

Comprehensive MFI Grading

Mahashakti Foundation(MSF)

Comprehensive Grade Assigned: M3C4

Date assigned: 24 April 2017

Scale	C1	C2	C3	C4	C5
M1					
M2					
M3			M3C4		
M4					
M5					
M6					
M7					
M8					

The MFI obtains comprehensive MFI grade of **M3C4**. This signifies above average capacity of the MFI to manage its operations in a sustainable manner and average performance on code of conduct dimensions.

Grading Rationale

Microfinance Capacity Assessment Grade	The sample MFI obtains “ M3 ” as its performance grade which indicates that in ICRA’s current opinion, the Graded MFI’s ability to manage its microfinance activities in a sustainable manner is moderate.
Code of Conduct Assessment Grade	The Sample MFI obtains “ C4 ” as its Code of Conduct Assessment Grade which signifies average performance on COCA dimensions.

*Comprehensive MFI Grading provides opinion of the Rating Agency on MFI’s capacity to carry out its microfinance operations in a sustainable manner and its adherence to Industry code of conduct. MFI Capacity Assessment Grading has been done on the dimensions of **Capital Adequacy, Governance, Management Quality and Risk Management Systems**. Assessment on Code of Conduct has been done on the indicators pertaining to **Transparency, Client Protection, Governance, Recruitment, Client Education, Feedback & Grievance Redressal and Data Sharing**. Some of these indicators have been categorized as Higher Order indicators consisting of indicators on **Integrity and Ethical Behaviour and Sensitive Indicators**.*

Conflict of Interest Declaration

The Rating Agency (including its holding company and wholly owned subsidiaries) has not been involved in any assignment of advisory nature for a period of 12 months preceding the date of the comprehensive grading. None of the employees or the Board members of the Rating agency have been a member of the Board of Directors of the MFI during for a period of 12 months preceding the date of the comprehensive grading.

Disclaimer

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Historical Rating Grades

Date	Rating Agency	Comprehensive rating grade
April 17, 2017	ICRA	M3
January 2016	SMERA	MF3
November 2014	CRISIL	mfR5
May 2013	CRISIL	mfR5
March 2012	CRISIL	mfR5
October 2010	CRISIL	mfR4
August 2009	CRISIL	mfR4
November 2008	CRISIL	mfR5

Microfinance Capacity Assessment Grading symbols and definitions

Grading Scale	Definitions
M1	MFIs with this grade are considered to have highest capacity to manage their microfinance operations in a sustainable manner.
M2+	MFIs with this grade are considered to have high capacity to manage their microfinance operations in a sustainable manner.
M2	MFIs with this grade are considered to have above average capacity to manage their microfinance operations in a sustainable manner.
M3+	MFIs with this grade are considered to have average capacity to manage their microfinance operations in a sustainable manner.
M3	MFIs with this grade are considered to have inadequate capacity to manage their microfinance operations in a sustainable manner.
M4+	MFIs with this grade are considered to have low capacity to manage their microfinance operations in a sustainable manner.
M4	MFIs with this grade are considered to have very low capacity to manage their microfinance operations in a sustainable manner.
M5	MFIs with this grade are considered to have lowest capacity to manage their microfinance operations in a sustainable manner.

Note: For the Grading categories M2, M3 and M4, the sign of + (plus) may be appended to the Grading symbols to indicate their relative position within the Grading categories concerned. Thus, the Gradings of M2+, M3+ and M4+ are one notch higher than M2, M3, and M4, respectively.

Code of Conduct Assessment scale and definitions

C1	MFIs with this grade have excellent performance on Code of Conduct dimensions
C2	MFIs with this grade have good performance on Code of Conduct dimensions
C3	MFIs with this grade have average performance on Code of Conduct dimensions
C4	MFIs with this grade have weak performance on Code of Conduct dimensions
C5	MFIs with this grade have weakest performance on Code of Conduct dimensions

MFI's profile (March 2017)	
Name of the MFI	Mahashakti Foundation
Legal form	NGO MFI (Trust)
Operational Head	Mr Mohan Baliyarsingh (Director- Operations)
Year of starting microfinance	01/Apr/2005
Branches March 2017)	25 (Mar 2017)
Active borrowers	44488
Total staff	157 (Dec 16)
Operational area	Odisha
Visit of the Assessment team	
Correspondence address	Infront of State Ware House Railway Station Road, Balangir Pin: 767001 Odisha, India Tele-Fax- 06652-231290

Details of Loan Products (March 2017)				
Product	Description	Loan size (Rs)	Interest Rate	APR
				(Interest Rate and Processing fees)
MSF Own Fund	JLG / SHG	1,900-48,000	Enterprise - 24%	Loan Processing Fees (LPF)- 1 %
			Education - 24 %	If loan amount is more than Rs.25,000
			Energy - 18%	For Energy Loan – No LPF
			Housing – 18%	
Yes Bank Ltd BC partnership	JLG	12,000-40,000	Enterprise - 24%	LPF - 1 % If loan amount is more than Rs.25,000
IDBI	JLG/SHG	14,000-35,000	Enterprise - 23 %	LPF – NA
Reliance Capital	JLG	15,000 to 35,000 (multiple of 5,000)	Enterprise - 24%	LPF-1 %

Details of Loan Products (March 2017)				
Swarn Pragati Housing Microfinance	Individual / SHG	50000-10,00,000	Housing- 23 %	LPF-1 %

About the Company

Mahashakti Foundation (MSF) is a trust and- started its operations in October 2004 in the Kalahandi district of Odisha. The entity began its social development work with “The Credit and Savings for Household Enterprise” project of CARE India and “Department for International Development” (Govt. of UK). Currently, the entity operates in eight districts of Odisha with 25 branches and offer several types of loans in the field of education, solar, health, housing, and sanitation. The entity also acts as a business correspondent of Yes Bank, Swarna Pragati Housing Micro Finance Pvt. Ltd., IDBI Bank and Reliance Capital Ltd.

Profile of Board of Directors

Board of Directors (March 2017)			
Sr No	Name	Education	Brief profile
1	Sri Santosh Kumar Mishra (President)	MA, (Mathematics), OAS (Retd.)	More than 40 years of experience in the field of rural development and SHG bank linkage program. Served as ASO, Tahasildar, Block Development Officer in different blocks of rural Odisha. He associated with SHG Bank linkage program for more than 15 years.
2	Ms. Rojaleen Bhuyan (Vice President)	MSW , B.ED from Utkal University	Development Practitioner for the last 10 years and has 5 years of experience in the field of programme operations in livelihood development and micro finance.
3	Mr. Jogananda Behera (Secretary)	MBA, HR	Mr. Behera has more than 15 years of working experience on livelihood promotion and community health. He worked with international agencies like Oxfam and CARE on HIV AIDs and livelihood promotion projects. He also worked with Western Odisha Rural Livelihoods Project for the promotion of different clusters for 3 years. He is very hard working and believes on the empowerment of community through enterprise development..
4	Sri Sanjeeb Nayak (Assistant Secretary)	B.A (Hons) LLB from Sambalpur University	Former employee of State Bank of India with 28 years of experience in formal banking sector, SHG Bank Linkage, Micro finance, Credit Appraisal & Lending .He is also a Certified insurance Advisor by IRDA.

Board of Directors (March 2017)			
Sr No	Name	Education	Brief profile
5	Sri Prakash Chandra Sahu (Treasurer)	BA, PGDCA	20 years of experience in Social sector, Micro finance & Livelihood development.
6	Smt. Aradhana Nanda (Member)	MA in Economics from Utkal University	25 years experience in the field of Social Development and financial inclusion. Served in different NGOs since 1978 with the responsibility of planning and coordination of entire program, staff assessment, monitoring & supervision of women, child development, training & livelihood development. She was pioneer in financial inclusion and SHG Bank linkage program.
7	Sri Jugal Kishore Pattnayak (Member cum CEO)	MA, (Pol.Sc and Rural Development) LLB from Berhampur. University. Diploma in Micro Finance from Indian Institute for Banking and Finance, Mumbai	25 years experience in the field of Livelihood Development. Served in a state level NGO since 1991 with the responsibility of planning and coordination of entire program, staff assessment, monitoring & supervision of credit operation. Worked as the Project Officer of FARR CARE CASHE (Credit and Savings for House hold Enterprise) of CARE (DFID Supported) for 6 years. (2000-2006)

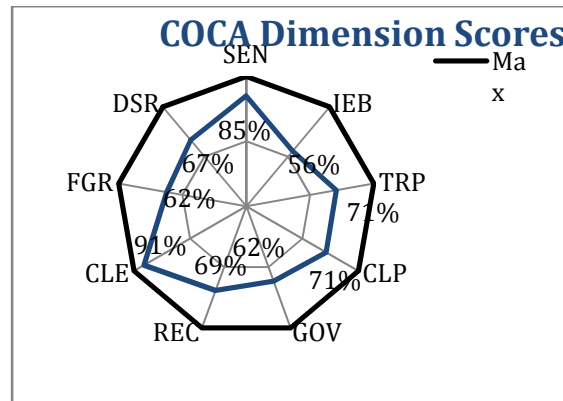
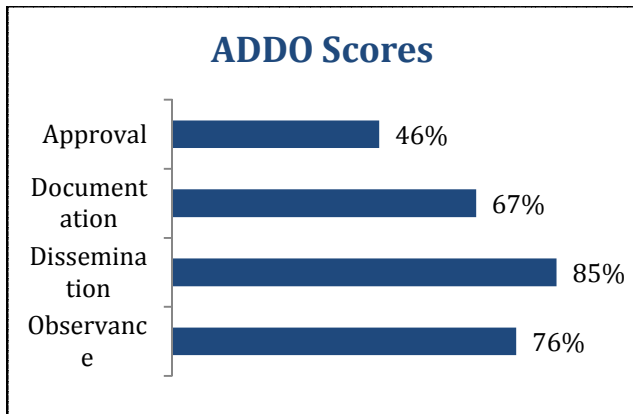
Key Performance Ratios		
	Mar-16	Dec-16
	2015-16	2016-17
Portfolio at Risk (>30 days)	0.05%	0.45%
Capital to Risk Weighted Capital Adequacy Ratio (CRAR)	34.03%	40.08%
Operating Expense Ratio (OER)	7.80%	8.50%
Funding Expense Ratio (FER)	8.68%	11.54%
Write-offs to average portfolio	0.00%	0.00%
Return on Assets (RoA)	4.60%	3.90%
Return on Equity (RoE)	22.90%	19.80%
Active borrowers per staff	386	404
Active borrowers per branch	1789	1934

Compliance with RBI's Directions for MFIs

Sr No	RBI's Direction	Status
1	85% of total assets to be in the nature of qualifying assets	Complied
2	Net worth to be in excess of Rs 5 Crore	Rs. 3.4 crore as on Dec 31, 2016 (It is a trust not a NBFC-MFI)
3	Income of borrower not to exceed Rs 100,000 in the rural areas and Rs 160,000 in the urban and semi-urban areas*	Complied
4	Loans size not to exceed Rs 60,000 in first cycle and Rs 100,000 in subsequent cycles*	Complied
5	Total indebtedness of the borrower not to exceed Rs 100,000 (excl medical and education loans)*	Complied
6	Tenure of loans not to be less than 24 months for loan amount in excess of Rs 30,000, with prepayment without penalty*	Complied
7	Pricing guidelines are to be followed	Complied
8	Transparency in interest rates to be maintained	Complied
9	Not more than two MFIs lend to the same client	Complied

** For the assets classified as qualifying*

Section 1: Code of Conduct Assessment



SEN: Sensitive Indicators; IEB: Integrity and Ethical Behaviour; TRP=Transparency; CLP=Client Protection; GOV=Governance; REC=Recruitment; CLE=Client Education; FGR=Feedback and Grievance Redressal; DSR=Data Security

Code of Conduct Assessment Summary

Mahashakti's performance on the code of conduct takes into account MFI's strong performance on Client Education. The overall score is further enhanced by Mahashakti's high score on sensitive parameters. There is scope of improvement across Transparency, Client Protection, and Data Sharing & Recruitment. Mahashakti's overall score is impacted by low scores on Integrity and Ethical Behaviour parameters.

MFI Strengths and weaknesses pertaining to Code of Conduct

Strengths

- The operational staff is punctual and courteous towards the borrowers with none of the borrowers complaining about the operational staff's behaviour.
- All the first cycle borrowers need to undergo 3 day training (CGT and GRT) for where they are informed about the products offered by the company, terms and conditions, responsibilities and so on.
- Mahashakti disseminates a single, effective annual rate to its borrowers of 24% on group loans. The processing fees charged is 1%, if loan amount is more than Rs 25000 which is in line with the prescribed guidelines. Under IDBI BC channel no processing fees is charged from the clients. The Rate of Interest charged to clients is also lower at 23%
- No instances of collateral or security deposit being taken from the borrowers were observed. Guidelines that no collateral or security deposits will be taken from the borrowers are documented in the Operations Manual. Interviewed branch managers were aware regarding the guidelines. An external CA agency tracks company's compliance on the same every quarter.
- Mahashakti undertakes review of its margin regularly and tracks the prevailing base rates of five largest banks. The company also gets compliance with RBI pricing guidelines certified by an independent CA agency on a quarterly basis.

Weakensses

- Mahashakti does not have a policy to collect Aadhar and Voter ID for all loan cycles. The Board has not reviewed the performance with respect to KYC norms.
- Mahashakti does not share data with all the 4 credit bureaus. It shares data only with Highmark on a monthly basis.
- Of the ADDO parameters, the company scores lowest on approval indicating that the company needs to improve on what is reported to the board. Annual review of Code of conduct compliance report, recruitment policy, progress made on Aadhaar coverage, credit bureau checks post disbursement are not discussed at Board level.
- Branch managers' awareness with respect to RBI directions regarding loan sizes, loan tenures, loan purpose, income level of borrowers and KYC norms was low.
- Mahashakti does not have structured compliance report on code of conduct parameters which is presented to the board on a regular basis.
- Formats of key documents were not evolved in local languages. In most of the branches the document was in Hindi as against the vernacular language.
- Clients are issued loan cards where the instalment amount is not broken into Principal and interest amount. The total EMI is mentioned.
- Clients are not issued any Loan sanction letters. An agreement copy is made which is kept at the Head office.
- There was inconsistency in the repayment observed and repayment as per the loan contract among the client sample. In few cases collection was done before the due dates mentioned in the loan cards.
- The credit bureau checks have been made for more than 15 days prior to disbursement in many cases. In sample cases, although the reports were available disbursements was done 15 days after the report date. Mahashakti has a policy of accepting 1 month validity of the Credit Bureau Reports.
- Mahashakti works as a trust not a NBFC-MFI. Hence it lacks in the transparency parameters related to RBI guidelines. The board is planning to convert the trust into a NBFC –MFI in FY 2018.

Significant observations - Higher Order Indicators

1. Integrity and Ethical Behavior

Strengths
<ul style="list-style-type: none"> • Mahashakti's board has an approved policy of recovering delinquent loans. It is a part of the Operation Manual. • Adequate training to staff has been provided pertaining to: <ul style="list-style-type: none"> ○ Conducting Client meetings ○ Collecting repayments ○ Recovering Overdue loans ○ Appropriate documentation and vouching ○ Feedback and Grievance Redressal Mechanism • The entire sample clients interviewed was satisfied with the staff behavior. Internal audit or management assurance reports have been reviewed by the Board, regarding staff behavior. • Employees confirmed that they never had to make good any shortfalls in collection from their own money. • Mahashakti has a policy of providing 1 month notice period to its employee whose employment is being terminated. • Mahashakti provides NOC or relieving letter to all employees who have given adequate notice before quitting. • Staff members have received orientation/training on the communication to be provided to new clients and handling them with diligence. • Internal Audit mechanism covers the staff satisfaction in relation to compensation and incentives.

Weaknesses
<ul style="list-style-type: none"> ○ The Code of Conduct compliance is not discussed at the board level. ○ In 63% of the branches visited, the contact number and address of SRO nodal official (as applicable), had been displayed clearly. ○ The audit committee of the board has not reviewed the Internal Audit team strength and the scope of Internal Audit during the previous one year. Minutes of the Audited committee meeting is not maintained. ○ The HR policy does not specifically mentions that shortfall in collections will not be recovered from employees, unless in proven cases of fraud. ○ Mahashakti's board has not reviewed the recruitment policy of the organization in the last 1 year. ○ There is no evidence to suggest that MFI has taken steps to ensure compliance with the code of conduct in areas where it was weak. ○ The incentives of staff are linked to monthly client enrollments .The target for field staff in a month is 50 members and there is no upper limit to it mentioned in the policies. ○ There is no upper limit for incentives related to number of clients managed mentioned in the policies. ○ The field staff is not eligible for incentives if the repayment rate attributed to them is less than 100%. ○ The client awareness against Grievance Redressal mechanism of the Industry Association is weak. They do not receive any training on the mechanism established by the industry association. ○ Mahashakti has no practice of preparing monthly reports for management review about the number, nature and resolution of grievances and feedbacks received.

2. Sensitive Indicators

Strength
<ul style="list-style-type: none"> ○ 97% clients interviewed are aware of amount and the number of installments they are required to pay. ○ Interactions with clients revealed no instances of payments being made for a service or product as a precondition for loan. ○ Prepayments or other conditions on the loan do not lead to change in the effective interest rates. ○ Discussions with loan clients and review of loan documents do not reveal any instance of fines, penalty being imposed on clients. ○ An external CA agency certifies the compliance with RBI's priority sector norms ○ The microfinance loans complied with the RBI directions on loan pricing, tenure & loan utilization. ○ A review of the loan records and interactions with the clients indicates that no client had to make the first repayment on her loan before a month had passed on a monthly repayment product. ○ Mahashakti does not charge clients additionally for insurance, apart from premium payable to LIC. ○ Discussions with a sample of borrowers reveal that the staff members do not indulge in: <ul style="list-style-type: none"> ○ Abusive language or threats ○ Visiting borrowers at odd hours ○ Forcible entry into dwelling and forced seizure of property without the legal orders. ○ All the clients receive receipts for all transactions and the Loan Card is updated every time repayments are collected. ○ Client interactions do not reveal any instance when they had to make payment to informal agents or bribes. ○ The Auditors Report 2016 did not mention o any adverse remark on accounting standards followed by Mahashakti Foundation.

Weaknesses
<ul style="list-style-type: none"> • The client awareness against the processing fees charged to them was low in few groups. • Clients do not receive any sanction letter with all terms and conditions of the loan mentioned in it. Clients are not provided any copies of the sanction letter. • Clients are not identified through their Aadhar numbers for the purpose of credit bureau reports. As per the policies Aadhar is not compulsory even for second cycle clients. • Mahashakti is a member of only Highmark and not all the Credit Bureaus. The data is shared with Highmark on a monthly basis, hence the frequency of data sharing is lower against the guidelines prescribed by SRO of weekly basis. • The difference in the effective interest rate between any two products is more than 4%. The rate of interest charged for solar products is 18% and for Enterprise & Education is 24%. • Though as a policy Operations Manual specifies identity proofs to be taken from clients before disbursement, no specific ID proofs like Aadhar, Voter Id card is collected from clients.

Significant observations – Building Blocks

1. Transparency

Strengths
<ul style="list-style-type: none"> • Mahashakti has adopted the most recent RBI guidelines in circulars and the latest circulars were available in each of the visited branches. • It communicates all the terms and conditions to its clients in the training effectively. • Interactions with clients revealed that charges and price for all services have been communicated in written to clients. • Mahashakti’s clients were aware about the rate of interest being charged. There is no significant difference between the nominal interest rates and the APR (less than 1%) • Prepayments or other conditions on the loan do not lead to change in the effective interest rates. • Review of the loan clients and documents do not reveal any instance of fines, penalty being imposed on clients. • Mahashakti has a policy of not collecting security deposit or collateral from the clients & the Board has reviewed the MFI’s position on the same. The Operational manual has highlighted this policy and the awareness of branch managers on the policy of not collecting security deposits money was good. • Discussions with clients and documents did not reveal any instance of fines, penalty being imposed on clients • Prepayments on the loan do not lead to change in effective interest rates. • Interactions with Branch staff confirmed on receiving training from a senior staff regarding the documents to be provided to clients. • The board reviews the interest rates charged whether it is complying with the RBI pricing guidelines. The branches have access to the most recent pricing guidelines which enables them to lend on the most recent rates. It reviews the prevailing base rates of the five largest banks. • An external CA agency certifies its compliance with RBI directions on loan pricing. • The Code of conduct compliance report is available in the public domain. • The MFI’s annual financial statement and report is available for FY 2016 in the public domain. • 78% of the clients interviewed reveal that they or their relatives are able to read and understand the text in documents, such as loan cards, loan agreements etc, shared by Mahashakti. • 97% of the clients interviewed were aware of amount and the number of instalments they are required to pay. • Around 88% of the recent loans reveal that the interest rates charged on them were in accordance to the most recent approved rates.

Weaknesses
<ul style="list-style-type: none"> • The board has not discussed the most recent directions from RBI regarding disclosure of terms and conditions to the clients. • Of the field staffs interviewed, 75% had received training or orientation from a senior officer regarding RBI’s direction, which is low. • Only 80% of the field staff was aware of the terms and conditions. • Only 75% of the formats of important documents have evolved completely in vernacular languages. The board has not reviewed if the formats in use are understandable by the clients particularly in new areas of operations. • The loan cards issued to the clients shows the EMI. It does not bifurcates the amount into principal & Interest. Only 58% of the loan cards presented their complete repayment schedules including number of instalments, instalment amount broken into principal and interest and due date. • At IDBI BC branches the effective rate of interest on its products was not properly

- displayed.
- Awareness of clients regarding processing fees charged was lower. 76% of the clients interviewed revealed that the processing fee charged was not higher than 1%.
 - The board does not review the management performance report/ Internal Audit report on whether all clients receive the necessary loan documents.
 - There is no practice of issuing acknowledgment to the clients when they apply for a loan.
 - Clients are issued loan agreements which are kept at the Head office of Mahashakti. No customer copy of loan agreement or sanction letters are given to the clients.
 - Mahashakti does not have a system of documenting why a loan has not been sanctioned against an accepted loan application.

2. Client Protection

Strengths
<ul style="list-style-type: none"> • The Board has reviewed the performance with respect to <ul style="list-style-type: none"> ○ Loan sizes of qualifying loan assets. ○ Loan purpose of qualifying loan assets ○ Loan tenure of qualifying loan assets ○ The proportion of qualifying loan assets to total assets ○ Micro-credit saturation profile of a new district before it starts its operations ○ Guidelines on informing clients regarding the product and services, particularly the interest rates and other costs ○ Conducting client meetings ○ Collecting Repayments ○ Recovering overdue loans ○ Policy of recovering delinquent loans • The Operational Manual has covered the following points- <ul style="list-style-type: none"> ○ Loan Sizes ○ Loan Tenure ○ Loan Purpose ○ Income level of borrower ○ Turnaround Times ○ Guidelines regarding checks to be performed on loan applications ○ Checks to be performed by field staff for determining indebtedness of loan applicants ○ Maximum indebtedness of the borrower include loans from banks through BC's or otherwise ○ Informing the clients regarding the product and services offered, particularly interest rates and other costs. ○ Conducting client meetings ○ Collecting Repayments ○ Recovering overdue loans ○ No use of abusive language or threats by the field staff ○ Not visiting borrowers at odd hours ○ No forced seizure of property without legal orders by the field staff • The Branch Managers interviewed are aware of the following points- <ul style="list-style-type: none"> ○ 88% of the Branch Managers interviewed are aware of RBI's direction regarding income level of borrowers. ○ RBI's direction regarding KYC norms ○ Turnaround time limits ○ Non-credit products are not a precondition for loans ○ RBI's guidelines regarding maximum indebtedness of clients ○ Process to be followed in case credit bureau reports are found to be inaccurate ○ Conducting client meetings

Strengths

- Conducting repayments
- Recovering overdue loans
- Arriving on time for the centre meetings
- Guidelines to prevent unacceptable behaviour
- 97% of the branch staff has been trained of not visiting borrowers at odd hours & not to forcibly enter into client property without legal orders.
- Appropriate vouching
- The Internal Audit Manual has covered the following points-
 - Loan tenures and whether the compliance of RBI’s directions is being met
 - KYC status of clients
 - Occurrence of Abusive language or threats
 - Occurrence of visiting borrowers at odd hours
 - Occurrence of forcibly entering into property without legal orders
 - Appropriate vouching or otherwise by the staff
- The HR policies and staff interviews highlighted the following points-
 - Interviews with employees reveal they never had to make good any shortfalls in collections from their own money
 - Training is provided to staff on how to assess the repayment capacity of the clients.
- Interactions with clients revealed that were satisfied with the following points-
 - No other party other than the field staff is involved in filling up the loan application of the client.
 - They never had to make any payment towards a service or product as a precondition for loan.
 - Professional staff conduct & centre timings
 - Behaviour of the staff in relation to language, visiting hours & professional conduct
 - Accurate receipts for all transactions
 - They have never paid to any informal agents or bribes
 - 94% of the clients interviewed are aware of the fact that their data can only be shared for authorized purposes. Written permission has been taken from clients with this regard.
 - In 90% of the sample of clients interviewed the indebtedness of borrower was not more than that stipulated by RBI.
- There is no evidence that Mahashakti offers any un-approved product/service.
- Mahashakti provides insurance to its clients through an IRDA approved agency. It has partnered with LIC in providing insurance to clients.
- A review of the files indicated that over 80% of the claims have been settled within a period of 90 days.
- Mahashakti does not charge clients additionally for insurance, apart from premium payable to LIC.
- Loans are written off in case of the death of the client or his/her spouse, as established by a review of a sample of such cases.
- Review of insurance claims settled revealed that they were in accordance to the terms and conditions of the insurance agreement with LIC.
- The data of the client is captured through a detailed Cash Flow Analysis.
- Mahashakti takes a backup of digital data on a daily basis.

Weaknesses

- The MFI's board has not reviewed the following points in the past year-
 - MFI's performance with respect to income of borrowers
 - Performance with respect to KYC norms
 - Turnaround time for loan sanction and disbursement
 - Credit Appraisal Guidelines with respect to credit risk of the MFI
 - Saturation profile of the areas it operates in
 - Indebtedness of the borrower
 - Any exception that the MFI may have made on credit bureau reports in the previous quarter.
 - The verification tests on a select sample of clients during the previous year
 - Progress made in collecting Aadhar of clients in at least one of its meetings in the previous year.
 - Action initiated against delinquent clients

- Branch managers have low awareness with respect to the points mentioned below-
 - Only 50% of the Branch Managers interviewed was aware of RBI's direction regarding maximum loan sizes
 - Only 50% of the Branch Managers interviewed was aware of RBI's direction regarding loan tenure
 - 75% of the Branch Managers interviewed was aware of RBI's direction regarding loan purpose.
 - 75% of the sampled branch have records that state the most recent loan appraisal criteria

- The Internal Audit Manual has no records of the following points-
 - Loan sizes and whether compliance with RBI's directions is being met
 - Loan purpose and utilization and whether compliance with RBI's directions is being met
 - Borrower income and whether compliance with RBI's directions is being met.
 - Whether Credit Bureau check has been done within 15 days prior to disbursement
 - If Credit Bureau reports have been checked by the Internal Audit Team
 - Indebtedness of borrowers and whether compliance with RBI directions is being met

- The Operations Manual has not covered the following points-
 - Loan purpose guidelines
 - Income guidelines
 - KYC norms regarding documents to be collected for identity and address proof. The Operational Manual has not mentioned that the copies collected from clients will be verified with original documents along with a "verified with original" declaration of the field staff.
 - Non-credit products are voluntary
 - Assessment of the repayment capacity of the clients by the loan officers
 - Loan sizes and duration is not linked with the repayment capacity of the borrower
 - Aadhar should be mandatory for 2nd/ subsequent cycle clients
 - For 2nd and subsequent cycle loans. Clients are identified through their Aadhar numbers for the purpose of credit bureau reports.
 - Process of storing client data

- The HR Manual has not covered the following points-
 - Whether the total compensation of the field staff remains the same if the repayment rate attributed to the staff is 98% or 100%.
 - Shortfall in collections will not be recovered from employees, unless in proven cases of fraud

3. Governance

Strengths
<ul style="list-style-type: none"> • 11 members of the existing board of the MFI have good and sound reputation. They have rich and diverse background in social reforms and microfinance space. • The Board has representatives who are qualified to provide direction to the management. • The minutes of the board meetings are maintained. • The board has met regularly over the previous one year. • Summary of key changes in the operational manual is provided to the Board of Directors • The Board is provided with financial and operational information in a format which enables it to provide informed oversight to the management. • The board has approved a policy for debt restructuring for clients facing repayment stress. • It has documented guidelines regarding debt-restructuring for clients facing repayment stress • There is evidence that the MFI has restructured loans of clients facing repayment stress in the past. During demonetization the loans were restructured as they faced repayment issues. • The audit committee has met regularly over the previous year. • Formal & dedicated Internal Audit Team is there. • The Head of Internal Audit reports directly to the Board Committee • The Internal Audit team conducts quarterly audits of branches. It is done on a quarterly basis. • At 88% of the branches visited action taken report against previous audit is available. • Staff satisfaction related to compensation and incentive are covered by Internal Audit • Accounts are audited in a timely manner after the end of the most relevant financial year. The Audit for FY 2016-17 is under process. The last Audit report as on March 2016 is available on the website. • There are no adverse observations in the Auditor's report regarding accounting standards followed.

Weakness
<ul style="list-style-type: none"> • No written policy regarding constitution of the board including the fact that board members should have good and sound reputation. 1/3rd of the existing board members are not independent persons. • The Board chairperson is an executive of the company. • CEO compensation is not disclosed properly in its audited reports • Only 63% of the branch staff interviewed have been informed and are aware of reschedulement policy and procedure. • No Minutes of the Audit Committee meeting has been recorded. • The audit committee of the Board has not reviewed whether the Internal Audit team has adequate staff strength. • The audit committee of the Board has not reviewed whether the scope of Internal Audit is adequate. The MFI has no structured reporting template which comprehensively covers all aspects to present COC compliance reports. • COC compliance reports have not been placed before the board. • There is no evidence to suggest that steps have been taken to ensure compliance with the code of conduct in areas where it was weak

4. Recruitment

Strengths
<ul style="list-style-type: none"> • There are documented guidelines regarding recruitment. • Whenever any recruitment is done from another MFI , there is a policy of mandatorily seeking reference check from the previous employer • Documented system of reference checks on all the new employees is there • There is documentary evidence to show that it has performed reference checks • Sufficient notice is provided to employees whose employment is being terminated • There is documentary evidence to suggest that the notice period for all employees who have left it has been honored. • There is documentary evidence that NOC or relieving letter is obtained from new employees. • There is documentary evidence that the MFI has provided NOC or relieving letter to all employees who have given adequate notice before quitting.

Weakness
<ul style="list-style-type: none"> • The Board has not reviewed its recruitment policies annually • No process for responding to reference check requests has been documented in the HR manual. • ICRA did not find evidence of Mahashakti responding to reference check requests from other employers. • The MFI has no documented policy that when it recruits staff from another MFI, the said staff will not be assigned to the same area he/she was serving at the previous employer for a period of one year.

5. Client Education

Strengths
<ul style="list-style-type: none"> • Mahashakti has documented process for raising clients' awareness of the options, choices and responsibilities regarding financial products and services. These are part of CGT and GRT manuals • It has trained staff for the purpose of raising clients' awareness. These are parts of CGT and GRT trainings. • All the clients interviewed state that they had been made aware by the MFI on the issues of options, choices and responsibilities during the training sessions. • There is documented process for the communication to be provided to new clients • Staff members have received orientation/training on the communication to be provided to new clients • Mahashakti does not charge clients for the trainings provided, itself or through a related party. • 95% of clients interviewed who were found to be aware of the Annualized Interest Rates • All the clients interviewed who were found to be aware of the Loan term is high.

Weaknesses
<ul style="list-style-type: none"> • Low client awareness on each of the points mentioned below- <ol style="list-style-type: none"> 1. Processing Fees- 64% 2. Insurance claim settlement process- 75% 3. Any other product or service – 78% 4. Insurance charges – 76%

6. Feedback & Grievance Redressal

Strengths
<ul style="list-style-type: none"> • Feedback and Grievance redressal mechanism forms part of the training of staff. • Clients are provided avenue to record their complaints. At branch level the grievances are handled by the branch managers. • Acknowledgement is provided to clients and grievance is handled in a time bound manner as mandated in the policies. Mahashakti maintains a grievance redressal register at the branch level. • Clients are trained about the mechanism of Grievance Redressal in the 3 day general training program. • 98% of clients interviewed were aware of the MFI Name and branch location. • Grievance redressal system set up by the MFI is displayed prominently in all its branches. • Grievance redressal system set up is prominently displayed in 88% of the branches covered. • A dedicated grievance redress/client feedback official is there to handle the grievances in a time bound manner. Ms. Sarita Satpati is the dedicated grievance redressal official at Mahashakti. • Mahashakti provides the number of the client grievance redressal/feedback official to all its clients in loan cards/passbooks etc • Complaints or feedback received have been recorded diligently in the register. • Action taken reports on the complaints received from clients is a part of the grievance redressal register.

Weaknesses
<ul style="list-style-type: none"> • Operational/other manuals (or circulars) have details of the grievance redressal. However there is no mention of time frames for grievance resolution as well as escalation mechanism. • Mahashakti has no documentary proof that complaints have been escalated to senior management/CEO in case the first line redressal has not been able adequately resolve it. • 63% of the branches visited displays that it is responsible for the action of its staff and the clients will be fairly treated despite grievance being lodged. • In its loan agreement it makes a declaration that it is responsible for the behavior of its staff. However the loan agreements are kept at HO but not with the clients. Hence borrower awareness was found to be low on this parameter. • Only 85% of the clients interviewed are aware about the grievance redressal official. • Clients are not properly notified of their right to refer the matter to the grievance redressal mechanism established by the Industry Associations • The information about grievance redressal mechanism established by Industry associations is not a part of the training of the clients. • Monthly reports are not prepared about the number, nature and resolution of grievances and feedback received for management review. • A summary of the grievance redressal report has been presented to the Board for its review during the previous Board meetings. However it has been discussed only 2 times

by the board in the entire financial year.

7. Data Sharing

Strengths

- It has a well defined process for sharing data with the credit bureau.
- Mahashakti discloses operational and financial data, which is not more than one year old, on its website.
- It has provided data called for by SRO. It shares data with them monthly.
- Data is shared with RBI wherever applicable.

Weaknesses

- Mahashakti has no policy of sharing data with, all the 4 credit bureaus. It is a member of Highmark hence data is not shared with the other 3 credit bureaus.
- Accurate data is shared with Highmark on a monthly basis which is not as per the frequency prescribed by the MFIN.

Annexure: Methodologies

Microfinance Grading Methodology

<http://www.icra.in/Files/Articles/mfi%20grading%20methology%20note%20for%20upload.pdf>

COCA Methodology

The Code of Conduct Assessment (COCA) 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 Smart Campaign's Client Protection Principles (CPP).

In 2016, need was felt to harmonize COCA to the most recent industry code of conduct and to standardize COCA tools of different rating/assessment agencies. This grading is based on the harmonized COCA tool. In the harmonized COCA tool, the dimensions were classified in three categories – highest order, higher order and building blocks. This grading is based on the harmonized COCA tool.

Highest Order	
Sensitive Indicators	
Higher Order	
Integrity & Ethical Behavior	
Building Blocks	
Governance	Client Protection, Recruitment
Transparency	Feedback/Grievance Redressal
Client Education	Data Sharing

Chart: COCA Indicators Framework

Number of indicators in each category is presented below

Higher Order Indicators	Number of Indicators
Integrity and Ethical Behaviour	32
Sensitive indicators	27
Building Blocks	Number of Indicators
Transparency	40
Client Protection	123
Governance	30
Recruitment	13
Client Education	14
Feedback & Grievance Redressal	25
Data Sharing	6
Total	251

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 120 and 300 clients are sampled for primary survey (except in cases where number of branches in an MFI is less than eight).

Sampling guidelines

The following is taken as the guideline to determine the sample size for a COCA exercise.

MFI Size	No. of branches to be visited	No. of borrowers to be visited
Small MFI (Less than 8 branches)	All branches	15 clients per branch covering minimum two centers.
Small / Mid size MFI (up to 2,50,000 borrowers)	8 – 10 branches (geographically distributed)	120-150 clients (15 clients per branch covering minimum two centers).
Large MFI (>2,50,000 borrowers)	12 – 15 branches (geographically distributed)	240-300 clients (20 clients per branch covering minimum two centers).
Large MFIs (Loan portfolio outstanding of Rs500 crore or more, irrespective of the number of borrowers)	18 – 20 branches (geographically distributed)	360-400 clients (20 clients per branch covering minimum two centers).

Code of Conduct Assessment 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 8 branches of the MFI. The details of the branches visited are provided below.

Sr No	Branch	State	No of clients interviewed
1	Bolangir	Odisha	20
2	Dungaripali 1	Odisha	19
3	Tarbha	Odisha	20
4	Sonepur	Odisha	16
5	Bargarh	Odisha	17
6	Dungaripali 2	Odisha	15
7	Bhubaneswar 1	Odisha	21
8	Tusra Branch	Odisha	22
Total			150