

**CODE OF CONDUCT
ASSESSMENT
FOR
ASMITHA MICROFIN LIMITED**



Date of Report -11th June, 2012

EXECUTIVE SUMMARY

The Code of Conduct report for Asmitha Microfin Limited (AML) evaluates the company's adherence various code of conduct parameters. The study examines and comments upon the common minimum indicators such as:

- Client Origination & Targeting
- Loan Pricing & Transparency
- Loan Appraisal
- Privacy of Client Information
- Staff Behaviour & Client Grievance Handling
- Integrating Social Values Into Operations
- Relationship Management and Feedback Mechanism
- Compliance Status of MFI vis-à-vis the Recent RBI Guidelines

SMERA believes that AML exhibits an above average level of adherence to all parameters and consequently complies well with the code of conduct laid out. This documents details SMERA's approach and methodology for this study and gives observations of its assessment team while conducting the evaluation. The Approval; Documentation; Dissemination and Observance (ADDO) framework has been used for assessment and measuring AML's adherence towards ethical operational practices.

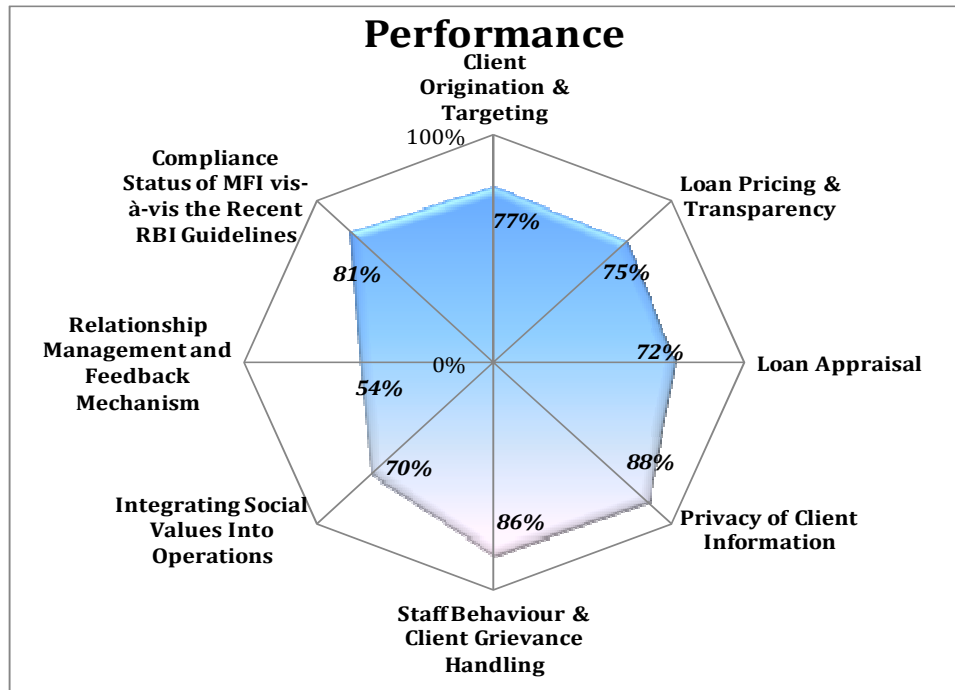
RATING

Code of Conduct Assessment Score : 76%, COCA Rating - 3 (Above Average Level of Adherence)

RATING SCALE

Rating	Rating Definition
COCA 1	Very High Level of Adherence
COCA 2	High Level of Adherence
COCA 3	Above Average Level of Adherence
COCA 4	Average Level of Adherence
COCA 5	Below Average Level of Adherence
COCA 6	Low Level of Adherence

MATRIX



SCORES ON PARAMETERS

Code of Conduct Parameters	Obtained	Maximum Score	% Performance
Client Origination & Targeting	17	22	77%
Loan Pricing & Transparency	12	16	75%
Loan Appraisal	13	18	72%
Privacy of Client Information	7	8	88%
Staff Behaviour & Client Grievance Handling	30	35	86%
Integrating Social Values Into Operations	7	10	70%
Relationship Management and Feedback Mechanism	15	28	54%
Compliance Status of MFI vis-à-vis the Recent RBI Guidelines	26	32	81%

SNAPSHOT

MFI Name	ASMITHA MICROFIN LIMITED
Head Office Address	7 th Floor, Splendid Tower, Opp. Begumpet Police Station, Begumpet, Hyderabad - 500 016 Andhra Pradesh India
Email	aml@asmithamicrofin.com
Webpage	www.asmithamicrofin.com
Line of Business	Microfinance services using joint liability group model
Chief Executive	Mr. Reykam Jayasurya, Chief Executive Officer
Legal Form	Non-Deposit Taking - Non Banking Financial Company (ND - NBFC)
Year of Starting Microfinance	2002
Operation Area	14 States
No. of Branches	566
Total Staff	2,897
Visit of the Assessment Team	December, 2011

BACKGROUND AND LENDING METHODOLOGY

Asmitha Microfin Limited (AML) was incorporated in the year 2002 and registered with the Reserve Bank of India under section 45/1A as a non banking financial company (NBFC), AML is a microfinance institution (MFI) that provides women an access to financial resources in the form of collateral-free group and individual loans for income generation purpose. Clients are organized in groups of five members who co-guarantee each other and attend meeting for repayment and 8-10 such groups constitute a center. AML also gives strong emphasis on providing life insurance to its clients. AML has presence in 14 states i.e. Andhra Pradesh, Orissa, Karnataka, Maharashtra, Bihar, Jharkhand, West Bengal, Uttar Pradesh, Chhattisgarh, Madhya Pradesh, Tamil Nadu, Gujarat, Rajasthan and Goa.

OBJECTIVE OF THE STUDY

The objective is to evaluate AMLs adherence to the code of conduct laid down by Sa-dhan and MFIN,

The broad parameters for assessing the Code of Conduct are as follows

- Client Origination & Targeting
- Loan Pricing & Transparency
- Loan Appraisal
- Privacy of Client Information
- Staff Behaviour and Client Grievance Handling
- Integrating Social Values into Operations
- Relationship Management and Feedback Mechanism
- Compliance Status of MFI vis-à-vis the Recent RBI Guidelines

FRAMEWORK AND SCOPE

The current perception surrounding Indian microfinance paints all entities across the sector in the same shade. However the fact that microfinance organizations display significant variations is important and needs to be adequately brought out. SMERA has always comprehensively and holistically assessed the risks involved in MFI operations and the resultant social impact of MFI operations.

Besides evaluating creditworthiness of MFIs, SMERA also assess trustworthiness, operational excellence, quality of loans of MFIs, socio-economic impact and MFIs emphasis towards ethical behavior and responsible lending.

SMERA has used the following framework for assessment of MFIs - The Approval; Documentation; Dissemination and Observance (ADDO) framework for measuring adherence of MFIs towards ethical operational practices.

As part of the assessment, SMERA visited 12 branches of AML in Orissa. The assessment was conducted as per a specific methodology and questionnaire Details of branches and methodology are provided in Annexure I and II).

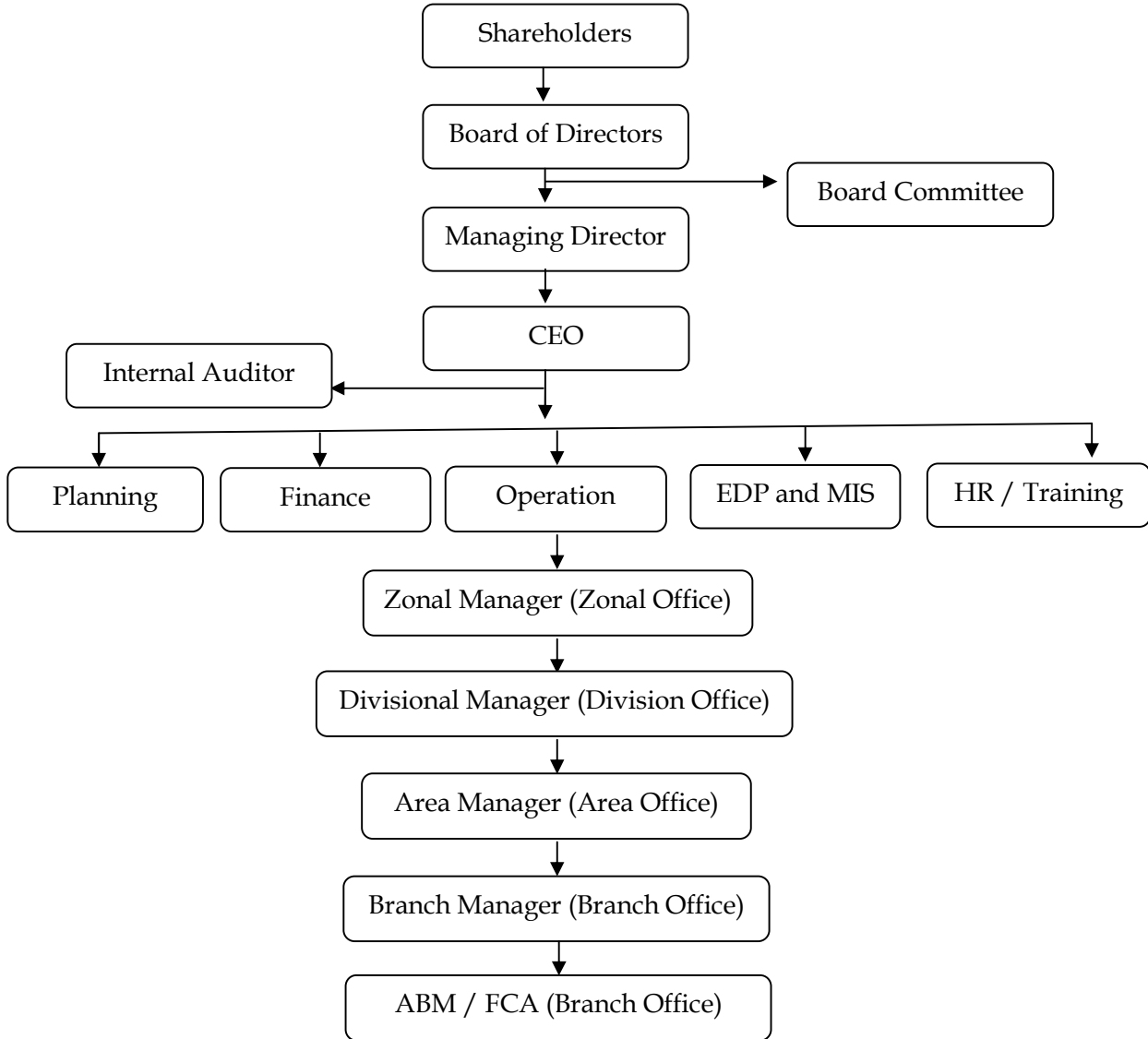
LIST OF DIRECTORS

List of Board of Directors	
Dr. Vidya Sravanthi	Chairperson & Managing Director
Ms. Sarah Djari	Director
Mr. Swarup Valaparrla	Director
Ms. Vaishali Vaidya	Director
Mr. Utpal Isser	Nominee Director
Mr. Manoj Mittal	Nominee Director
Mr. Reykam Jayasurya	Chief Executive Officer

HIGHLIGHT OF OPERATIONS

Particulars	31-Mar-2010	31-Mar-2011	30-Jun-2011
Number of Offices	574	602	568
Number of Staff Members	3,541	3,479	3,200
Number of Active Borrowers	1,340,288	1,341,524	1,244,087
Number of Loan Outstanding	2,167,264	2,037,702	-
Gross Loan Portfolio (₹ in thousands)	14,185,327	13,247,752	11,168,000
Average loan balance per borrower (in ₹)	10,584	9,875	8,977
Borrowers per staff member	379	386	389

ORGANOGRAM



CLIENT ORIGINATION & TARGETING

Score - 77 %

Client origination is central to ethical microfinance operations. The code of conduct requires MFIs to practice ethical client origination while enhancing access to financial services. Also, an MFI's commitment to targeting low income clients demonstrates its social mission. The way an MFI identifies and grows its client base must be approved by the board. The board should also ensure that the MFI's product and services reach suitable clientele.

Field Credit Assistant (FCA) is responsible for client origination in AML. FCA conducts the area / village survey to form the group through secondary and primary data. The criteria for selection of new villages are: population density, history of area, proximity to existing operational areas, sources of income, other loan sources, infrastructure facilities, etc.

Eligibility criteria for membership and group formation are: age, household income, availability of know your customer (KYC) documents, no family members in the same group, members belonging to same locality, willing to take group responsibility, lending for income generation purposes only.

Once the area is selected, FCA organizes a Public Orientation Meeting (POM) in the area (before starting group formation in a particular village). During POM, FCA informs members about AML, objective, product & services, lending methodology, etc in a large gathering and invites them to form into group of five members.

The identification of right target client, household income, individual income and is a challenge for AML. Targeting poor is one of the approaches which AML follows. However, AML depends on the self-declaration given by the clients rather than using an alternative approaches such as housing index or asset classification. *SMERA's assessment team has observed that some of the borrowers were above the poverty line and their annual income was more than their annual household income as prescribed.*

Such information is further reinforced during the Compulsory Group Training (CGT) for a minimum period of 7 days. The objective of CGT is to educate the members on financial and non financial aspects such as product & services, interest rate structure, repayment schedule, insurance charges, group responsibilities, how to sign, proper utilization of loan, prompt repayment, attendance, grievance mechanism, KYC documents etc.

The following measures / documents are taken to ensure identity of the clients.

- Photograph of member along with spouse / guardian
- Proofs of identity and address are collected from all the applicants. *However in few cases the assessment team has observed that the proof of identity was not available with the loan form application; instead of it the declaration from the Sarpanch of Village was attached as identity proof.*
- Income certificate / Below Poverty Line Card
- FCA visits client residences prior to enrolment.

AML has adopted MFIN's code of conduct where it has committed to ensure that

- AML will not be the third lender to a client.
- Total exposure of the client will not be more than ₹ 50,000.

This is clearly communicated to the clients at the time of group formation itself and information pertaining to indebtedness of clients is obtained in the loan application forms of the clients (for new loans as well as for renewal of loans). Additionally, from November 2011, the organization has started using the services of a Credit Bureau "High Mark" to check indebtedness of the clients. AML sends details such as name of the client, father / husband name, address, date of birth to the High Mark in the prescribed format. High Mark responds on the same in 12 hours and provides an overlap report of the client which contains the details of loan from other MFIs', overdue amount and days, etc. *During the visit the assessment team has observed that the members have taken loan from more than 2-3 MFIs; however in most of the instance it was found that the AML was the first lender to those clients.*

As per the policy, the repayment of the loan / centre meeting should be made only at a central designated place. *However the assessment team has observed in 05 out of 12 branches, the centre meeting was conducted on the house of the members at their own choice of designating that place as "Centre Meeting". In few cases the proper screening of borrower was also not done on account of which the loan got defaulted (As per example 1).*

Staffs have been trained on how to apply this aspect of the code of conduct and there are checks as well as sanctions to ensure that the code is being followed. AML provides an incentive to the FCA on the bases group formation.

Example 1 – Ms. Satyabhama Behara is a member of centre Harirajpur - B of Pipli Branch.

The borrower has availed loan of ₹ 20,000 from AML on January, 2011 (current outstanding ₹17,800). and has defaulted on the loan because the loan disbursed was in turn given by the borrower to some other person who migrated. The original borrower was also indebted to SKS and various moneylenders by over ₹50,000.

As informed by the borrower; no passbook was given by AML. The family income was nil as on that date, however the borrower was receiving daily labour wages occasionally. The assessment team is of the opinion that proper screening of the client and utilization check of loan was not done in above case.

Approval	Documentation	Dissemination	Observance
<ul style="list-style-type: none"> AML has approved principles of ethically originating clients. This includes ensuring identity of clients before application of loans through appropriate documentary evidences and non-involvement of unauthorised agents in the client origination process. The focus is on being the not being the third lender to a client and utilizing the services of credit bureau. 	<ul style="list-style-type: none"> Manuals and process notes clearly specify the directions for obtaining KYC documents from client. The procedure for conduction POM and client origination is clearly laid out. 	<ul style="list-style-type: none"> AML has a strong system of dissemination of its approved policies through training. Training on client orientation forms the part of AML's induction training for its staff. 	<ul style="list-style-type: none"> Interviewed Staff members were aware of the client origination process and latest products. In several instance members were availing loans from more than 2-3 MFIs'; however AML was the first lender. In many cases the centre meetings were not conducted on the central designated place; however it were conducted at borrower's houses at the own choice of borrowers of respective centre. Identity proof was not available with the loan application form; instead, the declaration from the Sarpanch of Village was attached as identity proof.

Client Origination & Targeting	17	22
Approval	3	4
Documentation	3	3
Dissemination	4	5
Observance	7	10

LOAN PRICING & TRANSPARENCY

Score - 75 %

The transparency observed by the MFI in terms of pricing of loans is examined in detail. The effective interest rate charged by the MFI, loan processing charges, additional charges taken if any, security deposits or advance installments that may change the effective interest rate is evaluated in detail. The scientific determination of loan price (interest rates) reflects well on the MFI's management and it also shows how effective the MFI is in providing loans to the clients at the least possible cost.

SMERA covers transparency by assessing honesty, communication, and accountability of the practices of MFI through sub parameters such as frequency of training given to clients, disclosure of terms and conditions of MFI, measuring awareness of the terms and conditions through client visit, language used in the disclosure and surprise visit conducted by the MFI staff.

Currently AML charges interest of 26.0% per annum on the loans it provides on a reducing balance basis and processing fees of 1% of loan amount plus service tax. In the past, interest rates charges by AML have varied from 10% to 12.5% per annum on flat basis.

The assessment team observed that earlier AML used to charge interest at 10 to 12.5 per cent per annum on flat basis plus upfront fee of 1 to 2.5 per cent comes to a total effective rate of 28% to the client; however, it has currently been revised to 26.0 per cent per annum on a reducing balance basis after the directions issued by RBI to cap the interest rate.

AML bundles the credit services with life insurance and also collect the actual premium charges for providing life insurance cover equivalent to the loan amount to the client and spouse. In the event of death of the client or spouse during the term of the loan, outstanding loan amount is waived off and the amount already paid by the client is refunded to the nominees. AML has tie up with Bajaj Allianz Life Insurance Company Limited and Life Insurance Corporation of India.

AML maintains high transparency in the interest rates charged to its clients. The organisation discloses all terms & conditions of all financial products to the borrowers inclusive interest rate on the loan, insurance premium and processing fees in written as well as verbal communication at the time of training. The details of products / services offered along with the charges such as interest, processing fee, insurance, etc have been displayed in all the branches of AML. The details are printed on the passbook of the borrower in the regional language. *The assessment team of SMERA has observed in few cases that the borrowers were not aware of interest rate and other fees charged; however they were familiar with the installment amount.*



AML does not charge any penalty for delays in repayment of installments. Interest cease to be charged on the loan accounts in case it is past its loan term. Therefore, total amount to be paid by the clients does not exceed what has been communicated to them at the time of the disbursement even when the loan becomes overdue.

If a client wants to prepay, she is required to pay the outstanding principal as reflected in her loan account along with the outstanding interest or ₹ 100 whichever is higher. *In relation to prepayment of loan the assessment team observed that in some cases although loans were closed (by prepaying the outstanding balance) the same was not being reflected in the collection sheet and borrowers pass book (example 2).*

Example 2- In the meeting of Nanghamala Centre in Bhadrak District, it was observed that 04 clients out of 25 have closed their loan by prepaying their outstanding loans. However at the time of visit, we observed that the loans were reflecting in the collection sheet as well as the passbook was also not cancelled by the FCA. Hence SMERA's believes that AML could be more cautious in respect to recording the details of prepayment.

Approval	Documentation	Dissemination	Observance
<ul style="list-style-type: none"> • AML's board has approved principles of pricing loans and transparency in a responsible manner. 	<ul style="list-style-type: none"> • The loan pricing criteria and method of charging have been clearly documented in the policy manuals of the organization 	<ul style="list-style-type: none"> • Interest rates and all other charges on the loans are mentioned clearly on the loan passbooks provided to the clients and displayed on the wall of each branch in regional language. They are also told about this during the CGT conducted by the FCAs. 	<ul style="list-style-type: none"> • Level of awareness of the clients about the interest rates and method of application and other charges was observed to be low. However, almost all the clients are aware of the installments size, duration. • AML could take more precaution on the loans being prepaid.

Loan Pricing & Transparency	12	16
Approval	2	3
Documentation	1	1
Dissemination	2	2
Observance	7	10

The selection of the right kind of borrower is critical for the success of the MFI. The appraisal processes followed by the MFI, the checks and balances, know your customer (KYC) documents collected by the MFI to verify the genuineness of the borrowers, the process adopted by the MFI to avoid multiple lending / over-indebtedness and requirement of the loan are assessed in detail. The loan appraisal should take into account the repayment capacity of the clients given the loan sizes and the duration of the loan.

Loan appraisal is primarily the responsibility of the BM / AM. Once the CGT is completed, BM / AM conduct Group Recognition Test (GRT) and services (Insurance and lending) are provided only after completion of GRT. In GRT, BM / AM seek clarifications on the dynamics of the group, credit mechanisms, organizations product & services, terms & conditions, interest rate, purpose of loan, etc. They visit each member's residence to check the ownership of house, cross check the members profile and KYC documents with original. *However it was observed that the process was not adhered in one case (See the example 3).*

BM/AM also interacts with borrower's spouse for confirmation on loan. After establishing the genuineness of the member BM/AM approves the group and member data is updated in the MIS software. At the time of GRT, members are informed about the company's code of conduct and client protection policies.

After approval of group, eligible members fill the loan application and submit the same to the FCA. Application is collected in the ratio of 3:2 from new groups, FCA recommends the loan application, however the BM approves the loan. AML has a policy of processing the application within 2 weeks from the date of uploading the data in the system. Any application pending in the system for more than 4 weeks is deactivated and such deactivated records are being maintained separately in the data base with the reason for deactivation.



AML has a policy of recording the annual and weekly income of the borrower in the application form and the value of the loan taken from other MFIs based on the information provided by the client, installment amount and value of loan outstanding (*a relatively new process which has begun from last 2-3 months, earlier the application form provided for this, but details were not being captured*). On the basis of this information BM decides the value of the loan. The sanctioning authority rests with the team of Centralized Loan Application Approval Process (CLAP) which located at Head office of the company, who sanctions the loan after reviewing the client's history based on credit bureau report received for her. Based on the CLAP sanctioning, BM disburses the loan in the presence of Area Manager to the client whose loan applications were got approved through CLAP. Without sending the application to CLAP, BM or any person cannot directly sanction or disburse the loan to any client. *SMERA's team came across few application forms where weekly income was either equal to or less than EMI amount. Further in some instance some clients had borrowed from other MFIs but this was not recorded in the loan forms as this was not informed by the borrower to the respective field staff of the Company while verification of client details.*

The loans of AML are extended only for income generation purpose. The application form and loan pass book of members contains the detail in respect to purpose of loan. *During interaction with the borrowers, in many cases the loans were utilised for a purpose other than that mentioned in the application form and loan pass book; however the loan was been used for income generation activities only.*

AML has a policy of conducting loan utilization check (LUC) after disbursement and record the details on the back of the passbook. *However, the assessment team has observed that the loan utilisation check was not done adequately resulting in mismatch in the purpose of loan and consequently default in few accounts (See the Example 4).*

Once the loans are approved by BM, the initial centre meeting is held in the next week, here the concerned FCA intimates members about the sanction of loan, charges to be paid, etc.

In the subsequent week, disbursement is made in cash at the respective branches in the presence of all borrowing group members and their spouse. The loan repayment starts from next week of disbursement; however from December, 2011 AML has started providing one week moratorium for the repayment of principal in line with RBI guidelines.

As per the policy, centre meeting and loan repayment should be at a central designated place. *However the team observed that in 05 out of 12 branches, centre meeting was conducted in the house of the borrowers at their own choice of designating that place as centre meeting.* AML issues loan passbooks to each borrower and inform them to keep the respective passbook with themselves at the time of group formation; *however it was observed that the passbook of the borrowers are kept with either group leader or centre leader.*

Example 3 - Ms. Phulahembram is a member of Kachahudi Sahi Centre of Jajpur Road Branch in Jajpur district. She has availed 2nd cycle loan of ₹10,000 for purchasing an Ox; (purpose mentioned in the passbook was purchase of Goat). The Ox was given by the borrower to her brother-in-law who stays in another village and was engaged in agricultural activities.

The borrower's residence was far from the centre meeting place. The house was not in a good condition and this was not verified by the FCA (despite all other borrower houses being verified). The borrower was staying illegally on the plot (owned by the government).

Moreover the borrower did not have information about KYC documents submitted and the customer complaint number mentioned in the passbook.

Example 4 - Ms. Jyostinamani Das of Balasore Branch in Balasore District (an active borrower for last four years). She has defaulted to the loan of AML; at the time of default she was availing two loans to tune of ₹15,000 and ₹20,000. Upon enquiry, AML's staff realized that the loans availed by Ms. Jyostinamani Das were in turn given to Mr. Ravi Giri against commission of 30% of loan amount (on terms that loan repayment will be done Mr. Giri). However Mr. Giri absconded with the money and consequently Ms. Jyostinamani Das defaulted.

At the time of discussion the team was realized that all previous loans availed were also given to Mr. Giri against commission and repayment was made by him on time. In the application she has mentioned the purpose of loan as grocery shop and agriculture; however AML staff was not able to assess the same post disbursement. Upon further enquiry it was found that the entire centre had taken loan for on-lending from major MFIs on commission basis and defaulted on the same.

Apart from the loans of AML, the borrower had also availed loans from SKS, Spandana, Bandhan, Basix and Kalyani to the tune of ₹ 10,000, ₹ 18,000, ₹ 10,000, ₹ 7,500 and ₹ 7,500 respectively. All loans sanctioned by various MFIs were used for the same purpose.

Approval	Documentation	Dissemination	Observance
<ul style="list-style-type: none"> • AML policy requires that adequate loan appraisal be performed before disbursing a loan and carefully examine the repayment capacity of the borrowers. AML give more emphasis on the utilization of loan for income generation only. 	<ul style="list-style-type: none"> • The guidelines for appraising a loan application are clearly documented in the operational manual. Information pertaining to income, purpose of loan, economics of the project being funded and the indebtedness of borrowers' households is obtained at the time of loan application. 	<ul style="list-style-type: none"> • The branch staffs were found to be well aware of how to conduct the loan appraisal as per the guidelines. 	<ul style="list-style-type: none"> • All the loan applications verified contained an details of income; however the details pertaining to loans from other lenders has been started capturing from last 2-3 months. • The process of utilization check was not adequate as in several instances the purpose of loan was not matching which have also result into default on loans.

Loan Appraisal	13	18
Approval	3	5
Documentation	4	4
Dissemination	3	3
Observance	3	6

PRIVACY OF CLIENT INFORMATION

Score - 88 %

Client confidentiality is an important concern of any organization. MFI collects personal information about its clients that is either required or necessary to provide with financial products or services. The MFI should not disclose or misuse non-public personal information to affiliates or non-affiliated third parties, except as permitted by law or client privacy policy disclosure. For this, SMERA assessed whether MFI maintains physical, electronic and procedural safeguards for the client information.

AML has an adequate system of storage and retrieval of documents and information collected from the clients. The files containing documents and members profile are kept at the respective branches. The relevant data is entered into the MIS software “mfEXPERT”, which has well defined access rights by the branch staff who have their individual user ID and password. *However it was observed that the password and user ID was known to entire branch staff including BM and FCAs. Branch staffs have access to entire data of client.*

Approval	Documentation	Dissemination	Observance
<ul style="list-style-type: none"> AML’s policy requires that the information received from the clients is stored properly and unauthorised access is prohibited. 	<ul style="list-style-type: none"> Process manuals provide adequate guidelines on how the client documents and information has to be recorded and files have to be stored. Accessibility rights to the data have been defined for software “mfEXPERT” 	<ul style="list-style-type: none"> All the branches visited displayed consistent awareness of data storage processes and staffs are trained on the approved policies through training. 	<ul style="list-style-type: none"> All the files are kept properly in all the branches. Branch staffs have access to entire data of client. Password and user ID of one FCA are known to entire branch staff including BM and other FCAs.

Client data security	7	8
Approval	1	1
Documentation	2	2
Dissemination	2	2
Observance	2	3

This section evaluates the process of the MFI with respect to staff selection, appraisal and incentive mechanism, staff behavior with clients, effectiveness of the client grievance mechanism.

Staff Behaviour -

AML has adopted policies and provide adequate emphasis on the conduct of its staff members towards the clients. The following are the important aspects of the expected behaviour of field staff towards the clients.

1. Staff should always behave politely with the clients and their family members. They should not use insensitive / vulgar language when talking with clients.
2. Family members of the staff should not join / continue as a client
3. Staff should not visit clients on their leave / holidays declared by the company except during their regular business meetings.
4. Staff should not accept any gifts or eatables from the members, even a glass of water.
5. All the staff should always be dressed formally and carry the ID cards along with them during their official work.
6. Staff should not accept any amount in excess of prepayment/collection or borrow any amount from members.
7. No staff should meet or attend any functions of the members

AML has written HR manual related to selection, recruitment, training, evaluating the staff performance and promotions. Field staff recruitment is done by HR department through advertisement in newspaper or campus interview. AML mostly selects freshers or candidates with limited experience having minimum education of 12th grade. AML has standards for recruitment & selection of the staff; the applicant has to go through written test and personal interview. AML also conducts the background check of the applicant and also demand for the reference of 2 persons (Government staff and employee of private company). AML has formed a separate training team, who provide induction as well as refreshment training to the staff members. Training team have prepared an induction schedule for the new recruits according to which the training is provided to each staff of the organisation to ensure that staff is trained on product, process, technology, etc.

One of the important aspects of staff's induction training is conduct towards clients. Detailed guidelines have been provided to staff in the policy documents as well as operational manual regarding the way they should interact with the clients.

AML has implemented an incentive-based pay structure for the staff on the performance based on group formation only. Promotion of staff is done in the organisation from one job position to another on the basis of the staff performance and organisation requirement. AML has the policy of transferring the field staff within the branch on quarterly basis; *however it was observed in the sample branches visited; few FCA's were working in the same area for more than 6 months.*

Loan collection and recovery process -

MFIs should develop collection practices that require all clients to be treated with dignity and respect, even when they fail to meet their contractual commitments. Clients should also be aware of the debt recovery practices of the MFI. They should be aware of what to expect in case there is a delayed payment or a default.

All the borrowers are required to meet every week at centre meeting for the purpose of repayment of their weekly installments. These meetings are also attended by the FCA, who carries collection sheets (which specify how much is to be collected from each member, group and centre) generated through system. The group leader collects the installments from the respective groups and hands over the amount collected along with the loan passbook to FCA. FCA after ensuring that the amount is correct updates the client's passbook.

In case one or more members of the group are unable to pay the installment, other members of the group are asked to contribute on their behalf, reminding them of the group liability. In case the amount does not come till the end of the meeting, FCA disperses the meeting and proceeds to the next meeting. He informs his BM about the issue and takes an appointment with the borrower and group leader as to when should he come next for collection of overdue installments. *The assessment team has observed that the FCAs or other staffs visit the house of the delinquent client for overdue installments.*

An important aspect of the recovery procedure is that although there is high degree of emphasis on timely recovery and application of peer pressure, this does not always mean that all the scheduled installments should come on the same day. In case, one or more clients of the group are not able to repay during the scheduled centre meeting, the FCA proceeds to his next meeting and comes back for the follow-up at the scheduled time. *However example 5 was found contrary to this procedure.*

After the draft guidelines of RBI, loan amount for the tenure of 50 weeks (one year) has been decreased to not more than ₹ 15,000. In all the branches assessment team has come across a common complaint; the enhancement of the credit limit to the tune of more than ₹ 15,000 for the tenure of 50 weeks. AML team has informed the clients about the changes prescribed in the guidelines of RBI and for the higher amount of loan i.e. above ₹ 15,000 the tenure of repayment would be 100 weeks (two years).

Example 5 – Ms. Akhima Bibi of Salipur Branch in Cuttack district has taken loan of ₹20,000 from AML which was closed down 3-4 months back; whose monthly installment comes to about ₹1,875. During that point off time; she was availing two more loans from SKS and Spandana.

For the last EMI she was unable to pay her installments on account of cash flow issues in her household; however she was expecting to get the income after one day from the scheduled date. On the scheduled date of installment, her group members paid their own installment but did not share the installment of Ms. Akhima Bibi. She asked the FCA / BM to come next day to collect the repayment.

The BM however was present in the borrower’s house from 08.00 am to 01.00 pm for repayment. The borrower consequently mortgaged her jewellery and repaid the installment. After closing her outstanding loan; when she again came in the centre meeting on next week for applying new loan; she was refused to apply for new and attend the centre meeting by the group members and BM. She also had complaint against one FCA whose behavior was very rude.

Approval	Documentation	Dissemination	Observance
<ul style="list-style-type: none"> Various policies of the organization provide adequate directions for staff to treat client with respect and dignity. Clear directions are there on how to deal with situations where one or more clients are facing problems in repayment of installments. 	<ul style="list-style-type: none"> There are detailed guidelines in the policy and operational manuals on the expected conduct of the staff members with the client and grievance handling. 	<ul style="list-style-type: none"> The entire branch staff members interviewed displayed a high level of awareness on staff behaviour & client grievance handling. AML has also conducted training for staff involved in recovery efforts. 	<ul style="list-style-type: none"> All staff was found to be aware of the rules of staff conduct and grievance handling. Behaviour of staff towards clients was found to be professional in all situations encountered, except one described above in example.

Staff Behaviour & Client Grievance Handling	30	35
Approval	7	7
Documentation	6	6
Dissemination	8	10
Observance	9	12

INTEGRATING SOCIAL VALUES INTO OPERATIONS

Score - 70 %

Sustainability is an increasingly relevant issue for MFIs; accordingly sustainability management strategies and practices are significant. For example, appropriate environmental and social performance objectives, targets and indicators need to be integrated with quality, cost and other more conventional performance measures. SMERA assess governance, board composition, and area of expertise of the board, how social values are assessed by the management or board and the transparency in financial accounting.

AML maintains a high standard of governance and integrity by inducting persons with good and sound reputation in the industry and understanding of microfinance as members of board of directors or governing body. AML has qualified and professional board having diversified functional expertise. The board members are actively involved in policy making and approvals, fund mobilization, responsible for all decisions at a strategic level, approving business plan & new products, reviewing the performance and other important decisions pertaining to AML. Board also performs functions such as review of financials and discussion on the auditor's report, committee report, etc. The senior management team updates the board regularly on operations and key developments in each department.

AML maintains a high standard of integrity by inducting policies to attain the vision of the organisation to improve the quality of life of the poor by providing access to financial and support service. AML provides the financial facilities only to women for income generation purpose to establish a sustainable business and in turn enabling them to reduce their poverty and to attain the social value. *SMERA believes that AML could also provide the loans for other important purposes like sanitation, water or health which could help the borrower to improve their quality of life.*

The tenure of the loan provided to the borrower differs according to loan amount, as per RBI guidelines to protect the poor client.

AML provides life insurance services to the borrower and its spouse equivalent to the loan amount. In the event of death of the client or spouse during the term of the loan, outstanding loan amount is waived off and remaining amount is refunded to the nominee. *The assessment team has observed even after the death of the client or spouse; they have to repay the loan installment till the death certificate is submitted to AML despite the FCAs confirming the death of the borrower.*

Approval	Documentation	Dissemination	Observance
<ul style="list-style-type: none"> • AML has approved principles of social values into operations. 	<ul style="list-style-type: none"> • AML maintains integrity by inducting policies or process notes to attain the vision of the organisation to improve the quality of life of the poor by providing access to financial and support service. 	<ul style="list-style-type: none"> • AML has a system of dissemination of its social values into operations. 	<ul style="list-style-type: none"> • AML maintains a high standard of governance and integrity into operation. • Borrower has to repay their loan installment till the death certificate of client or spouse is submitted to AML despite the FCAs confirming the death of the borrower.

Integrating social values into operations	7	10
Approval	1	2
Documentation	2	2
Dissemination	2	2
Observance	2	4

RELATIONSHIP MANAGEMENT AND FEEDBACK MECHANISM

Score - 54 %

MFI's need to build sustainable and long term relationship with clients. Sound relationship management enhances the quality of the clients' experience with the MFI. This allows the MFI to better understand clients' needs and grievances. MFI's need to have formal mechanisms to get feedback and complaints from the clients. Customer complaints should be taken seriously, investigated and resolved in a timely manner. Responsibilities relating to receiving client grievance, feedback and action plans need to be clearly identified and allocated. SMERA evaluates these practices in detail

AML has a policy to be responsive to client feedback and established dedicated feedback and grievance redressal mechanisms. As per the policy every branch has to have a complaint box for clients and employees and the key to the complaint box were to be kept with the area manager. *However in few of the visited branches; the keys were kept with the BM instead of AM. The number of complaints in the box was very few.*

Phone numbers of the FCA and BM are available with members of the center. Apart from this, the customers complaint number of the head office is also pasted in the passbook provided to the clients and the same has been displayed in all the branches of AML in regional language. In the Head Office, there is a dedicated person who knows few languages to receive clients' complaints over the phone. He maintains a formal register of clients and staffs complaints separately; however from November, 2011 AML has started maintaining all the complaint information in the system directly. SMERA's believes the concerned individual with limited local dialect knowledge would not be effective in handling complaints from aggrieved customers (who may invariably air their concern in local dialect). Therefore *SMERA believes that AML could appoint a separate regional customer care representative for every state which would enable them to maintain the adequate grievance handling and redressal mechanisms.* There is a laid out procedure of receiving and responding to complaints on this number. Once the complaint is received, it is forwarded to the operations department who in turn forwards it to the concerned Area Manager. The Area Manager ensures and reports that the complaint is resolved to the satisfaction of the client or as per the policies.

Clients have been informed of this mechanism during training; however most of clients visited were not found to be aware of this mechanism and the number pasted in the loan passbook. Also the team observed that the code of conduct pasted on branch office was in English language.

In order to disseminate call centre number to all field staff and borrowers in a cohesive manner AML could launch a campaign for increasing awareness of MFIN – Sa-Dhan code of conduct among borrowers.

AML has undertaken several other initiatives to improve its relationship with the clients. Some of these are mentioned below.

- Mobilization of clientele and Building self-confidence
- Training on leadership, group responsibilities, numeracy
- Business management among the members
- Capacity building workshops
- Building awareness in Health, Education, Insurance etc.
- Supplementary Loan Products for Diversification / Expansion
- Business development services

Approval	Documentation	Dissemination	Observance
<ul style="list-style-type: none"> • The policy provides adequate and appropriate directions for addressing complaints from clients, feedback mechanism and maintaining sound relationships with them. 	<ul style="list-style-type: none"> • Product and operational manuals provide detailed guidelines regarding collection of feedback from client and actions to be taken upon them. The complaint boxes in each unit and complaint number have to be provided in loan passbook of clients. 	<ul style="list-style-type: none"> • Phone numbers of the centralised customer helpline number is printed on the loan passbook provided to the clients. They are also informed of the grievance redressal mechanism during the trainings. 	<ul style="list-style-type: none"> • Most of the clients visited were not aware of the customer helpline number. • Generally clients said that they were satisfied overall with the services of the AML.

Relationship Management and Feedback Mechanism	15	28
Approval	1	2
Documentation	4	7
Dissemination	3	6
Observance	7	13

COMPLIANCE STATUS OF MFI VIS-À-VIS THE RECENT RBI GUIDELINES

Score - 81 %

SMERA examines the adherence level of the MFIs with respect to the recent draft guidelines issued by RBI. Thus the Code of Conduct exercise involves a comprehensive review of MFIs policies and systems and whether these translate into ethical microfinance practices.

AML has complied with the most of terms of recent draft guidelines issued by RBI. Such as

- Provide micro finance services to all eligible clients with a rural household annual income not exceeding ₹ 60,000 or urban and semi-urban household income not exceeding ₹ 120,000.
- Loan amount in the first cycle does not exceed ₹ 35,000 and ₹ 50,000 in subsequent cycles; further the total indebtedness of the borrower should not exceed ₹ 50,000.
- Tenure of the loan is more than 24 months for loan amount in excess of ₹ 15,000.
- 100% of loans are extended for income generation.
- RBI's guidelines with respect to interest charges not exceeding 26% per annum and calculated on a reducing balance basis.
- Should not be the 3rd lender to a client; if the client has loans from 2 other lenders.
- Moratorium of one week between the grant of the loan and the due date of the repayment of the first installment.
- Copies of relevant documents from clients, as per standard KYC norms.
- Share complete client data with all RBI approved Credit Bureaus, as per the frequency of data submission prescribed by the Credit Bureaus
- Sanctioning and disbursement of loans should be done only at a central location and more than one individual should be involved in this function.

Approval	Documentation	Dissemination	Observance
<ul style="list-style-type: none"> Board of organisation has approved the policies to adherence with respect to the draft guidelines issued by RBI. 	<ul style="list-style-type: none"> There are detailed guidelines in the operational manual of the organisation on the adequate level of adherence on RBI guidelines. 	<ul style="list-style-type: none"> All staff members showed a high degree of awareness on the recent changes in the business as per the RBI guidelines. Further, management updates the staff on regularly intervals on all the changes in the policy. 	<ul style="list-style-type: none"> All fresh application were containing the details of loan from other MFIs', income certificate / BPL card, amount of loan for the tenure of 50 weeks, etc. To ensure that AML should not be the 3rd lender, management are availing the services of credit bureaus to avoid the indebttness of the client

Compliance Status of MFI vis-à-vis the Recent RBI Guidelines	26	32
Approval	5	6
Documentation	4	5
Dissemination	8	9
Observance	9	12

WEIGHTS

The following matrix presents the weights given to the various parameters in the assessment tool.

Weight Matrix	Approval	Documentation	Dissemination	Observance	Total
Client Origination & Targeting	2%	2%	3%	6%	13%
Loan Pricing & Transparency	2%	1%	1%	6%	9%
Loan Appraisal	3%	2%	2%	4%	11%
Privacy of Client Information	1%	1%	1%	2%	5%
Staff Behaviour & Client Grievance Handling	4%	4%	6%	7%	21%
Integrating Social Values Into Operations	1%	1%	1%	2%	6%
Relationship Management and Feedback Mechanism	1%	4%	4%	8%	17%
Compliance Status of MFI vis-à-vis the Recent RBI Guidelines	4%	3%	5%	7%	18%
Total	18%	18%	23%	41%	100%

LIST OF BRANCHES VISITED

SMERA has used the following framework for assessment of MFIs - The Approval; Documentation; Dissemination and Observance (ADDO) framework for measuring adherence of MFIs towards ethical operational practices. The assessment requires visits to the MFI's head-office as well as branch offices.

This assessment includes:

1. Discussions with key staff members and the senior management at the head office, particularly the senior operational management team as well as the human resources team. These discussions focus on key issues of the code of conduct identified above and systems and process of MFI.
2. Review of manuals and policy documents at the head office. These are reviewed in order to assess the policy as well as documentation regarding important aspects.
3. Sampling of branches at the head office. The assessment team selected twelve branches as samples, as per the size of the MFI for review. The branches are chosen in across different districts of Orissa. Care is exercised to include older branches as well as branches that are distant from the regional office and branches with the higher overdue. The sampling of the branches is performed at the head office of the MFI.
4. Discussions with the branch staff at the branch office. Discussions with branch managers and FCA are carried out to assess their understanding of the key code of conduct principles and systems and process.
5. Sampling of respondents in the selected branches. A judgmental sampling is performed on the MFI's clients by the assessment team to draw respondents from the interest group. One center from each sample branches was selected for interviews. Out of which few respondents are those that have been having problems in attending meetings or making repayments. SMERA has also selected respondents those have defaulted in the past or started repaying on defaulted loans and the client availed insurance claims.
6. Interview with the clients. Information from the clients is collected ideally during the group meetings as well as visits are made to the clients' locations for collecting information.
7. Review of loan application and insurance claim settlement files at the branch office. This review focuses on loan appraisal performed before disbursing loans as well as the documents collected from the clients and the process of insurance claim settlement and duration of settlement from the date of death or death certificate received.

As part of the assessment, SMERA visited 12 branches of AML in Orissa. The details of the branches visited are provided below.

Sr. No.	Branch Name	District Name	Branch Opening date
1.	Angul Town	Angul	12-Feb-2007
2.	Atagarh	Cuttack	29-Aug-2005
3.	Balasore	Balasore	5-Sep-2006
4.	Pipli	Khordha	5-Sep-2003
5.	Khurda Town	Khordha	21-Feb-2005
6.	Bhadrak	Bhadrak	19-Feb-2007
7.	Bhubaneswar	Khordha	1-Aug-2004
8.	Choudwar	Cuttack	1-Aug-2004
9.	Jajpur Road	Jajpur	16-May-2005
10.	Talcher	Angul	1-Aug-2004
11.	Tangi	Khordha	1-Aug-2004
12.	Salipur	Cuttack	6-Jan-2007

METHODOLOGY

1. Collecting minimum documents from the MFI to understand in detail the scope of operations in terms of areas, products, borrower profile etc.
2. Sample selection of branches as indicated by SIDBI (sample may be decided by taking into account the loan outstanding portfolio, recency customer grievances received, different products concentration, location, type of borrowers, PAR, etc.).
3. Visit to head office and understanding the code of conduct, vision and mission statement, policies, procedures and processes of MFI pertaining to loan appraisal, loan pricing, collection mechanism, documentation, re-scheduling & write off, etc.
4. Interacting with CEO/ Managing Director and the core team and seeking relevant information.
5. Detailed review of the processes framed for selection of areas and villages, client orientation, group formation and pricing of loans.
6. Interaction with the groups to find out the extent of transparent disclosures, the MFI has made to them in terms of pricing, insurance, terms and conditions, overleveraging or multiple borrowings, frauds or corruption / commission kickbacks asked by the officers for sanctioning of loans if any. Unethical behavior of the staff, if any, would be specifically addressed.
7. Interaction with the credit officers on sample basis to assess compliance with policies and obtain their feedback / opinion on the policies and systems with specific focus of customer grievances and feedback mechanisms. The incentive structure for the staff would also be assessed.
8. Prepare detailed report and submit to management for review.
9. Prepare final report and submit to SIDBI.

Questionnaire for the field visit

1	Name of the Member
2	How did members came to know about the MFI and who motivated to form the group
3	What Kind of training provided before sanctioning of loan?
4	Does anyone visited the house pre and post disbursement
5	Loan amount taken
6	Amount Applied for (If sanctioned is less - Reason)
7	Interest Rate and any other Charges
8	Any commission paid to anyone for availing loan
9	Purpose of Loan
10	Mode of Repayment
11	Installment amount
12	Aware of pending installments or balance outstanding
13	Any penalty charged
14	What are the KYC documents submitted?
15	Where the disbursement of loan happens and under who's presence?
16	Where collections of loan take place?
17	Any delays / default at present or in past, If Yes, what is the reason?
18	Number of Family members
19	Earning Family Member
20	Occupation of Spouse
21	Monthly Family Income
22	Number of Childers going School
23	Aware about any other MFIs operating in the area
24	Loan from Any other MFIs' / Bank / Moneylender / others
25	If Yes,
26	Name of the MFIs' / Bank / Moneylender / others
27	Amount Taken and Interest Rate
28	Is the group formed by the persons living in nearby vicinity?
29	Knows the house / name of each group member?
30	What are the responsibilities of the group?
31	Attendance of members
32	Saving habit among the group members?
33	Dominant nature of group leader?
34	Familiar with the branch manager / staff?
35	How are the interaction / behaviour of the MFI staff?
36	Process / Awareness of feedback / Complaints mechanism?
37	Have made any complaints in past?
38	Any Request / demand
39	Others if any,

*****The End*****