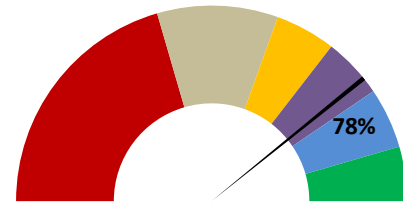


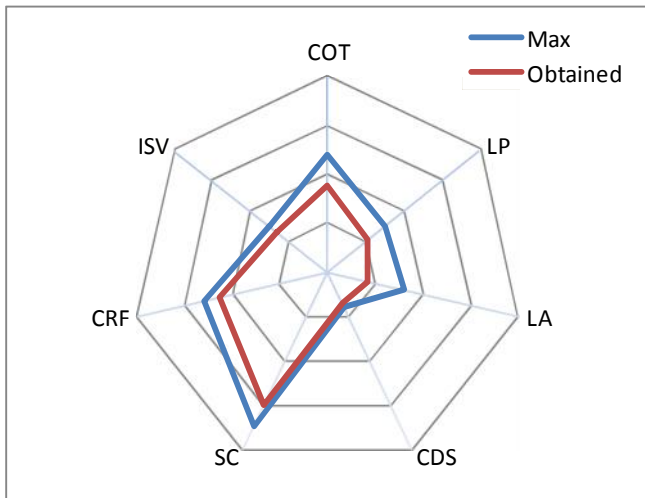
Assessment done by: Atul

**ESAF Microfinance & Investments (P) Ltd
 (EMFIL)
 March 2014**



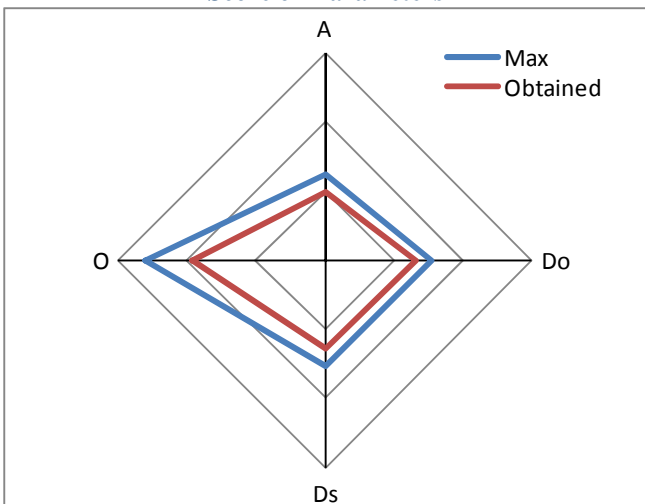
Composite COCA Score: 78%, Good adherence

Score on Dimensions



COT=Client Origination and Training, LP=Loan Pricing, LA = Loan Appraisal,
 CDS=Client Data Security, SC=Staff Conduct, CRF=Client Relationship and Feedback,
 ISV=Integrating Social Values into Operations

Score on Parameters



A= Approval, Do=Documentation, Ds=Dissemination, O=Observance
 ADDO © Prime M2i Consulting Private Limited

Rationale

EMFIL gets a good overall score in this assessment. It performs well on Staff Conduct, Client Relationship and Feedback as well as Integrating Social Values into Operations. It needs to strengthen its loan appraisal process. It also needs to ensure segregation of its operations from ESSCO's* operations, a process it has already begun.

Highlights

- EMFIL has an effective system of collecting and acting upon feedback and complaints from clients.
- EMFIL's staff members are diligent in ensuring that they follow high standards of conduct during their interactions with clients.
- Documents obtained from clients are maintained in the regional offices, thus ensuring only authorized access to them.
- EMFIL has undertaken several initiatives on issues such as, sanitation and clean water, which have an impact on the well being of its clients.

Areas of improvement

- EMFIL needs to ensure that its operations are segregated from ESSCO's operations on priority.
- It needs to improve the appraisal of second and subsequent cycle loans.
- It needs to ensure that each client keeps the loan cards issued to her in her own possession.

* ESAF Swasraya Multi State Co-operative Society Ltd, or ESSCO, is a multi state cooperative that owns over 62% equity stake in EMFIL.









Code of Conduct Assessment Compliance Assessment Tool






This tool requires scores to be assigned on the seven Code of Conduct dimensions – **Client Origination, Loan Pricing, Loan Appraisal, Client Data Security, Staff Conduct, Client Relationship and Feedback and Integrating Social Values into Operations**, across the four parameters – **Approval, Documentation, Dissemination and Observance**. The seven dimensions have been drawn from a review of the norms prescribed for MFIs including industry's code of conduct, fair practices' code of RBI and CGAP's client protection principles (Smart Campaign). The COCA tool also specifically assesses the MFI for compliance against the RBI's guidelines and scores it as well. The scores on the COCA indicators are then scaled down in proportion to the score received in Regulatory Compliance. The methodology followed for this assessment is presented in Annexure 2 and the framework of the tool is presented in Annexure 3.

Disclosure

M2i has not been engaged in any assignment of advisory, capacity building or of consulting nature with EMFIL which conflicts with the objectives of this assessment, during the last one year. Further, none of M2i's employees or their relatives is represented in the Board of Directors of EMFIL or related institutions.







Section 1: Scores¹ and facts

Code of Conduct dimensions	Maximum	Obtained	%
 Client Origination and Targeting	24	16.7	70%
 Loan Pricing	15	11.6	77%
 Loan Appraisal	16	8.1	51%
 Client Data Security	8	7.0	88%
 Staff Conduct	35	29.9	85%
 Client Relationship and Feedback	26	22.9	88%
 Integrating Social Values into Operations	15	12.7	85%
 Total	139	108.9	78%
RBI's Directions	12	12	100%

Compliance parameters	Maximum	Obtained	%
 Approval	25	18.0	72%
 Documentation	31	26.0	84%
 Dissemination	31	25.0	81%
 Observance	52	39.9	77%
 Total	139	108.9	78%

MFI's profile – December 2013

Name of the MFI	ESAF Microfinance & Investments (P) Ltd
Legal form	Non Banking Financial Company – MFI
Operational Head	K Paul Thomas
Year of starting microfinance	2000
Branches (31 Dec 13)	152
Operational area	5 states in India
Total number of staff involved in microfinance	1691
Visit of the Assessment team	March – 2014
Correspondence address	EMFIL, Hepzibah Complex, Mannuthy PO, Coimbatore www.esafmicrofin.com

¹The scores have been colour coded as follows.  = Less than 41% (Very Weak);  41-60% (Weak);  = 61-70% (Reasonable);  71-80% (Good);  81-90% (Very Good);  >90% (Excellent).

Microfinance Methodology

EMFIL primarily follows the Joint Liability Group (JLG) model of microfinance. Loans are given to a woman on the basis of joint liability accepted by members of her group. Groups comprise upto five women. Meetings are held weekly. Members of three to five groups assemble for making repayments of loans. Members are required to attend at least one Centre or Sangam meeting in a month. Disbursements of loans are done in the branch offices.

Details of Loan Products

Product	Description	Loan size (Rs)	Interest Rate	APR (Interest Rate and Processing fees)
Income Generation Loans (IGL)	These are loans given to clients for undertaking livelihood activities. Loans of Rs 15,000 are payable in one year while, loans larger than Rs 15,000 are payable in two years. Repayments take place in weekly meetings. IGL constituted 88.8% of EMFIL's loan portfolio as on 31 Dec 13.	15,000-40,000	26% with 1% processing fees	27%-28%
General Loans (GL)	These are general purpose loans which act as top-up loans for IGL. These can be obtained by clients after they have made repayments on their IGL loans for two months. The loan term is one year and repayments take place in weekly meetings.	5,000-10,000	26% with 1% processing fees	28%
Vyapar Vikas Yogna	These are trade loans given for 120 days. These are payable on a daily basis. These constituted 0.12% of EMFIL's loan portfolio as on 31 Dec 13.	10,000-50,000	21% with 1% processing fees	26%
Housing Repair Loan	These are housing loans repayable in seven years in monthly installments.	50,000	21% with 1% processing fees	15.5%

Nirmal and Jeeva Dhara Loan	These are water and sanitation loans. Loans of upto Rs 15,000 are payable in one year while, loans larger than Rs 15,000 are payable in two years. Repayments take place in weekly meetings.	3,000-20,000	26% with 1% processing fees	27%-28%
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Notes:

1. APR has been calculated by taking the actual cash flow for each loan including principal, interest and processing fee.

Key facts and figures			
Parameters	Mar-12	Mar-13	Dec-13
Active borrowers	345,816	384,250	450,617
Branches	147	148	152
States	5	5	5
Total staff	1462	1429	1691
Number of loans disbursed for the FY ending	353,435	440,856	350,043*
Amount of loan disbursed for the FY ending (Rs Mn)	4,555.93	6,176.26	4,643.60*
Loan portfolio outstanding (Rs Mn)	2,822.84	4,228.64	3,633.35
PAR-60	310.46	297.98	522.50
PAR-30	345.35	312.29	604.10
Interest Yield on portfolio**	28%	25%	26%
OSS	109%	111%	116%
RoA	1.64%	1.38%	1.53%

*Data pertain to the period between April-13 and December-13

**Interest income as percentage of average loans outstanding

EMFIL's Equity Structure (Dec 2013)		
S No.	Shareholders	% stake in the company
1	ESAF Swasraya Multi State Co-operative Society Ltd.	62.35%
2	Dia Vikas Capital Pvt. Ltd.	22.86%
3	ESAF Staff Welfare Trust	6.31%
4	Manaveeya Development and Finance Pvt. Ltd.	6.00%
5	Individuals	2.48%
	Total	100%

EMFIL's Board of Directors – Dec 2013	
Name	Profile
Shri. K. Paul Thomas	Founder and Managing Director of ESAF Microfinance. He has been a Management professional for over 28 years, out of which more than 20 years are in the microfinance sector. He is the Chairman of Kerala Association of Microfinance Institutions and also on the Board of MFIN. He is also on the Boards of ESAF Swasraya Producers Company Ltd., ESAF Health Care Services (P) Ltd, ESAF Homes & Infrastructure (P) Ltd and ESAF Retail (P) Ltd.
Shri. George Thomas	Director Operations. He has over 13 Years of service in the Government sector and 9 years of experience in Microfinance. He is on the Board of ESAF Swasraya Producers Company Ltd, ESAF Health Care Services (P) Ltd, ESAF Homes & Infrastructure (P) Ltd, ESAF Retail (P) Ltd, and ESAF Staff Welfare Trust.
Shri. Vikraman Ampalakkat	Independent Director. He has four decades of professional experience, of which 17 years in SIDBI, with 10 years exposure in microfinance and has retired as CGM. He is also on the Board of Muthoot Fincorp Ltd. and Samasta Microfinance Limited.
Shri. Cherian Thomas	Independent Director, he is currently the Chief Executive Officer (CEO) of IDFC Foundation. He has over 27 years of professional experience in the banking, finance and infrastructure sectors. He is a Director on the Boards of Infrastructure Development Corporation (Karnataka) Limited, Uttarakhand Infrastructure Development Company Limited, Delhi Integrated Multi-Modal Transit System Limited, Buddha Smriti Udhyaan Development Company Limited, J. C. Advisory Services Private Limited and Shikhar Microfinance Private Limited.
Dr. Idicheria Ninan	Non-Executive Director. Professor holding a doctorate in Theology from Coventry University, UK. He has over 30 years of experience in Academics and Administration in various institutions including nine years of exposure in Microfinance.
Shri. Rajan Samuel	Independent Director. He serves as Regional Housing Finance Manager, Asia Pacific with Habitat for Humanity International. Mr. Samuel has been involved in finance and community development for more than 27 years in 25 countries with Opportunity International, World Bank, Khula Finance, DFID, World Vision, Danida, etc. Mr. Samuel holds a Master's degree in Commerce and Business Administration.
Smt. Ranjani KC	Non-Executive Director. She is the Managing Director of Dia Vikas, a subsidiary of Opportunity International Australia, and its nominee. She has over 20 years of experience as a Financial Service and Development Specialist with SIDBI, as a Senior Microfinance Specialist with MicroSave and with Opportunity International Australia. She holds a Post Graduate Degree in Bank Management.
Smt. Sreekumari	Additional Director. From the community of clients served by EMFIL.

<p>Shri. Sundararao NAJVS</p>	<p>Non-Executive Director. He is the Managing Director of Maanaveeya Development & Finance Private Limited, a subsidiary of Oiko Credit Netherlands, and its nominee on EMFIL's board. He is a Cost Accountant and Company Secretary and holds MBA in Financial Management from BITS and has over four decades of exposure in both public and private sectors.</p>
<p>Shri. Ravindranathan Prabha</p>	<p>Non-Executive Director. He is a seasoned banker with over four decades of experience in all facets of banking and retired as General Manager, Canara Bank. He is on the Board of Grameen Financial Services Ltd., GenaracinEolica Pvt. Ltd. and an Advisor to Sa-Dhan. He was the Chairman of South Grameen Malabar Bank and holds a Post Graduate Degree in Agriculture.</p>

Section 2: Status of Regulatory Compliance

2.1 Compliance with regulations

EMFIL has a reasonable level of compliance with RBI's directions. It needs to ensure that the process of segregating the operations of EMFIL and ESSCO to ensure arms-length transactions between them, which has been started, is comprehensively implemented on priority.

EMFIL's compliance with RBI guidelines for MFIs is presented below.

Capital requirement

As per EMFIL's audited financial statements for the year ending 31 March 2013, it had Net Equity of Rs 625.53 million as of 31st March 2013. This is more than the required Rs50.0mn of Net Owned Fund (NOF) prescribed by RBI for NBFC-MFIs.

Proportion of qualifying assets and income generation loans

EMFIL has obtained CA's certificate that states that its assets meets the qualifying assets criteria. As per the certificate dated 23 January 2014, it had qualifying assets greater than 85% of its total assets excluding cash and bank balances, government securities and money market instruments for the quarter ending 31 December 2013. M2i during its assessment has also verified the conditions for qualifying assets, the observations are presented below:

Loan size verification

In our sample of 362 clients, we did not come across any client who had a loan of greater than Rs 35,000 in the first cycle or Rs 50,000 in subsequent cycles.

Collateral verification

EMFIL does not take any collateral on its group loans, which is in accordance with RBI's guidelines. While, collateral is obtained in microenterprise loans, these are not classified as qualifying assets by the organization. M2i's check of loan documents and direct verification with clients did not reveal any deviation on this guideline.

Loan duration verification

The duration of EMFIL's loans are in accordance with the directions issued by RBI. Lending under IGL and GL constitute 99% of EMFIL's loan portfolio. These loans are repayable in 12 months/50 weeks for loans up to Rs 15,000, while those over Rs 15,000 are repayable in 24 months/100 weeks.

GL can be disbursed to a client after she has successfully repaid the IGL loan for two months. There is a possibility that a client may have an outstanding of greater than Rs 15,000 which she needs to repay in a period of less than two years. EMFIL needs to ensure that such an occurrence is avoided.

Household income

EMFIL's policy is to provide loans to those households in non-rural areas which have an annual income of less than Rs 120,000 and Rs 60,000 in rural areas. In our sample we did not come across instances where the household income of clients getting loans was significantly in variance with these norms.

Multiple lending and Indebtedness

The total indebtedness of an EMFIL client cannot be more than Rs50,000, as per its policy. It does not extend loan to any client who has existing borrowing outstanding from two other institutions. It verifies the indebtedness of its clients through credit bureau checks before disbursement in all cases. M2i did not find any of these guidelines breached in its sample.

However, EMFIL operates in areas where the Kudumbashree scheme – under which credit is provided to groups of women, is also operational. The lending under this scheme is not reflected in the credit bureau reports. EMFIL needs to make sure that information regarding such borrowings by its clients is also used for the purpose of determining indebtedness levels.

Pricing of credit

EMFIL charges an interest rate of 26% on reducing balance basis on its IGL and GL, which constituted 99% of its loan portfolio as on 31 December 2013. In addition it also charges processing fees of 1% which clients need to pay upfront.

Margin

EMFIL has obtained CA certificates which state that it has been in compliance with RBI's direction regarding margin for NBFC-MFIs.

Need for Arms Length Operations between EMFIL and ESSCO

ESAF has promoted ESAF Swasraya Multi State Co-operative Credit Society Ltd (ESSCO), a multi state cooperative. ESSCO owns over 62% of the equity stake in EMFIL. During our survey we came across instances where the same staff member had made transactions on behalf of EMFIL and ESSCO. In M2i's opinion, it is important for the governing bodies of these institutions to ensure that there is an arm's length relationship with separation of staffs between them, particularly as ESSCO also accepts deposits from its members. EMFIL has started the process of segregating its branches and staff. It needs to complete this process on priority.

Capital adequacy

The CRAR of EMFIL was over 19.3% as of 31st March 2013 which complies with the required CRAR of 15% for NBFC-MFIs.

Diversification

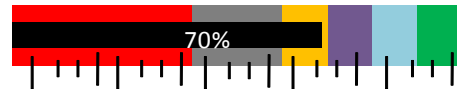
EMFIL had operational presence in five states of India as on 31 December 2013. Kerala accounts for the highest proportion of its loan portfolio. As on 31 March 13, over 69% of EMFIL's loan portfolio was concentrated in Kerala.

Customer Protection Initiatives, Membership with SRO and credit bureau

EMFIL is a member of Sa-Dhan as well as MFIN and has adopted the Sa-Dhan-MFIN industry code of conduct in 2012. Adherence to the code of conduct as well as compliance with RBI directions has been discussed in its Board meetings. It shares data relating to its loans with credit bureaus – CIBIL, Highmark and Equifax.

Section 3: Observations

3.1 Client Origination and Targeting (COT)



EMFIL receives a reasonable score on COT as it actively targets the under-served. Its score may improve if it ensures that its clients have an avenue to obtain credit linked insurance without any other bundled up benefits and its clients keep their loan cards in their own possession.

Approval (A)	Documentation (D)
<ul style="list-style-type: none"> ✓ EMFIL’s policy is to actively target under-served areas to provide microfinance. ✓ The board keeps track of new areas where EMFIL starts operations in. 	<ul style="list-style-type: none"> ✓ The processes for originating loans have been documented to include the most recent guidelines.
Dissemination (D)	Observance (O)
<ul style="list-style-type: none"> ✓ Interviewed staff members were aware of the client origination processes. ✗ The new manuals have not been made available at the branches. 	<ul style="list-style-type: none"> ✓ All the clients in our sample belonged to the economically weaker section of the society reflecting sound targeting. ✗ EMFIL does not provide an avenue for its clients to obtain credit linked insurance as a stand-alone benefit. ✗ We found that in a few instances the loan cards of several members in a center were being kept by the member in whose house, meetings take place.

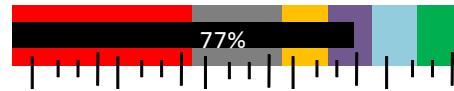
EMFIL’s strategy is to provide access to financial services to the under privileged sections of the society. It was among the first MFIs to start operations in Kerala and Maharashtra. Subsequently, it has started operations in Chhattisgarh, where in some areas; it is the only MFI to have operations. The organization’s board actively tracks its growth strategy.

EMFIL obtains the necessary documents to establish the identity of its clients. While originating loans, visits to the households are made by the field staff to ensure that loans are given to the right clients, and minimize instances of “ghost” clients. Also, EMFIL’s clients cannot have outstanding loans from more than one other source as per its policy. The interviewed field staff members were aware that at the time of origination of loans, they had to exercise adequate due-diligence in order to ensure that their lending is sound. However, the process guidelines which were available at the branches were old. While, EMFIL has over the past year utilized the services of a consultant to document all its operational processes in detail, this is still to be disseminated across the organization. All the clients in our sample belonged to the economically weak section of the society. This shows that EMFIL’s staff have been diligent in targeting the economically under privileged.

EMFIL on its own does not have any agreement with an Insurance company to provide insurance linked to loans to its clients. Clients can get insurance on their loans through ESSCO, for which they need to obtain its membership. Such membership requires a payment of annual subscription fees. While the clients also get other benefits on account of their membership of ESSCO, they do not have a choice where they can get loan linked insurance on a stand-alone basis. EMFIL needs to ensure that clients have an avenue to obtain credit linked insurance without any other bundled up benefits.

We observed that in several of the Sangam (center) meetings, all the loan cards of the members of the Sangam, were being kept by the member in whose house the Sangam meeting was being held. Upon enquiry it emerged that since many members go out for work they find it convenient to keep the loan card in this manner. In M2i's opinion, this practice may make the member who keeps all the loan cards influential and may lead her to behave in the manner of an agent.

3.2 Loan Pricing (LP)



EMFIL’s score on Loan Pricing may improve if it makes efforts to ensure that clients have greater awareness regarding the premium they pay for obtaining insurance linked to its loans and the benefits they derive from it, even if EMFIL on its own does not provide such insurance, to ensure greater transparency.

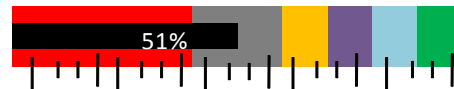
Approval (A)	Documentation (D)
<ul style="list-style-type: none"> ✓ EMFIL’s board reviews loan pricing to ensure that it remains within regulatory directions. 	<ul style="list-style-type: none"> ✓ Interest rates and processing fees have been documented in the relevant circulars.
Dissemination (D)	Observance (O)
<ul style="list-style-type: none"> ✓ The interest rates and processing fees are printed in the loan cards as well as displayed in the branches. ✗ Loan cards given to clients do not have information on the avenues clients have to obtain insurance related to their loans, and the cost of obtaining such insurance. 	<ul style="list-style-type: none"> ✓ Pricing details including interest rates, and processing fees, as well as repayment schedule are printed in loan cards. ✓ A fair proportion of clients interviewed were aware of the interest rates. ✗ The awareness of clients regarding the premium they had paid for obtaining insurance through ESSCO and the benefits from it was found to be low.

EMFIL’s policy is to ensure provision of loans to its clients at a price which complies with the regulatory requirements and allows the organization to function sustainably. Its board reviews the yield on the loan portfolio as well as the interest rates on its loans regularly. The board also takes assurances regarding compliances through quarterly CA certificates, as well as reports on compliances prepared internally by EMFIL’s compliance officers.

The loan cards given to clients have information regarding the interest rate and processing fees. In addition the loan cards also have printed repayment schedules where each installment is broken into the principal and interest components. The loan cards have a column for the loan officers to put their signatures against the installments received from the clients. We observed that EMFIL’s loan officers had duly put their signatures on the loan cards after receiving the installments from the clients. The information regarding interest rates are displayed in EMFIL’s branches. A fair proportion of the clients interviewed displayed a high awareness regarding the interest rates on their loans.

The loan cards do not have information on the avenues clients have to obtain insurance related to their loans, and the cost of obtaining such insurance. We found that clients’ awareness regarding premium paid and related benefits for the insurance that they had obtained through ESSCO (or SHG federations in the past) was low.

3.3 Loan Appraisal (LA)



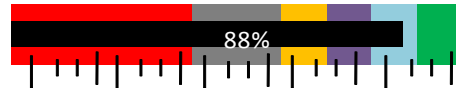
EMFIL needs to improve the appraisal of second and subsequent cycle loans by including the analysis of cash-flows of clients for these loans. It also needs to ensure that the indebtedness levels of its clients are determined for borrowings from sources which are not captured in credit bureau reports.

Approval (A)	Documentation (D)
<ul style="list-style-type: none"> ✓ EMFIL’s policy requires a careful assessment of the repayment capacity of the clients before loans are extended to them. 	<ul style="list-style-type: none"> ✓ There are standard formats and guidelines for analysis of cash flows of loan applicants in the membership profile which is collected when the client enrolls with EMFIL. ✗ There is no format for cash-flow analysis in the loan application forms, which rules out cash-flow analysis in second and subsequent cycle loans.
Dissemination (D)	Observance (O)
<ul style="list-style-type: none"> ✓ In the interviews, the operational staff displayed adequate understanding of how to assess repayment capacity of clients. 	<ul style="list-style-type: none"> ✓ EMFIL conducts credit bureau checks for all loan applications. ✗ Some of the clients had loans from schemes such as Kudumbashree which is not reflected in credit bureau reports.

Loan appraisal is primarily done by EMFIL’s loan officers. The loan officers acquaint themselves with the client’s economic status, livelihood activities and household expenses. For first cycle clients, loan officers collect detailed information regarding income, expenses, indebtedness and other cash flows of the clients’ households in a membership profile form. However, this information is not collected for second, third or fourth cycle clients – it is collected again before a fifth cycle loan is made. The loan applications along with the KYC documents are collected by the loan officers. The branch manager verifies the loan eligibility of potential clients and sends these documents to the data processing centre where these documents are scanned and uploaded to be maintained in an online database. At the processing centre credit bureau checks are made for each loan applicant. Once eligibility is established, loans are sanctioned and disbursement instructions are sent to the branch.

Some of EMFIL’s clients have outstanding loans from schemes such as Kudumbashree. Such borrowing is not reflected in credit bureau reports and can only be obtained directly from the clients. EMFIL’s loan appraisal can improve if the organization analyzes the cash-flows of its clients and supplements credit bureau reports with direct inquiries regarding their indebtedness before each loan cycle.

3.4 Client Data Security (CDS)

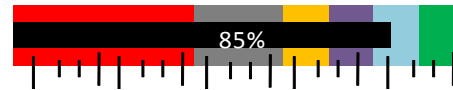


EMFIL’s performance on CDS is very good. We did not come across any instance of misuse of information collected from clients.

Approval (A)	Documentation (D)
✓ EMFIL’s operational policy requires that information and documents collected from clients be kept in a safe secure environment.	✓ There are documented guidelines regarding security of data and documents collected from the clients.
Dissemination (D)	Observance (O)
✓ Guidelines regarding client data security is widely known and understood within EMFIL.	✓ Access rights have been defined for digital data maintained in the organization’s MIS.

EMFIL has a sound system for ensuring security of documents and data collected from clients. The information collected from the clients through the loan application and member information forms as well as the KYC documents are sent to regional data processing hubs. The physical files are stored in a secure manner in these hubs. The forms and the KYC documents are scanned and uploaded to EMFIL’s Management Information System (MIS). The software platform used for the MIS has defined user access rights, which ensures that while the information required for any operational decision at the branch level is available, the risk of unauthorized access is minimized.

3.5 Staff Conduct (SC)



EMFIL’s score on Staff Conduct is very good as its staff display a sound understanding of the norms pertaining to fair lending practices.

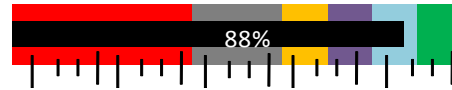
Approval (A)	Documentation (D)
<ul style="list-style-type: none"> ✓ EMFIL’s policies require its staff members to be professional in their interactions with the clients. ✓ EMFIL has adopted a code of conduct in line with Sa-Dhan-MFIN’s code of conduct. 	<ul style="list-style-type: none"> ✓ Guidelines have been documented regarding expected staff conduct.
Dissemination (D)	Observance (O)
<ul style="list-style-type: none"> ✓ Principles determining staff conduct with clients have been displayed prominently in each EMFIL branch in the local language. ✓ Staff members have received trainings on these principles. 	<ul style="list-style-type: none"> ✓ All the clients interviewed stated that the conduct of the operational staff members had been professional and appropriate.

EMFIL has a policy that requires its staff members to maintain high standards of conduct in their interactions with the clients. It has a HR code of conduct which lists harsh behavior by an EMFIL staff as a punishable offence.

Additionally, EMFIL has formed norms of expected conduct from staff members. These have been derived primarily from the SMART campaign principles of client protection, and documented to reflect EMFIL’s operating context. These have been made into posters, which are displayed at all EMFIL branches in the local language. EMFIL’s field staff members have also received trainings on these principles.

EMFIL’s staff members, who were interviewed, displayed a high degree of understanding of these principles. It is worth mentioning that a majority of EMFIL’s operational staff members including Loan Officers and Branch Managers are women. None of the clients interviewed during this assessment made an adverse observation regarding their experience of interactions with EMFIL’s staff members.

3.6 Client Relationship and Feedback (CRF)



EMFIL receives very good score on CRF as it has evolved an effective system of collecting feedback from its clients and addressing their concerns.

Approval (A)	Documentation (D)
✓ EMFIL has a board approved grievance redressal system.	✓ The process of receiving, registering and following up on complaints received has been documented.
Dissemination (D)	Observance (O)
✓ Branch Managers were aware of the need to continuously elicit feedback from clients.	✓ Most of the clients interviewed were aware that there was a telephone number that they could call in case they had a complaint.

EMFIL’s policies have been framed to ensure that the relationship with its clients remain healthy. EMFIL conducts client satisfaction surveys which are regularly reviewed by the board. It has set up a system which allows it to collect feedback from clients. It also has a grievance redressal system in place and its board reviews any unresolved client grievances in its meetings.

EMFIL provides complaint boxes in its branches. The feedback received in these boxes cannot be accessed by the Branch Manager as these boxes are kept locked and only the Area Manager can access them. The Area manager reviews the complaints received and tries to address the issues raised along with the branch manager. EMFIL also provides phone numbers on its loan cards which an aggrieved client can use to directly access EMFIL’s Grievance Redressal Cell (GRC) in the Corporate Office.

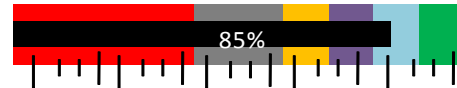
The GRC is headed by a General Manager and functions directly under the supervision of the Managing Director. A member making a complaint through the phone has to provide the details of complaint which is used by the official receiving the phone call to fill up a form. Also, the official classifies the complaint received in one of the following categories:

- Delay in getting loan
- Partial attitude of the field staff.
- Abusive language of the field staff.
- Coercive and forceful collection practice.
- Attitudinal and relationship problems.
- Inability of the field staff to resolve the center level problems.
- Forceful enrolment in NPS.
- Forceful enrolment in SBI life.

The GRC Chairperson, on receiving the complaint form, seeks the required clarifications from the concerned Departments/ Officials. The officials, called upon to give clarifications and comments need to respond within 15 days. If the complaint is not resolved, the GRC

chairperson records her/his observations and recommendations which are forwarded to the MD for confirmation within a period of 30 days. The MD may put his approval on the decision, which then become binding, or may require the GRC chairperson to provide further clarifications. The maximum time period stipulated for this process to be completed is 45 days. EMFIL plans to provide a dedicated toll free telephone number which can be used by its clients to register their complaints with the Grievance Redressal Cell.

3.7 Integrating Social Values into Operations (ISV)



EMFIL’s score on ISV is very good on account of several initiatives undertaken to address various client concerns such as health and sanitation as well as tracking the socio-economic status of the clients.

Approval (A)	Documentation (D)
<ul style="list-style-type: none"> ✓ EMFIL has a diversified board with representation from the community. 	<ul style="list-style-type: none"> ✓ There is adequate documentation of guidelines of EMFIL’s social initiatives.
Dissemination (D)	Observance (O)
<ul style="list-style-type: none"> ✓ Staff members were aware of organizational policies regarding improvement in the lives of their clients beyond providing financial services. 	<ul style="list-style-type: none"> ✓ EMFIL has provided loans for housing, water and sanitation purposes to its clients. ✓ Changes in the socio economic profile of clients are tracked through PPI reports.

EMFIL has a diversified board which has kept track of its performance on issues related to social performance. EMFIL offers diverse products in order to meet clients’ needs. It has a general loan which can be provided to clients in case of emergency. It also offers loans for the purpose of creating sanitation structures in clients’ households, as well as for obtaining water connections. It also has a small housing loan portfolio.

EMFIL has a grievance redressal mechanism for its staff members. It tracks the socio-economic status of its clients using the Progress out of Poverty Index (PPI), developed by Grameen Foundation. It has made efforts to ensure that its staff remain motivated and work to improve the economic and social condition of its clients.

Annexure 1: Matrix of Score Obtained²

Indicators	A		Do		Ds		O		Total*	
	Max	Obt	Max	Obt	Max	Obt	Max	Obt	Max	Obt
Client Origination and Targeting	5	4.0	5	5.0	5	3.0	9	4.7	24	16.7
Loan Pricing	3	2.0	1	1.0	2	2.0	9	6.6	15	11.6
Loan Appraisal	4	2.0	4	2.0	3	2.0	5	2.1	16	8.1
Client Data Security	1	1.0	3	3.0	2	1.0	2	2.0	8	7.0
Staff Conduct	7	4.0	7	6.0	10	9.0	11	10.9	35	29.9
Client Relationship and Feedback	2	2.0	8	7.0	6	6.0	10	7.9	26	22.9
Integrating Social Values into Operations	3	3.0	3	2.0	3	2.0	6	5.7	15	12.7
Total*	25	18.0	31	26.0	31	25.0	52	39.9	139	108.9

A= Approval, Do=Documentation, Ds=Dissemination, O=Observance, Max = Maximum, Obt = Obtained score

*Totals have been rounded to one place of decimal.

² ADDO © Prime M2i Consulting Private Limited

Annexure 2: Tool Development, Methodology and List of Branches Visited

The code of conduct compliance assessment tool was developed as a response to the need expressed in a meeting of stakeholders in Indian microfinance by the Small Industries Development Bank of India (SIDBI) and the World Bank in December 2009. The code of conduct dimensions were identified by reviewing the various norms for ethical finance. These included RBI’s fair practices guidelines for Non Banking Financial Companies, industry code of conduct (Sadhan-MFIN) and CGAP’s client protection principles. The most important challenge for M2i was to create objective indicators which could comprehensively measure the seven dimensions. A total of 139 indicators³ were developed across these dimensions, so that subjectivity in measurement could be minimized. The numbers of indicators for each dimension are presented below.

Dimension	Nos. of Indicators
Client origination and targeting	24
Loan Pricing	15
Loan Appraisal	16
Client Data Security	8
Staff Conduct	35
Client Relationship and Feedback	26
Integrating Social Values into Operations	15
Total	139

In order to make the measurement comprehensive and objective, a method of scoring was developed so that:

1. Measurements on the indicators are taken on the dimensions across the four parameters within an MFI – Approval, Documentation, Dissemination and Observance
2. Indicators are mapped to underlying characteristics which can be objectively measured. This is illustrated in the box below.

Illustration

One of the indicators developed to measure the dissemination of guidelines related to staff conduct is:

Has the MFI provided training to its operational staff on their conduct with clients, particularly relating to:

- A. Conducting client meetings
- B. Collecting repayments
- C. Recovering overdue loans

The basis of scoring this indicator is the proportion of operational staff interviewed who have received training on these specific aspects. In case all the staff members have received trainings on each of these aspects then the score is 1 on each of these indicators, totaling to 3. If only 50% of the operational staff members interviewed have received training on these

³ Integrating Social Values into Operations with 14 indicators was added to tool in September 2012. One more indicator to ISV was added in April 2013.

specific aspects then the score totals to 1.5 (0.5+0.5+0.5).

The Code of conduct assessment tool was tested on four MFIs during its portfolio audit and best practices validation engagements. M2i formally presented the code of conduct assessment tool at a microfinance lender's forum meeting held in Mumbai at SIDBI's office in June 2010.

RBI's Directions and Guidelines

With RBI issuing various specific guidelines for MFIs, M2i started scoring MFI's compliance to regulatory guidelines from 2012 onwards. The scores obtained by MFI on various COCA dimensions are scaled down in proportion to the score obtained in regulatory compliance.

Methodology

The code of conduct exercise is spread over four to eight days. The first day is spent at the head office. The assessment team visits the branches over the next three to eight days. Depending upon the size and the operational area of the MFI, eight to fifteen branches and between 160 and 200 clients are sampled for primary survey.

Key Aspects

- Duration of the exercise: Four to nine days
- Nos. of branches to be visited: Eight to Fifteen
- Nos. of MFI clients to be interviewed: 160-400

This exercise requires:

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.
2. Review of policy documents and manuals at the head office. These are reviewed in order to assess the policy as well as documentation regarding important aspects of the code of conduct. The last audited financial statements will also be required.
3. Sampling of branches at the head office. The assessment team samples branches for review. The branches are chosen in across different states in case the MFI operates in more than one state. Care is exercised to include older branches as well as branches that are distant from the head office or the regional office. 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 the field staff is carried out to assess their understanding of the key code of conduct principles.
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, in order to maximize the likelihood that instances of non-adherence can be detected.
6. Interview with the clients. Information from the clients is collected ideally during the group meetings. If this is not possible, visits are made to the clients' locations for collecting information.
7. Review of loan files at the branch office. This review focuses on loan appraisal performed before disbursing loans as well as the documents collected from the clients.

As part of this assessment, we visited 14 branches of EMFIL. The details of the branches visited are provided below.

Sr No	Branch	State	No of clients interviewed
1	Balod	Chhattisgarh	25
2	Bhilai	Chhattisgarh	19
3	Durg	Chhattisgarh	30
4	Raipur	Chhattisgarh	39
5	Rajnandgaon	Chhattisgarh	37
6	Kundukad	Kerala	19
7	Pazhayannur	Kerala	17
8	Angamaly	Kerala	16
9	Kothamangalam	Kerala	10
10	Sadar	Maharashtra	15
11	Umred	Maharashtra	32
12	Wadi	Maharashtra	36
13	Chhindwara	Maharashtra	28
14	Pardi	Maharashtra	39
Total			362

Annexure 3: Code of Conduct Assessment – Framework

Code of conduct dimensions

- Client origination and targeting: Client origination is central to ethical microfinance operations. The code of conduct requires MFIs to practice ethical client origination which results in greater access to financial services. Also, an MFI's commitment to target the low income clients demonstrates its social mission. The way an MFI identifies its clientele and goes about growing a clientele must be approved by the board, which should also see to it that there is adequate attempt by the MFI to ensure that its product and services reach the appropriate clientele.
- Loan pricing: 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. The way its loan products are priced should be approved by the board. Ideally the board members should be aware of the cost of the loan products to the clients.
- Loan appraisal: The lending to a client should be in accordance to her repayment capacity or else she may get over-indebted and her economic situation may deteriorate. The loan appraisal should take into account the repayment capacity of the clients given the loan sizes and the duration of the loan. These are important client protection principles.
- Client data security: The privacy of sensitive data of individual clients regarding their demographic details should be adequately secured so that it is not used by unauthorized parties to cause stress to the clients. For this purpose, MFIs need to define explicitly access rights to all the demographic data pertaining to clients sex, race, age, income, disabilities, mobility (in terms of travel time to work or number of vehicles available), educational attainment, home ownership, employment status, and location.
- Staff conduct: All the staff members of an MFI should treat its clients with respect and dignity. The two important aspects of staff behavior are:
 1. Communication with clients – There should be guidelines for staff to deal with specific situations involving their interface with the clients such as group meetings, loan disbursements and collections. These should ensure that customers with low levels of financial literacy understand the product, the terms of the contract, and their rights and responsibilities. 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. Clients should be encouraged to ask questions regarding the product and policies. Also, the staff should ensure that arrive for meeting in time.
 2. Loan collection and recovery process - MFIs should evolve collection practices that require all clients to be treated with dignity and respect, even when they fail to meet their contractual commitments. The following should be strictly avoided:
 - Abusive language or threats
 - Harassing borrowers at odd hours
 - Forcible entry into dwelling and forced seizure of property without the legal orders
- Relationship management and feedback mechanism: It is important for MFIs to build sustainable and long term relationship with clients. Sound relationship management enhances the quality of the clients' experience with the MFI. It also allows the MFI to

better understand clients’ needs and grievances. MFIs need to have formal mechanisms to get feedback and complaints from the clients. Customer complaints need to be taken seriously, investigated and resolved in a timely manner. The responsibilities relating to receiving client grievance and feedback and acting upon them need to be clearly identified and allocated.

- Integrating Social Values into Operations: It is necessary to have high standards of governance and to have client focused social mission. It is also necessary to measure the socio-economic changes that MFIs’ efforts are bringing in the lives of its clients and to compare it against the mission.

Compliance

In order to fully integrate operations with the principles presented above, MFIs need to adopt a comprehensive approach involving the board, the management as well as other staff members and clients. This tool measures the adherence to these principles on four parameters – Approval, Documentation, Dissemination, Observance (ADDO). This ADDO framework has been developed by M2i and is summarized below:

1. Approval at the policy level from the board
2. Documentation of the guidelines and procedures that emerge from the policy
3. Dissemination of the guidelines and procedures across the organization
4. Observance in practice of these guidelines and procedures.

Weights

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

Weight Matrix*	Approval	Documentation	Dissemination	Observance	Totals
Client Origination	3.6%	3.6%	3.6%	6.5%	17.3%
Loan Pricing	2.2%	0.7%	1.4%	6.5%	10.8%
Loan Appraisal	2.9%	2.9%	2.2%	3.6%	11.5%
Client Data Security	0.7%	2.2%	1.4%	1.4%	5.8%
Staff Conduct	5.0%	5.0%	7.2%	7.9%	25.2%
Client Relationship and Feedback	1.4%	5.8%	4.3%	7.2%	18.7%
Integrating Social Values into Operations	2.2%	2.2%	2.2%	4.3%	10.8%
Totals	18.0%	22.3%	22.3%	37.4%	100%

*Percentages have been rounded off to one place of decimal.

Regulatory compliance (ReC)

Since it is mandatory for MFIs to comply with the guidelines given by the regulator, the MFIs are assessed for their compliance with these regulations. The level of compliance of an MFI to regulations is scored and this is factored-in in COCA by scaling down the scores on various COCA dimensions in proportion to the score obtained on ReC. In total there 12 indicators have been used to measure ReC.