



SMERA RATINGS LIMITED

CODE OF CONDUCT

ASSESSMENT FOR

GRAMEEN FINANCIAL

SERVICES PRIVATE LIMITED

(GRAMEEN KOOTA)

Date of Report - 29th May, 2014

Valid Till - 28th May, 2015

Grameen Financial Services Private Limited (Grameen Koota) – COCA RATING REPORT



EXECUTIVE SUMMARY

The Code of Conduct report for Grameen Financial Services Private Limited (Grameen Koota) evaluates the company's adherence towards different 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 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

SMERA believes that Grameen Koota exhibits high level of adherence to all parameters and consequently complies well with the code of conduct laid out. This document 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 Grameen Koota's adherence towards ethical operational practices.



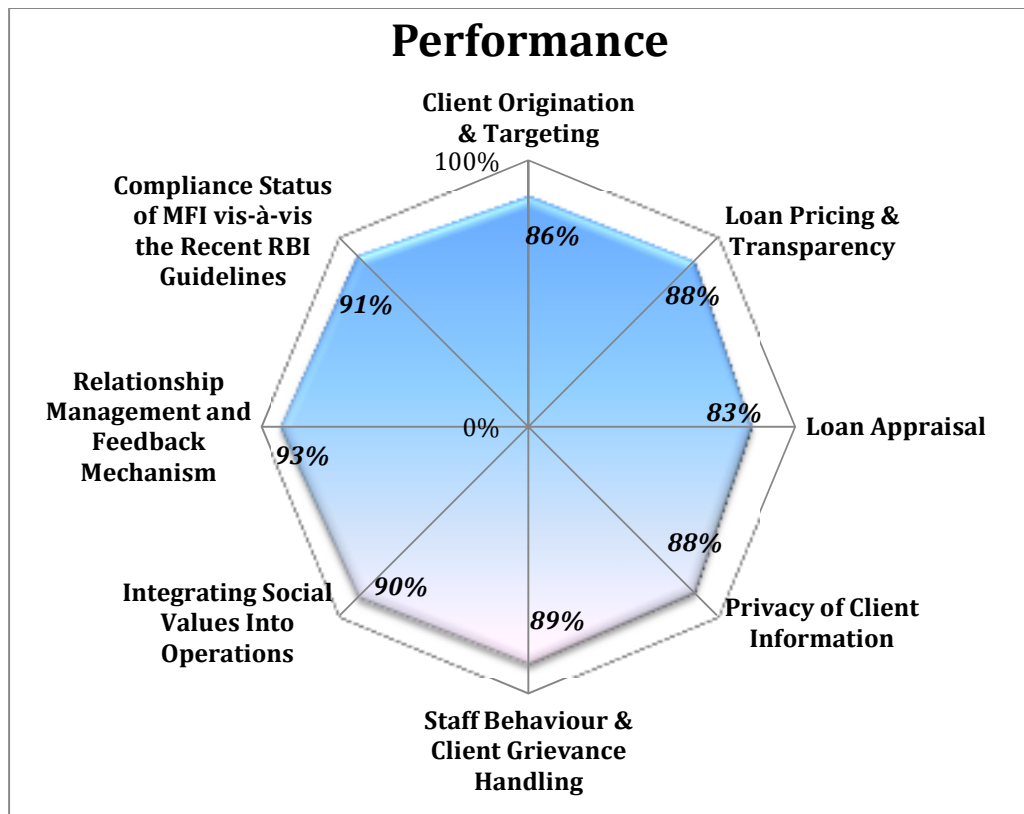
RATING

Code of Conduct Assessment Score : 89%, COCA Rating - 2 (High 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	19	22	86%
Loan Pricing & Transparency	14	16	88%
Loan Appraisal	15	18	83%
Privacy of Client Information	7	8	88%
Staff Behavior and Client Grievance Handling	31	35	89%
Integrating Social Values Into Operations	09	10	90%
Relationship Management and Feedback Mechanism	26	28	93%
Compliance Status of MFI vis-à-vis the Recent RBI Guidelines	29	32	91%

**SNAPSHOT**

MFI Name	GRAMEEN FINANCIAL SERVICES PRIVATE LIMITED
Tradestyle	GRAMEEN KOOTA
Registered Office Address	Avalahalli, Anjanapura, Bengaluru - 560 062 Karnataka India
Corporate Office Address	#26, Srinivasa Archada, Srinidhi Layout, Opposite Srinidhi Public School, Chunchanaghatta, Bengaluru - 560 078, Karnataka India
Telephone	(91) (80) (28436237)
Telefax	(91) (80) (28436577)
Email	info@gfspl.in
Webpage	http://gfspl.in/
Line of Business	Microfinance Services Using Joint Liability Group (JLG) Model
Chief Executive	Mr. Suresh Krishna, Managing Director
Legal Form	NBFC - MFI
Registration Number	U51216KA1991PTC053425
Commencement of Microfinance Operations	May, 1999
Change in Legal Status (To NBFC - MFI)	2007
Operation Area	Karnataka, Tamil Nadu, Maharashtra
No. of Branches	176
Total Staff	1,582
Visit of the Assessment Team	18 th April, 2014 to 23 rd April, 2014



BACKGROUND AND LENDING METHODOLOGY

Grameen Financial Services Private Limited (GFSPL) was established in the year 1999 by Mrs. Vinatha M. Reddy for timely and affordable credit to India's poor and low-income households. GFSPL, popularly known as Grameen Koota (GK) was visualized by Mrs. Vinatha M. Reddy in December 1996 inspired by the book 'Give Us Credit' by Alex Counts, President and CEO, Grameen Foundation USA. GK began as a project under the T. Muniswamappa Trust, an NGO, and soon adapted the Grameen Bank's group lending methodology of microfinance to the Indian setting and was launched at Avalahalli, a village in Bangalore (Karnataka).

GK steadily groomed a class of mature and financially literate women entrepreneurs, who began to outgrow the group lending model. Anticipating the increased credit requirements of their growing livelihoods, an individual lending program - Maarg - was begun in May 2008 as a pilot project. The organization soon transformed from an NGO to a well-regulated and governed Non-Banking Financial Company (NBFC-MFI) under the name Grameen Financial Services Private Limited. And currently offers a wide variety of financial products and social development services.



OBJECTIVE OF THE STUDY

The objective is to evaluate Grameen Koota's adherence to the code of conduct laid down by Sa-dhan, MFIN, best practice guide by multilateral agencies and Reserve Bank of India.

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 Behavior 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 a part of the assessment, SMERA visited selected branches of GK in various districts of Karnataka. The assessment was conducted as per a specific methodology and questionnaire. Details of branches visited and methodology used for evaluation are provided in Annexure I and II.

**LIST OF BOARD MEMBERS**

List of Board of Directors	
Vinatha M. Reddy	Founder, Promoter & Chairperson
Suresh Krishna	Co-Promoter & Managing Director
Paolo Brichetti	Director, Micro Ventures SPA, Italy
Amita Narain	Additional Director
Anal Jain	Independent Director
Daksha Niranjana Shah	Independent Director
R Prabha	Independent Director
Kenneth Dan Vander Weele	Nominee Director, Creation Investments

Promoters' Background

Mrs. Vinatha M. Reddy has done B.A. & AMI (Diploma), and has been involved in the field of development since 1995. She is active in microfinance operations since 1996. She is the Managing Trustee of T. Muniswamappa Trust and also acts as Chairman of NavyaDisha, an NGO and GK Development Trust and Treasurer of Association of Karnataka Microfinance Institutions.

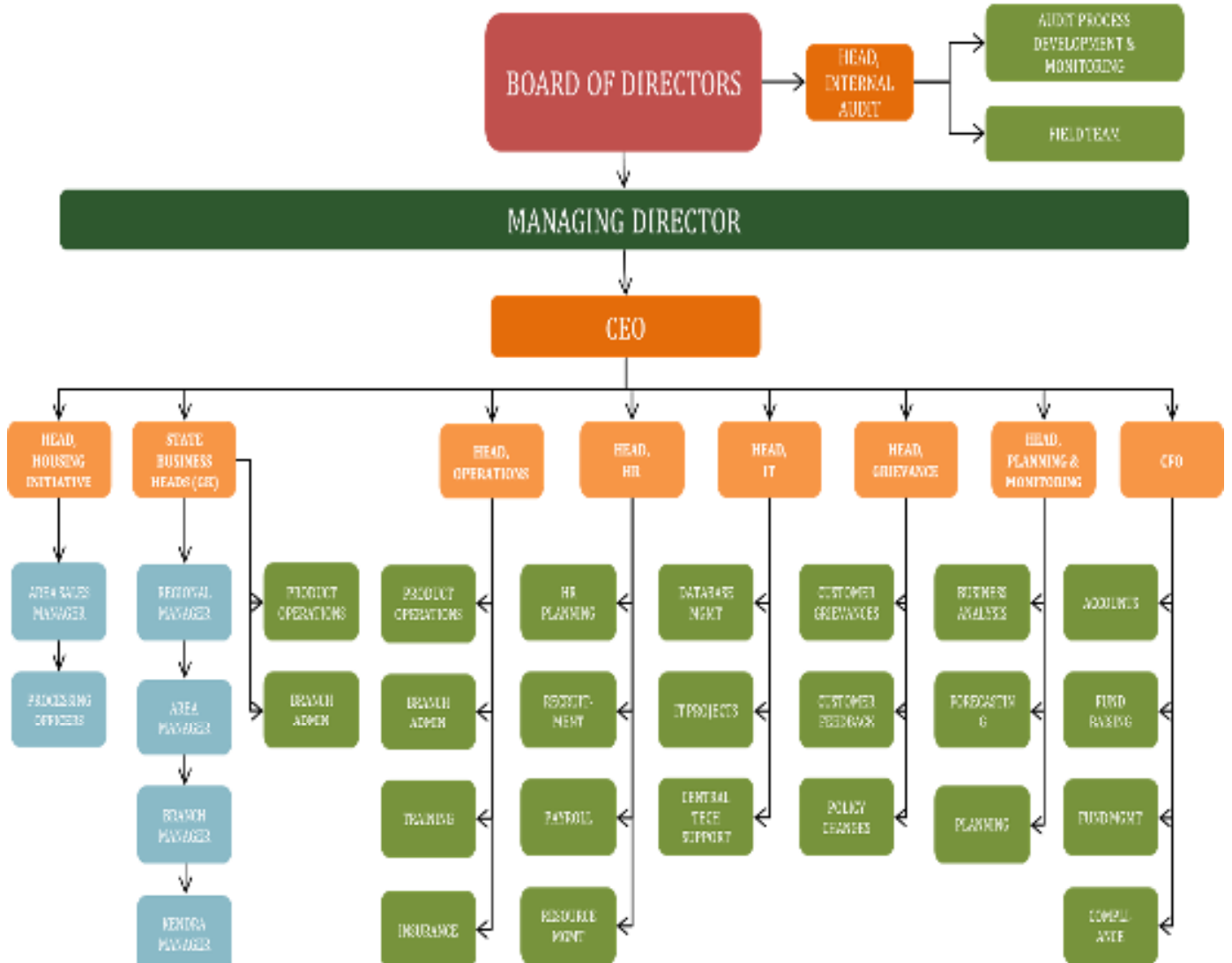
Mr. Suresh K. Krishna, has done M.A., MPEFB from IIM, Bangalore and Diploma in Computer Application. He is having long standing experience in microfinance industry along with micro enterprise development, non-formal education and also on the promotion of women self-help groups. He has served on the boards of Sa-dhan (Microfinance Industry Association in India) and FKCCI (Federation of Karnataka Chamber of Commerce & Industry). Currently he is serving the board of MFIN and AKMI - Microfinance Industry Associations in India and Buzz India Trust, Community for Open Source Microfinance (COSM), USA and FINISH (Financial Inclusion with Sanitation and Health), Netherlands. He is a chairman of Chairman of Microfinance Focus and Managing Trustee of NavyaDisha and GK Development Trust.

**HIGHLIGHTS OF MICROFINANCE OPERATIONS**

Particulars	31/Mar/2011	31/Mar/2012	31/Mar/2013	31/Mar/2014
No. of states	04	03	03	03
No. of districts	45	41	41	42
No. of branches	215	168	161	176
No. of Kendras	18,521	17,663	16,925	24,163
No. of active borrowers	321,161	313,610	346,519	504,688
No. of active loans	461,488	462,893	592,112	1,036,982
No. of loans disbursed during the period	1,288,503	1,048,275	1,094,079	1,689,276
No. of total employees	1,748	1,267	1,189	1560
No. of field staff	770	848	800	1062
Loan disbursements during the period (in Rs)	6,068,077,700	5,953,423,500	6,063,429,273	10,280,904,770
Net Loan portfolio outstanding (In Rs.)	2,505,053,525	3,812,624,453	5,238,988,264	8,095,221,874
Loan amount outstanding per active borrower (In Rs.)	7,800	12,157	15,119	16,040
Active borrowers per field staff	417	370	433	475



ORGANOGRAM





Corporate Governance

Governance, broadly defined, is the system of people and processes that keep an organization on track and through which it makes major decisions.

“Good governance is the ability of the board members to monitor the status of the organization, make good strategic decisions, and hold executives accountable for their execution. Ultimately, that comes down to the quality of the board members, the culture and practice of the board, and the power relationships among board members and executives.”

For a MFI, Corporate governance should cover,

- Client Grievance/Protection
- Employee Grievance/Protection
- Women Harassment Issues
- Credit Bureau Check etc.

As per discussion held with Mr. Udaya Kumar (CEO), it can be seen that management of GK is very dedicated towards improving their operational efficiency. GK conducts board meetings on regular basis and points discussed therein are implemented by second line of management & operations team. It is observed that GK exhibits a high level of compliance towards corporate governance needs of an MFI.

**CLIENT ORIGINATION & TARGETING****Score 86%**

Client origination is an essential element to conduct ethical microfinance operations. The code of conduct requires MFIs to practice fair client origination process 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 MFI's product and services reach suitable clientele.

GK originates clients by themselves and is directly involved in forming the JLGs. Kendra Mangers (KM) are responsible for client origination at GK. The client origination process begins with the KM's visits to rural and urban areas to search for potential borrowers. KM provides information about GK and explains benefits and features of financial services provided by GK to the prospective borrowers. Further, mini meeting is held with the interested borrowers to explain the company policies, procedures, and rules and regulations, different loan products in detail. Group of around 10 members are formed and with 02 to 04 groups one centre (Kendra) is formed. Once the center is formed, KM provides Compulsory Group Training (CGT) of 05 days to all members. KM requests the members to attend the group recognition test (GRT) to check whether the member's have understood the details provided during the CGT. KM also conducts the evaluation of the members to ascertain the eligibility of customers for taking loan and to obtain complete required information of each member. KM also visits the house of each member and fills the members basic information form (MBDF) form and collects KYC documents from the members and verifies the same with the original.

Criteria For considering a Group :

- Members living in one village, houses in same area
- Known to each other
- Age between 18 to 59
- Low income group Rural - 60,000 and urban 1,20,000
- 01 member only from each family

GK collects two KYC (Know Your Customer) documents from the group members such as proof of identity and proof of residence i.e. Voter ID Card and Ration Card & photograph. Member basic data form (MBDF) is filled, wherein all the basic data is filled by the Kendra member



GK has adopted codes of conduct of Sa-Dhan, MFIN and AKMI, and also comply with RBI code for fair practices where it has committed to ensure that services will be provided to the low-income clients and total exposure of a single client will not be more than ₹ 50,000.

The identification of right target client, household income, and individual income is a challenge for GK. GK targets poor borrowers and to understand the poverty status and repayment capacity of the member, GK collects self-declaration for income given by the clients, Progress out of Poverty Index (PPI) and Cash flow of household along with MBDF.

Approval	Documentation	Dissemination	Observance
<ul style="list-style-type: none"> GK have approved policies for client origination & targeting process. 	<ul style="list-style-type: none"> Client origination process has been documented clearly in the operational manual. 	<ul style="list-style-type: none"> GK has adequate system of dissemination of its approved policies through training. 	<ul style="list-style-type: none"> KMs are not adequately aware about the guidelines for targeting (low income) clients. Annual household income declared by few of borrowers in application form was less as compare to their standard of living observed.

Client Origination & Targeting	19	22
Approval	4	4
Documentation	3	3
Dissemination	5	5
Observance	7	10

**LOAN PRICING & TRANSPARENCY****Score 88%**

The transparency observed by the MFI in terms of pricing of loans is examined in detail. The pricing of loans covers interest rate, loan processing charges, additional charges taken if any, security deposits or advance installments, etc. Considering these costs while pricing the loans may change the effective interest rate charged to the clients. 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 visits conducted by the MFI staff.

GK maintains considerable level of transparency in interest rates and other charges on the loans. Interest is charged on a reducing balance basis and no security deposits and prepayment or late payment charges are collected from the borrowers. At the time of loan disbursement, all the terms and conditions are explained to borrowers. GK discloses its terms & conditions in the sanction letter along with interest rate, tenure of loan, and repayment schedule in individual loan pass books. GK gives separate loan passbook for every loan to the individual borrower and it is updated by KM on loan collection date.

Processing Charges and Service Tax

GK charges 1.1236 % of loan amount (Processing fees 1% + Service Tax of 12.36% of processing fees) upfront from each individual borrower for every fresh disbursement of loan.

Interest Rate

GK charges interest @ 26% p.a. on Income Generation loan (IGL) products, Livelihood Improvement products @ 24% and Social Welfare Product @ 22% p.a. A moratorium period is provided as per repayment frequency option (weekly / bi-weekly and monthly) selected by the borrower.

GK is providing life insurance coverage to borrower and her spouse (through Bajaj Life Insurance, Shriram Life Insurance, Kotak Mahindra Old Mutual Life Insurance) and has made it mandatory.



Approval	Documentation	Dissemination	Observance
<ul style="list-style-type: none"> GK'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 policy circulars issued time-to-time. 	<ul style="list-style-type: none"> The sanction letter given to the borrowers clearly specifies the interest rate and tenure of the loan in regional language. Members are also given the loan repayment schedule on loan pass books which clearly shows the installment amount and loan outstanding balance. 	<ul style="list-style-type: none"> Awareness level of the borrowers about the interest rates, other charges and process of application was observed to be moderate. However, most of the clients were aware of the installment amount to be paid, tenure of the loan and outstanding installments to be repaid.

Loan Pricing & Transparency	14	16
Approval	3	3
Documentation	1	1
Dissemination	2	2
Observance	8	10

**LOAN APPRAISAL****Score 83%**

The selection of the right client and proper assessment is critical for the success of the MFI. The appraisal process 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.

The loan appraisal or sanction process begins with the loan application by the JLG to avail the loan. It requires prior approval of all members of group and 100% attendance of the respective group and 80% attendance of kendra members for the acceptance of the loan application. Also approval and signature is taken from the borrower's spouse. KM verifies the documents attached with application form at kendra meeting and all the details provided by applicants along with ID proof document number are entered in MIFOS (MIS application of GK).

In order to check and avoid multiple lending GK get the credit bureau check done for all the applicants. Credit bureau check helps to comply with RBI guidelines for maximum credit exposure limit of borrower and abstain from lending defaulter applicants. GK is availing credit bureau services from High Mark Credit Information Services Private Limited to check the multiple lending and it shares credit data with High Mark, Equifax India, Experian and CIBIL.

After the credit bureau check the loan application is forwarded to the Branch Credit Committee, which comprises of Branch Manager (BM), Assistant Branch Manager (ABM) and any two KMs apart from the KM who has proposed the loan.

Following points are verified by Credit Committee:

- Valid KYC documents
- Repayment Capacity i.e Cash Flow and PPI
- Credit Bureau Report
- GRT scores
- Eligibility conditions for different loan products.
- Verification of LUC and repayment of previous loans.



Total principal outstanding from GK including loan applied for should be taken into account for deciding who the approval authority is.

Loan approval authority limit:

Approving Authority	Approval limit
Kendra Manager	Emergency Loan(EL) of ₹ 1000
Branch Credit Committee	Up to ₹ 15,000
Area Manager	Above ₹ 15,000 up to ₹ 25,000
Regional Manager	Above ₹ 25,000 (Including EL)

Once the loan amount is sanctioned, KMs informs the borrowers to collect the loan amount from branch in cash. At the time of disbursement, original ID proofs and address proofs are verified by BM and loan amount is disbursed.

Loan Utilization Checks

Loan Utilization check (LUC) is an essential process to ensure that the loan is properly utilized for the purpose, for which the loan is sanctioned and is aimed at building good relations with the members and enhancing mutual trust. At GK, KM performs the LUC as per the prescribed time slabs. KM records the loan utilization in the loan passbook with signature and date. LUC details are then recorded in MIFOS.

KM has to complete Loan Utilization check for all IGL Pragati & Pragati Plus loans sanctioned to members as per the following schedule:

LUC No	Week No.	Applicability	Purpose
1	05-10	52 and 104 Weeks loan	To verify the asset purchase
2	25-30	52 and 104 Weeks loan	To confirm the availability of asset.
3	55-60	104 Weeks loan	To re-confirm the availability of asset
4	75-80	104 Weeks loan	To re-confirm the availability

However, it is observed by the assessment team that KMs are not following the guidelines for LUC. LUC cards were not maintained at properly. Details of LUC done by the KMs were not captured in few loan



passbooks. In some cases it is observed that, though the LUC details were not mentioned in loan pass book, same was recorded in MIFOS along with date.

It is also observed that, purpose of loan mentioned by one of the borrower (of 10 member group) was not matching with the one recorded in MIFOS. Even at the time of LUC, actual utilization was not captured.

Eg. 1

Borrower name: Mrs. Saraswathi M. (Kokkare Hosahalli – Kankapura)

Purpose told to assessment team: Purchase of Tailoring Machine

Purpose in MIFOS : Sheep Purchase (recorded for three times)

Utilization in LUC: Sheep Purchase

Approval	Documentation	Dissemination	Observance
<ul style="list-style-type: none"> GK's policy requires that adequate loan appraisal to be performed before disbursing a loan. GK has well stated policy to perform loan utilization check. 	<ul style="list-style-type: none"> The guidelines for appraising a loan application are clearly documented in the policy manuals and circulars. Information pertaining to income and the indebtedness of borrowers' households is obtained at the time of members' registration and loan application. 	<ul style="list-style-type: none"> KMs have adequate knowledge about LUC time slabs and guidelines for LUC. 	<ul style="list-style-type: none"> Some inconsistency in documentation was observed in filling of MBDF file at different branches visited. LUC was not done properly. Few KMs found to have inadequate knowledge about changes in loan products disseminated with circulars.

Loan Appraisal	15	18
Approval	5	5
Documentation	4	4
Dissemination	2	3
Observance	4	6

**PRIVACY OF CLIENT INFORMATION****Score 88%**

Client confidentiality is an important concern of any organization. An 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 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.

GK has an adequate system of storage and retrieval of documents and information collected from the clients. The files containing sanction letter, KYC documents and members profile are kept at the respective branch offices.

The relevant data is entered into the software “MIFOS”, web based MIS system (developed by Sunguard, Conflux Technologies and Hugo) at branch office from where member Id and loan Id is generated. This increases the ability to retrieve client data in a timely manner. It was found that only authorized people had access to this sensitive data.



Approval	Documentation	Dissemination	Observance
<ul style="list-style-type: none"> GK's policy requires that adequate safety to ensure privacy of client data. The software has well-defined security features and user rights. 	<ul style="list-style-type: none"> Process manuals provide adequate guidelines on how clients' information and KYC documents have to be filed and stored at branch level. 	<ul style="list-style-type: none"> Branch staff is well informed about how to handle important documents provided by clients. 	<ul style="list-style-type: none"> Branch staff has an access to entire data of the client and all loan files are kept at branch office. The clients' personal information and important details are recorded in MIFOS. Some inconsistency is observed in maintaining files at branch level. Further, it is also observed that sanction letters and other documents are not maintained appropriately.

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

**STAFF BEHAVIOUR AND CLIENT GRIEVANCE HANDLING****Score 89%**

This section evaluates the process of the MFI with respect to staff's code of conduct and behavior with the clients.

Staff Behavior -

GK provides considerable emphasis on the conduct of its staff members towards the clients. The following are the important aspects of the expected behavior of staff towards the clients.

1. Staff should not discriminate the clients on the basis of caste or religion in extending credit.
2. Staff must behave politely with the clients at all the times and in all situations.
3. Staff should not use abusive language and threats for recovery of dues.
4. Staff should not ask for any physical collateral from the groups.
5. Staff should use peer pressure or social collateral for loan recovery.
6. Staff should not visit client's residence at odd hours for recovery.
7. Staff should not forcibly enter the client's house and threaten or force seizure of assets for recovery.
8. Staff should not collect any extra money from the client which is not permitted by the company.

One of the important aspects of staff's induction training is conduct towards clients. Guidelines (Do's and Don'ts for the field staff) have been provided to staff in the policy documents as well as operational manual regarding the way they should interact and behave with the clients.

GK does not have any incentive-based salary structure for their field staff on the performance based on loan disbursement and collection.

Loan collection and recovery process

MFI's 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.



At Kendra meeting, all members meet and handover their loan installments to the group leader. The group leader keeps the cash and then later she handovers it to KM. KM collects the cash and updates the loan passbook.

In case one or more members of the group are not able to pay the installment, other members of the group are asked to contribute on their behalf. In case the amount does not come till the end of the meeting, KM informs the group leader to collect the pending installment from the defaulted member. If required, the KM also visits the delinquent clients for recovery and try to understand their reason for nonpayment. GK focuses on understanding and helping delinquent clients by providing different solutions for becoming regular client. GK has separate team to handle delinquent clients. Further, it is observed that few KMs are having insufficient training for handling delinquent clients.

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 meeting, the other group members contribute the amount.



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. 	<ul style="list-style-type: none"> • The organization has circulated dos and don'ts for staff members while dealing with the clients. 	<ul style="list-style-type: none"> • The staff members interviewed displayed an average level of awareness on staff behavior. 	<ul style="list-style-type: none"> • Few KMs have insufficient training for handling delinquent clients. • Staff behavior towards clients found to be respectful and professional. • Client grievance handling system is moderate at GK.

Staff Behavior and Client Grievance Handling	31	35
Approval	7	7
Documentation	5	6
Dissemination	8	10
Observance	11	12

**INTEGRATING SOCIAL VALUES INTO OPERATIONS****Score 90%**

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.

GK's Mission:

"To transform and uplift the lives of poor and low-income families with micro-finance and other development services. To be a sustainable, friendly and trusted provider of affordable and need-based services"

GK maintains a high standard of governance and integrity by inducting people with good and sound reputation in the industry and understanding of microfinance as members of board of directors or governing body. GK 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 strategic decisions, approving business plans & new products, reviewing the performance and other important decisions pertaining to operations.

Currently, GK focuses on providing microfinance services to JLGs for income generation, livelihood improvement and social welfare purpose.

GK has a social initiative called Jaagruti wherein in every week Kendra manager educates the Kendra members and creates social awareness by providing some social message or information on important topics (like importance of voting, importance of insurance etc.).

Grameen Koota's has extended credit to JLG members for improvement of livelihood with the products like Water loan -Pure it, Cook stove Loan, Emergency Loan and Swavalamban loan. Under Social welfare products it has Arogya loan, Medical loan, festival loan and Education loan.



The field staffs perform their duties as per operational guidelines and their conduct and attitude towards clients adequately reflects the social objectives of the company. GK's social mission and objectives are reflected well in its ground-level operations.

Approval	Documentation	Dissemination	Observance
<ul style="list-style-type: none"> GK has approved principles of social values into operations. 	<ul style="list-style-type: none"> GK maintains integrity by inducting policies to attain the vision of the organization to improve the quality of life of the poor by providing access to financial and support service. 	<ul style="list-style-type: none"> GK provides funds to JLGs for carrying income generating activities and livelihood program to improve the living conditions of the target clients. 	<ul style="list-style-type: none"> GK maintains an adequate standard of governance and integrity into its operations.

Integrating social values into operations	9	10
Approval	2	2
Documentation	2	2
Dissemination	2	2
Observance	3	4

**RELATIONSHIP MANAGEMENT AND FEEDBACK MECHANISM****Score 93%**

MFI's need to build sustainable and long term relationship with their 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.

As per present policy and processes, GK has complaint drop box for any suggestions or complaints from clients or employees at every branch. Further, complaint register is also maintained at all branches. A few of the feedback channels available to the client's are -

- a) Toll free number printed on the pass book.
- b) Availability of mobile numbers of the Kendra Managers with the group members.



Approval	Documentation	Dissemination	Observance
<ul style="list-style-type: none"> The board has provided formal and informal channels for feedbacks and suggestions to handle complaints of clients. 	<ul style="list-style-type: none"> GKs guidelines regarding collection of feedback from clients and actions to be taken are documented. 	<ul style="list-style-type: none"> The loan pass book given to the borrower contains toll free number for registering clients' complaints. 	<ul style="list-style-type: none"> Borrowers have adequate information about available channels for feedback/complaints/suggestions to be made to GK. Clients are more comfortable with discussing their problems and issues with KMs.

Relationship Management and Feedback Mechanism	26	28
Approval	2	2
Documentation	7	7
Dissemination	6	6
Observance	11	13



COMPLIANCE STATUS OF MFI VIS-À-VIS THE RECENT RBI GUIDELINES **Score 91%**

SMERA examines the adherence level of the MFIs with respect to the 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. However GK does not fall under the purview of RBI, though they have complied with the most of the terms and conditions of guidelines issued by RBI. Such as -

Conditions as per RBI Guidelines	Grameen Koota's Policy	Compliance
Household annual income levels for eligible borrowers in Rural Areas not exceeding : ₹ 60,000 Non-Rural Areas not exceeding: ₹ 120,000	The Annual income of the clients should be below ₹ 60,000 in rural areas and below ₹ 120,000 in non-rural areas	The company obtains the declaration from the borrowers on the Member Basic Data Form (MBDF) and loan application.
Loan size should not exceed 1 st cycle loan : ₹ 35,000 2 nd cycle loan : ₹ 50,000 Tenure of the loan should be 24 months for amounts in excess of ₹ 15,000	The maximum loan size is ₹ 35,000 per member and repayment tenure ranges from 12 to 24 months.	GK meets the criteria prescribed by RBI.
Total Indebtedness of the borrowers should not exceed to ₹ 50,000	The company checks with the credit bureau and also takes a declaration from the client for the amount of indebtedness in the application form.	GK meets the criteria prescribed by RBI.
Share complete client data with at least one Credit Information Company (CIC) established under the CIC Regulation Act 2005, as per the frequency of data submission prescribed by the CIC.	GK shares its client data with High Mark, Equifax and CIBIL.	GK meets the criteria prescribed by RBI.
Minimum 75% of the MFIs portfolio should be given for income generation activities	Loans are given for Income generation, livelihood improvement and social welfare purpose. Majority loans are given for income generation activities.	GK meets the criteria prescribed by RBI.
Repayment frequency should be weekly, fortnightly or monthly at the choice of the borrower	Borrowers can opt for weekly, fortnightly or monthly repayment options.	GK meets the criteria prescribed by RBI.
Collateral free loans	The company does not accept any collateral for extending the credit.	No collateral or security deposits have been accepted from the borrowers.
No late payment or prepayment	GK does not take late payment	GK meets the criteria fully.



penalties and no security deposits	or prepayment penalties from the borrowers.	
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Approval	Documentation	Dissemination	Observance
<ul style="list-style-type: none"> Board has changed the policies and product features as per the guidelines issued by RBI. 	<ul style="list-style-type: none"> Circulars have been issued to follow the RBI guidelines. 	<ul style="list-style-type: none"> Management updates the staff on regular intervals on all the changes in the policy. 	<ul style="list-style-type: none"> All staff members showed a moderate degree of awareness on the recent changes in the business as per the RBI guidelines GK shares its database with credit bureau to understand the indebtedness of the client. Annual household income declared by few of borrowers in application form was less as compare to their standard of living observed.

Compliance status of MFI vis-à-vis the recent RBI guidelines	29	32
Approval	6	6
Documentation	5	5
Dissemination	8	9
Observance	10	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 Behavior and 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%	19%
Total	18%	18%	23%	41%	100%

LIST OF BRANCHES VISITED (Annexure I)

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, regional office and branch 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 nine branches as samples, as per the size of the MFI for review. The branches are chosen in across different districts of Karnataka which include old & new 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. Detailed discussions with the branch staff to assess their understanding of the key code of conduct principles and systems and processes.
5. Review of loan applications, loan ledgers and registers maintained in 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 recovery if the loans are overdue.
6. Selection of groups from the sample branches. A judgmental sampling is performed on the MFI's clients by the assessment team to draw respondents from the interest group. Two/three groups from each sample branches were selected for interviews. Out of which few respondents are those that have been having repaying loans on time, those having been facing problems in repayment, and the groups whose loans have been categorised as NPA, etc.
7. 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.



As part of the assessment, SMERA visited following branches of Grameen Koota in Karnataka. The details of the branches visited are provided below.

Sr. No.	Branch Name	District Name	Branch Opening date	No. of Borrowers Visited
1.	Banashankari	Bengaluru - Urban	21-11-2005	22
2.	Kaggalipura	Bengaluru - Rural	30-05-1999	16
3.	Gubbi	Tumkur	21-04-2003	36
4.	Kunigal	Tumkur	25-03-2013	24
5.	Kanakapura	Ramanagara	06-12-2000	17
6.	Holenarasipura	Hassan	01-04-2005	15
7.	Konanur	Hassan	25-03-2013	15
8.	Nanjangud	Mysore	01-02-2006	27
9.	Gundlupete	Chamarajanagar	26-11-2008	35
10.	Head Office	Bengaluru	-	-



METHODOLOGY (Annexure II)

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 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 on customer grievances and feedback mechanisms.
8. Prepare detailed report and submit to the management for review.
9. Prepare final report and submission to SIDBI.

**Questionnaire for the field visit**

1	Name of the Group/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 children going school
23	Aware about any other MFIs operating in the area
24	Loan from any other MFIs / banks / moneylenders / 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	Know 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 credit officer / branch 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 of Report*****