI boards, a lot still needs to be done to strengthen corporate governance practices. SIDBI along with other lenders should prescribe certain conditions that will encourage MFIs to improve their corporate governance practices. Conditions such as the following should be prescribed for all categories of MFIs even though statutorily these may not apply to all MFIs: one-third of every board should be made up of independent members; every board should have at least one member who is a woman; there should be a Code of Conduct for board members; the constitution of sub-committees should be documented etc. This will help them adopt best practices in preparedness for transformation to a more regulated entity. Furthermore, to ensure the adoption and sound implementation of Social Performance Management and the Code of Conduct by MFIs, industry associations need to prescribe directives that drive the boards of the MFIs to comply in these matters.

- **Incentivise MFIs to increase their product ranges:** Considering the maturity of the microfinance market in India, MFIs must learn from past experience and actively add to their product bouquets. Up until now very few innovations have been made, and in cases where innovations have been made, those innovative products have yet to achieve scale. MFIs continue to be focussed on income generating loans with only 10% of the MFIs offering emergency loans and 40% offering other loan products such as housing, water, and sanitation. A few MFIs are offering savings (21% MFIs) and pension (9% MFIs) products in collaboration with banks (as BC to banks) and as agents of PFRDA. However, these products are in their initial stages and need much more effort from the MFIs as also from the banks and PFRDA to enable them to take off. SIDBI needs to incentivise MFIs to increase their product ranges by providing them with technical assistance to design such products and with specialised funding to market these products on a large scale.

- **Reconsider policy guidelines on income criteria:** SIDBI should act upon the findings of COCA reports and other ratings and generate discussions in the sector on the feasibility of prescribing income criteria for assessing the eligibility of microfinance clients. The stakeholders may suggest more reasonable and practical criteria with regard to the household income of clients, which RBI could consider. To comply with the current RBI prescribed income criteria for rural and urban areas, MFIs take self-declaration statements from clients. However MFIs sometimes treat self-declaration as a mere formality. COCA study teams came across cases where the clients' declared income was far more than the RBI's prescribed limit.

- **Enforce membership of MFIs in credit bureaus and ensure effective use of data:** SIDBI should, as part of its loan conditions, require its partner MFIs to obtain membership of a credit bureau and provide client data to the bureau. MFIs, on their part, should cross verify credit bureau information before granting loans to clients. MFIs are currently heavily reliant on credit bureau information and do not cross verify it from other sources. There have been instances when clients have duped MFIs and managed to take loans from more than two MFIs.

- **Build capacities of MFI staff on cash flow based appraisals:** MFIs should train their staff on quick cash flow assessment techniques to determine clients' repayment capacities. In many cases, it is reported that MFI staff decide on a loan amount based on income and asset information furnished by clients. Income and assets based techniques may not be prudent considering that some clients' incomes fluctuate according to the seasons and the fact that not all assets generate cash. As stated earlier, relying on clients to self-certify household income is not a good practice.

- **Ensure improved compliance with the Code of Conduct:** The consolidation of COCA reports has thrown up interesting findings in terms of the level of compliance by the sector. It also highlights some of the best practices of MFIs as well as the negative policies still being followed by MFIs. SIDBI should use these findings to enforce better compliance with the Code of Conduct by each MFI. The best practices followed by some institutions should be disseminated to encourage others to do the same. Some of the areas that could be improved are training for staff on the Code of Conduct, improved communication, dissemination of information to clients, and robust systems for redressing customer grievances. Based on the observations in this report, SIDBI should make it a requirement that the rating and evaluation companies must report the compliance in greater detail in all their subsequent assessments.

Recommendations for COCA Studies

- **Prescribe a standard set of 'must-have' indicators:** COCA studies were conducted by different companies, some of which were rating companies while others were consulting companies with experience in conducting such assessments. Consequently, there are stark differences in their approach and methodology as well as in their assessment tools. There are not only differences in the parameters and indicators used by them, but also in the manner in which the indicators have been classified and grouped into broader categories. While it is acceptable for each agency to have its own assessment tools, SIDBI should prescribe a broad framework indicating a comprehensive set of indicators that should necessarily be looked at and reported on by all the rating and evaluation companies. This will help to ensure uniformity in the rating reports and confirm that none of the aspects have been overlooked by any of the assessment tools.

- **Prescribe a structure for COCA reports:** Following on from the above, it is suggested that there should be a standardised structure for COCA reports so that there is uniformity in further rounds of Code of Conduct Assessment studies. This will ensure better comparability and enable SIDBI to get more a robust and meaningful outcome at a sector level. SIDBI may consider *MicroSave*'s proposed COCA structure appended in **Annexure -2 .**

- **Develop a comparability matrix for rating scales:** The rating and evaluation companies follow different rating scales to assess an MFI. This flows from the design of their respective assessment tools. SIDBI should develop a comparability matrix that compares the different scales of each assessment agency and use the same for comparing the performance of MFIs, at least for SIDBI's own internal use.

- **Analyse COCA data to generate and disseminate sector-wide information:** SIDBI should study and analyse the reports in detail to not only ensure that data on all sections/indicators is duly reported but that the quality of the data is adequate for meaningful conclusions to be derived from it. Furthermore, with increasing numbers of assessments every year, SIDBI should develop an in-house department to analyse the consolidated data so that emerging trends and the overall performance of the MFIs can be studied on an on-going basis. The release of such data on a periodic basis would be an effective way of disseminating the state of practice with specific reference to the Code of Conduct and Social Performance Management.

Annexure 1: Names and Legal Status of MFIs

MFI Name	Legal Status
Lupin Human Welfare and Research Foundation	Trust
Mahashakti Foundation	Trust
Prayas Jan Vikas Bhandol	Trust
Sree Kshetra Dharmasthala Rural Development Project (SKDRDP)	Charitable Trust
YVU Microfin	Trust
Annapurna Mahila Multistate Cooperative Credit Society (AMCCS)	Cooperative
Annapurna Microfinance Pvt. Ltd. (AMPL)	NBFC
Arohan Financial Services	NBFC
Arth Microfinance Pvt. Ltd.	NBFC
ASA International India Microfinance Pvt. Ltd.	NBFC
Asmitha Microfin Ltd.	NBFC
Bandhan Financial Services	NBFC
BWDA Finance Ltd.	NBFC
Bhartiya Samruddhi Finance Ltd.	NBFC
BSS Microfinance Pvt. Ltd.	NBFC
Equitas Microfinance India Pvt. Ltd.	NBFC
ESAF Microfinance & Investment Pvt. Ltd.	NBFC
Future Financial Services Ltd.	NBFC
Janlakshmi Financial Services Pvt. Ltd.	NBFC
Margdarshak Financial Services Ltd.	NBFC
Mimoza Enterprise Finance	NBFC

Mudra Microfinance Ltd.	NBFC
Pahel Financial Services Pvt. Ltd.	NBFC
RGVN (NE) Microfinance Ltd.	NBFC
Sahayog Microfinance Ltd.	NBFC
Saija Finance Pvt. Ltd.	NBFC
Sambandh Finserve Pvt. Ltd.	NBFC
Shikar Microfinance Pvt. Ltd.	NBFC
SKS Microfinance Ltd.	NBFC
Share Microfinance Ltd.	NBFC
Sonata Finance Pvt. Ltd.	NBFC
Spandana Sphoorty Financial Ltd.	NBFC
Suryodaya Microfinance Pvt. Ltd.	NBFC
SV Credit Line Pvt. Ltd.	NBFC
Swadhar FinServe Pvt. Ltd.	NBFC
Ujjivan Financial Services Pvt. Ltd.	NBFC
Utkarsh Microfinance Pvt. Ltd.	NBFC
Uttrayan Financial Services Pvt. Ltd.	NBFC
Bhartiya Micro Credit	Section 25
Cashpor Micro Credit	Section 25
Humana People to People India	Section 25
Sanghmitra Rural Financial Services	Section 25
Swayamshree Micro Credit Ltd.	Section 25
Saral Women Welfare Society	Section 25
Belghoria Janakalyan Samity	Society
Chanura Microfin	Society
Dhosa Chandaneswar Bratyajana Samity	Society
Gram Bikash Kendra	Society
Seba-Rahara Society	Society
Sahara Utsarga Welfare Society	Society
Mahashakti Foundation	Trust
YVU Microfin	Trust

Annexure 2: Proposed COCA Study Indicators

Indicators	Explanation	Scope
Governance	This indicator will help to assess the governance structure within MFIs. It will also assess the alignment of the board members' individual vision with the vision of the institution, the board members' competency, and their commitment to supporting the institution to achieve its vision.	Assessment of • Board composition and the proportion of independent directors • Board members' individual vision and its alignment with institutional vision • Board members' qualifications and experience • Board members' time commitment and availability

Integrating Social Value into Operations	This indicator will assess MFIs' intentions and actions towards their social missions. It will assess how well an MFI has positioned itself on its social mission and if it truly stands for it.	• Review of the mission, vision and values of the MFI to assess the extent of its commitment to social issues • Review of products and services, including non-credit, to assess if the MFI is able to fulfil diverse client needs • Assessment of the extent of the MFI's investment in social responsibility • Assessment of the breadth and the depth of the MFI's coverage of social activities • Assessment of staff, management and board buy- ins to social commitment • Assessment of the board's involvement in policy formulation on social commitment and the board's overview (and any oversight) on institutional adherence to the formulated policy
Credit Process and Policies	This indicator will help to assess the MFI's policies and practices from client sourcing to loan disbursement.	• Review of following polices o Geographical expansion o Client selection o Client training

Credit Process and Policies Continued	It will throw light on the MFI's focus on its client segment; the strength of the systems and processes which ensure the MFI is getting the set of clients that it intends to attract; the MFI's expansion strategy and its commitment to reach unreached areas and avoid over indebtedness; systems and staff ability to assess the repayment capacity of borrowers correctly and sanction loans accordingly; the MFI's effort to make terms and conditions clear before offering its product and services etc.	o Loan appraisal including credit bureau checks o Loan disbursement o Post disbursement supervision and audit • Review of systems and processesfor the above points • Review of staff understanding and their ability to follow the system and implement policies • Verification of the impact of policies, processes and systems on staff and clients
Human Capital	Assessment of human capital will give an insight into the MFI's strategy of sourcing and training employees. The indicator will also give an idea of how employees are treated by the MFI – whether the MFI has an effective staff grievance redressal system or not.	• Assessment of staff recruitment, on boarding and training systems • Assessment of HR policy and procedure and its effectiveness • Assessment of staff readiness to execute the Code of Conduct • Assessment of staff buy-in to the Code of Conduct • Assessment of the adequacy of training given to staff in client selection, credit appraisal (including cash flow based), client monitoring etc. • Assessment of staff

Transparency and Fairness	This indicator will help us to know how transparent and fair the MFI is with clients. It will cover the MFI's policy for customer data security; the MFI's efforts to educate customers; clients' understanding of product terms and conditions and pricing; the MFI's policy on and system for redressing customers' grievances.	• Assessment of client data security system • Assessment of MFI's efforts to educate customers • Assessment of clients' understanding of product terms and conditions and price • Assessment of customer grievance redressal system
Compliance with RBI's Guidelines	This indicator will assess the extent of the MFI's compliance with RBI's guidelines.	• Assessment of compliance with RBI's guidelines

MicroSave

Market-led solutions for financial services

India - Head Office
B-52, Kapoorthala Crossing,
Mahanagar Extension,
Mahanagar,
Lucknow-226006, UP, India.
Tel: +91-522-2335734
Fax: +91-522-4063773

India - Delhi Office
396,
DDA Flats,
Sector 22, Dwarka,
New Delhi-110045,
India.

India - Hyderabad Office
23, Sai Enclave,
Road No. 12, Banjara Hills,
Hyderabad-500034, AP, India.
Tel: +91-40-23386140

E-Mail: Info@*MicroSave*.net . Website: www.*MicroSave*.org