

CONFIDENTIAL



Code of Conduct Assessment Report

Margdarshak Financial Services Limited

December 2012

Conducted by:

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Margdarshak Financial Services Limited		
Legal Form	NBFC	About Margdarshak Financial Services Ltd. Margdarshak Financial Services Limited (MFSL) is a category-B, non-deposit taking NBFC-MFI. Part of the Margdarshak Group, the company is engaged in the business of financial inclusion and microfinance in the state of Uttar Pradesh. Promoted by a group of development professionals in 2004, the Margdarshak group is engaged in providing financial and income enhancing services to the community. The microfinance intervention of the Margdarshak group was initiated in 2007, under the aegis of Margdarshak Development Services (a not for profit group company). Understanding the requirement of an appropriate legal structure for providing financial services in a sustainable manner, the promoters of Margdarshak acquired an NBFC in 2010. The company has availed term loans from various financial institutions including SIDBI and Ananya Finance etc. The company provides a range of credit products using the group based individual lending methodology. The company has over 26,639 loan clients which are being served through a network of 25 branch offices in 16 districts of Uttar Pradesh.
Date Established Initiation of Operations	2007	
Operational Area	<ul style="list-style-type: none"> 16 districts of Uttar Pradesh 	
Services and Products offered	<ul style="list-style-type: none"> Loans- <ul style="list-style-type: none"> Pragati Loan Unnati Loan Livestock Loan Samridhhi Loan 	
Lending Model	<ul style="list-style-type: none"> Joint Liability Group (JLG) 	
Average Score	Rating	
3.10	3.50-4.00	AA
	3.00-3.49	A
	2.50-2.99	BB
	2.00-2.49	B
	1.50-1.99	CC
	1.00-1.49	C

Key Performance Indicators (Institutional reporting)			
	2008-09 *	2009-10 *	2010-11
Active borrowers	5,014	11,851	21,995
Number of groups	475	1,148	2,592
Gross Portfolio Outstanding (millions)	29.0	78.56	130.68
Portfolio Yield (nominal)	28.05	29.58	25.66
Financial expense ratio	10.43	9.44	10.17
Operating cost ratio	16.6	15.48	14.52
Operational self-sufficiency	107.53	117.54	115.14
Return on Assets	0.29	2.52	1.67
Return on Equity	0.05	0.11	5.37
Branch Offices	5	13	25
Staff	56	95	151

* The key performance indicators for FY 2008-09 and 2009-10 may not give a true representation since the portfolio was being transitioned from Margdarshak Development Services (Section 25, Not for Profit Company) to Margdarshak Financial Services Limited (NBFC).

Loan Products				
	Pragati Loans	Unnati Loan	Livestock Loans	Samriddhi Loans*
Clientele	Women	Women	Women	Women
Utilization	Income Generation Activities	Income Generation Activities	Income Generation Activities	Income Generation Activities
Loan size	Rs5,000-15,000	Rs18,000-25,000	Rs25,000	Rs30,000-50,000
Loan tenure	12-15 month	24 month	24 month	24 month
Guarantor	JLG	JLG	JLG	Indemnity Bond with one Guarantor
Collateral requirements	Group (10-15 members)	Group (10-15 members)	Group (5 members)	
Repayment	Fortnightly	Fortnightly	Fortnightly	Fortnightly
Interest rate	26%, reducing	26%, reducing	26%, reducing	28.5% reducing
Other charges (Insurance)	Rs50-215 (Insurance for Client and Spouse)	Rs360-495 (Insurance for Client and Spouse)	Rs. 240 (Insurance for Client and Spouse) Cattle Insurance – Rs.1770	Rs210-350 for loan size upto Rs 50000 (Insurance for Client and Spouse)
Processing fee	1% of loan amt + 12.36% service tax	1% of loan amt + 12.36% service tax	1% of loan amt	2% of loan amt
Security deposit / risk contribution	Nil	Nil	Nil	5%

* Samriddhi loans are not a part of qualifying assets.

Highlights

Strengths:

- Code of Conduct customized and simplified as per the Margdarshak's mission, vision, values and displayed in all branch offices & HO.
- Focus on operating in areas which are not covered by other MFIs.
- Policy of not being a Third lender to any borrower.
- Good loan documentation. Disclosing maximum pricing information broken into fees, interest, insurance charges etc.
- Multiple channels for client feedback/grievance redressal (Client Interface Meet, Complaint Boxes at branch offices, Dedicated Customer Care Helpline for client feedback, Option of complaining through SMS).
- Thorough data collection at the client level including the PPI data
- Systematic and multi level loan approval and verification process
- Diverse products catering to different needs of the clients.

Areas to Strengthen:

- Prepayment is discouraged. Does not make an interest collection adjustment in case of prepayment.
- Internal Audit checklist does have code of conduct compliance aspects. However, there is a need to strengthen and include more aspects like behaviour of staff (for clients / members), awareness regarding the RBI compliances (for clients / members and staff), among others.
- Scope of increasing staff's understanding on code of conduct
- Can also disclose pricing and other information on public platforms (Data sharing with MFT & MIX)

Code of Conduct Assessment Report for Margdarshak Financial Services Limited

Summary of the study

The overall grade obtained by Margdarshak Financial Services Limited is "A", with a composite score of 3.10, which indicates that the organization has good appraisal systems, transparent pricing policies, employee friendly HR policies to ensure alignment and adherence to a developed Code of Conduct. The loan documentation and feedback systems are excellent with defined Code of Conduct practices followed throughout the operations. More could be done to refine product aspects and disclosing the institutional information on public platforms.

The results of the ten broad assessment categories are summarized in the following table. Detailed analysis is provided in the body of the report.

Baseline Results for Margdarshak Financial Services Limited		
Assessment Area	Score (out of 4.00)	Key Elements to be evaluated
Code of Conduct	3.00	<ul style="list-style-type: none"> • Design • Visibility/ Dissemination • Training (Staff) • Refresher • Awareness (Staff) • Awareness (Client)
Market Entry	3.00	<ul style="list-style-type: none"> • Criteria for identification • Procedure • Saturation • Due diligence
Appraisal Process	3.29	<ul style="list-style-type: none"> • Client data collection • Repayment capacity • Debt thresholds • Loan History • Processing time • Approval • Verification
Client Comprehension	3.21	<ul style="list-style-type: none"> • Client Review Time • Explanatory Channels • Awareness • Disclosure of prices & terms • Rights and obligations • Training (Staff)
Products and Services	3.15	<ul style="list-style-type: none"> • Design & appropriateness • Review • Diversity • Convenience • Linkages
Pricing	2.59	<ul style="list-style-type: none"> • Competition • Transparency • Fees • Security Deposits • Prepayment • Default
Feedback Mechanisms	3.05	<ul style="list-style-type: none"> • Existence • Training (Staff) • Client awareness • Usage • Checking • Staff Resources • Client Exit Interviews/ Drop-out surveys

Baseline Results for Margdarshak Financial Services Limited		
Assessment Area	Score (out of 4.00)	Key Elements to be evaluated
Staff Conduct	3.07	<ul style="list-style-type: none"> • Rule Book • General training • Induction • Evaluation • Review of conduct • Incentive/ Disincentive • Recovery/ defaults
Governance	3.33	<ul style="list-style-type: none"> • Responsibility • Member experience/ exposure/ reputation in MF • Composition • Role • Code of Conduct Compliance Report • Member attendance in meeting
Human Resource	3.38	<ul style="list-style-type: none"> • Field staff experience/ exposure in MF • Recruitment • Staff Exit • Complaint Redressal

Code of Conduct Assessment Tool Results

CoCAT revealed the following major observations and priority areas under each component.

1. Code of Conduct	Score 3.00
Key Elements: Design, Visibility, Training, Refreshment, Awareness	
a. Design	
<ul style="list-style-type: none"> The aspects mentioned in the Code of Conduct of Sadhan and MFIN has been incorporated in the Margdarshak Code of Conduct which is also customized on the institutional values, mission, vision and expectations. The best part of Margdarshak Code of Conduct is that while it includes all the important aspects of the industry code of conduct, it is further simplified so that it is easy to understand by all levels of staff. 	
b. Visibility	
<ul style="list-style-type: none"> Code of Conduct is displayed in all field branch offices and included in most of the documents (manuals, brochures, client materials). 	
c. Training	
<ul style="list-style-type: none"> Separate training on Code of Conduct is provided to all the new staffs. 	
d. Refreshment	
<ul style="list-style-type: none"> Margdarshak also puts efforts to refresh staff in the Code of Conduct. Conducted 3 refresher trainings on Code of Conduct during the FY 2011-12. 	
e. Awareness	
<ul style="list-style-type: none"> During the meeting with branch office staff, they were able to express the spirit of the code of conduct but they lacked thorough understanding of the code of conduct. More than 65% clients have very good understanding of overall code, details, and expectations. 	

2. Market Entry	Score 3.00
Key Elements: Identification, Procedure, Saturation, Due Diligence	
a. Identification	
<ul style="list-style-type: none">• Margdarshak has separate rules clearly specifying numeric parameters that qualify the target population (income level, assets and opportunities) to start their operations in new area / <i>mohalla</i> / village. It has clear segmenting for various products and systemic and predefined process for entering a new area.	
b. Procedure	
<ul style="list-style-type: none">• Margdarshak follows systematic procedure for market entry which includes: Identify New Area, Gather Secondary Data, Area Walk and Survey, Review of Survey, Approval, MIS Entry and Filing.• Major criteria points to be considered are: Proximity to existing operational areas, Accessibility, Population Density, Number of Target clients in the Area, Risk Profile: Social, natural (floods), naxal activity, migration levels, political climate.	
c. Saturation	
<ul style="list-style-type: none">• Margdarshak focuses to operate in those areas where no other or few MFIs have offered its services. In over 50% of its operational areas, Margdarshak is the only (or major) MFI.	
d. Due Diligence	
<ul style="list-style-type: none">• Due diligence for new area is done by Credit Officers and Branch Mangers. The functional department involved in this process are Operations and MIS.	

3. Appraisal Process	Score 3.29
Key Elements: Client Data Collection, Repayment Capacity, Debt Thresholds, Loan History, Processing Time, Approval, Verification	
a. Client Data Collection	
<ul style="list-style-type: none"> • After the promotional meeting in any new area, interested members are arranged in groups and undergo a 4-day Continuous Group Training (CGT) conducted by CO. During CGT a loan application form is filled for every member. This form is a comprehensive data capture tool which covers personal/household data, PPI data, source of income and status of other household liabilities. • This data is verified by BM during the Group Recognition Test (GRT) at individual member basis. 	
b. Repayment Capacity	
<ul style="list-style-type: none"> • Repayment Capacity is assessed during the CGT by CO; critically evaluated during GRT by BM. The loan application form has a detailed section on income and expenses of the household and other loans outstanding with the member (MFI, Bank, other sources). 	
c. Debt Thresholds	
<ul style="list-style-type: none"> • Debt thresholds limits are calculated on the basis of the level of income or expenditure of the family, surplus and regular inflow-outflow of cash – captured in the Personal Information Form. 	
d. Loan History	
<ul style="list-style-type: none"> • Some aspects of loan history of the client are captured in the loan application form and considered during the appraisal process (GRT). At the time of data verification at HO, MIS also uses Credit Information Report (from Credit Bureau) for loan history. 	
e. Processing Time	
<ul style="list-style-type: none"> • The CGT and GRT are completed in one week. After this it takes almost one more week for the loan disbursement. Altogether it takes two weeks for the client to get the loan from the day CGT commences. 	
f. Approval	
<ul style="list-style-type: none"> • Margdarshak has institutionalise loan approval committees at three different levels with different approval limits: <ul style="list-style-type: none"> – Branch loan committee (chaired by Branch Manager; Loan sanction limit – Rs15,000) – Area loan committee (chaired by Area Manager; Loan sanction limit – Rs25,000) – Management Committee (chaired by Director – Finance & Accounts; for Samriddhi Loans) • After all the due diligence in the field, all the loan applications are presented and discussed and moved across appropriate loan committees based on their sanction limits. 	
g. Verification	
<ul style="list-style-type: none"> • Once the loan application is approved at the branch office and sent to HO for processing by MIS team, the MIS team checks for the consistency of data and clarifies with the branch office staff in case of any inconsistency. • There is a Tele-calling team at HO level which calls individual clients on a sample basis and verifies the details. • Margdarshak’s internal audit team also makes regular, periodic, visits (planned as well as surprised) to branch offices and verifies loan documents, Client KYC documents, loan utilization and other related documents. 	

4. Client Comprehension	Score 3.21
<p>Key Elements: Client Review Time, Explanatory Channels, Disclosure of Price and Terms, Rights and Obligations, Staff Training</p>	
<p>a. Client Review Time</p>	
<ul style="list-style-type: none"> • Clients get ample time to comprehend product information and other conditions. There is a 4-day CGT that every client undergoes. GRT is conducted after 2-3 days of the CGT. Altogether clients get sufficient time (of almost one week) to review all the details and their readiness to avail the loan. 	
<p>b. Explanatory Channels</p>	
<ul style="list-style-type: none"> • Multiple channels and sessions used to educate and explain loan pricing information including processing charges, interest rates, among others. There is use of verbal explanation, written documentation along with other materials (including displays at the branch offices) to inform the members. 	
<p>c. Disclosure of Price and Terms</p>	
<ul style="list-style-type: none"> • The price and terms of the loan are clearly disclosed to all the clients while filling loan application form, CGT, GRT, disbursement and center meetings. Both verbal and written materials are supplied to the client; all pricing information is broken into interest, fees and insurance premium. 	
<p>d. Rights and Obligations</p>	
<ul style="list-style-type: none"> • All the rights and obligations of the group members are clearly explained during the CGT and it is reviewed in GRT by BM. This is also reviewed and discussed during the disbursement process. 	
<p>e. Staff Training</p>	
<ul style="list-style-type: none"> • Separate modules are developed to for the purpose of training the staff to ensure clarity on interaction with the clients, roles and responsibilities of all staff levels and do's & don'ts to be followed by the staff while interacting with the clients. • There is a separate training module on code of conduct. This is a one day training programme carried out for new staff as well as a refresher course. 	

5. Products and Services	Score 3.15
Key Elements: Design and Appropriateness, Review, Diversity, Convenience, Linkages	
a. Design and Appropriateness	
<ul style="list-style-type: none"> • The product and services offered by Margdarshak are designed to enable its members to meet the financial requirements of their livelihoods as well as the enterprise capital requirements as well. •Based on the recommendation of the board of directors, Margdarshak still offers a smaller loan amount of Rs5,000 to cater to the client with smaller loan requirement. 	
b. Review	
<ul style="list-style-type: none"> •An operational review process is conducted on quarterly basis. All the department participate along with the field staff including area manager and branch managers participate in this process. During this review process all the operational aspect are reviewed based on the feedback from the field and different department. 	
c. Diversity	
<ul style="list-style-type: none"> • Margdarshak has developed a good product mix to cater to different financial needs of its client. • Pragati and Unnati loans are income generating loans offered to a group size of 10-15 members. •Livestock loans are income generating loans offered to a group size of 5 members with appropriate loan amount that will enable them to procure livestock. •Samriddhi loans are relatively larger loans which are being offered on individual lending model. •Margdarshak Financial Services Ltd. has been appointed as an aggregator for National Pension Scheme (NPS-Lite) by the Pension Fund Regulatory and Development Authority, Govt. of India. This service is going to be rolled out soon. 	
d. Convenience	
<ul style="list-style-type: none"> • Loan process and repayments from the group members is done on a fortnightly basis in group meetings. Collection is done in the group meeting at the doorstep of the members. During the interaction with the clients of Pragati loans it was observed that to add new members in the existing groups, a minimum of five members need to be added, which is inconvenient to the clients; as there are only 1-2 persons in the vicinity of any group who want to become member of Margdarshak and avail loans. 	
e. Linkages	
<ul style="list-style-type: none"> • Margdarshak has following linked products with the loan to client <ul style="list-style-type: none"> – Loan Cover Insurance provided in collaboration with Kotak Mahindra Life & Bajaj Allianz Insurance. – Livestock Insurance for the livestock loan clients in collaboration National Insurance Company Limited 	

6. Pricing	Score 2.59
Key Elements: Competition, Transparency, Fees, Security Deposit, Prepayment, Default	
a. Competition	
<ul style="list-style-type: none"> • Pricing of the loan products of Margdarshak is in line with the RBI guidelines. Margdarshak had reduced interest rates to adhere with the norms of RBI. 	
b. Transparency	
<ul style="list-style-type: none"> • Pricing of Margdarshak's product are transparent, and is accurate when compared to institutional documents. • The loan documentation (including loan card and other documents) is best in class. Information mentioned on the loan cards include: <ul style="list-style-type: none"> – Reducing balance interest rate – Total interest to be paid – Loan processing fee (including service tax) – Insurance Premium (also mentions that the spouse is covered in the insurance) – Repayment frequency – Clearly mentions non applicability of penalty in case of delayed repayment. – Clearly mentions non applicability of security deposit (except in the case of Samriddhi Loans) – Repayment schedule – Major RBI guidelines for microcredit loans – Other terms and conditions of the institution 	
c. Fees	
<ul style="list-style-type: none"> • Margdarshak charges one fee for its loans; Loan processing fee of 1% + Service tax extra 	
d. Security Deposit	
<ul style="list-style-type: none"> • There is no security deposit collected from the clients of Pragati, Unnati and Livestock loans. • 5% security deposit is collected from the clients of Samriddhi Loans. However, Samriddhi loans are kept outside the qualifying assets. 	
e. Prepayment	
<ul style="list-style-type: none"> • Pre-payment of loans is discouraged. However, in case of clients' need, the client can pre-settle a loan by paying the balance loan along with the full interest. No interest collection adjustment is made in case of prepayment. 	
f. Default	
<ul style="list-style-type: none"> • There is no penalty for delayed repayments. 	

7. Feedback Mechanisms	Score 3.05
<p>Key Elements: Existence, Staff Training, Client Awareness, Usage, Checking, Staff Resources, Client Exit Interviews / Drop out Surveys</p>	
<p>a. Existence</p>	
<ul style="list-style-type: none"> • Multiple channels for client feedback/grievance redressal: <ul style="list-style-type: none"> – Client Interface Meet – Complaint Boxes at Branch Offices – Dedicated Customer Care Helpline – Option of complaining through SMS 	
<p>b. Staff Training</p>	
<ul style="list-style-type: none"> • Training is provided on Grievance & Feedback Mechanism and Client Protection. 	
<p>c. Client Awareness</p>	
<ul style="list-style-type: none"> • Most of the clients are well-versed in critical feedback and know that it is their right and obligations to express a complaint; they can identify the branch manager and can locate the office. Most of them knew about the various feedback mechanisms available to them. 	
<p>d. Usage</p>	
<ul style="list-style-type: none"> • Feedback mechanisms are regularly tracked and monitored. Client Interface meetings are organised quarterly. Complaints lodged through helpline and documented and resolved. 	
<p>e. Checking</p>	
<ul style="list-style-type: none"> • Dedicated systems are in place within the organization across all the branch offices. There is a clear process to ensure that complaints are processed and resolved. After receiving a call from the client regarding any feedback / complaint, a dedicated team of staff at HO level, documents the complaint and circulates the same to all senior management staff, operations head and concerned staff. •The concerned department/staff resolves the complaints and accordingly the status is updated in the complaint register. 	
<p>f. Staff Resources</p>	
<ul style="list-style-type: none"> • There is a dedicated team at HO level that documents and follows up on the client complaints. 	
<p>g. Client Exit Interviews/ Drop out Survey</p>	
<ul style="list-style-type: none"> • Based on the MIS reports on the client dropout, the organisation tries to follow-up with the client. However, there is no well defined process for the same. 	

8. Staff Conduct	Score 3.07
<p>Key Elements: Rule Book, General Training, Induction, Evaluation, Review of Conduct, Incentive / Disincentive, Recovery / Default</p>	
<p>a. Rule Book</p>	
<ul style="list-style-type: none"> • The HR manual clearly outlines the staff conduct within the organisation. It also mentioned the actions that could be taken against the staff in case of any misconduct with other employees of the organization. 	
<p>b. General Training</p>	
<ul style="list-style-type: none"> • Margdarshak has a separate training module on code of conduct for the staff to orient them towards the conduct in the field, good and bad conduct with clients, among others. 	
<p>c. Induction</p>	
<ul style="list-style-type: none"> • New Staff undergoes a 1-2 week on the job training, wherein he or she shadows the existing branch staff to gain field exposure and understand the organisational processes. 	
<p>d. Evaluation</p>	
<ul style="list-style-type: none"> • Margdarshak has an annual performance appraisal process in place with tangible outcome (salary, promotion) 	
<p>e. Review of Conduct</p>	
<ul style="list-style-type: none"> • Evaluation of the field staff is done through a 360 degree appraisal system, i.e., appraising the staff member on the basis of the review reports by peers, seniors and juniors. 	
<p>f. Incentive / Disincentive</p>	
<ul style="list-style-type: none"> • Incentive and disincentives is based on both portfolio quality and outreach. The incentive is calculated based on the number of number of clients managed by the staff, however, the clients with arrears will not be counted for incentive which ensures the focus on quality. 	
<p>g. Recovery / Default</p>	
<ul style="list-style-type: none"> • Operational manual has very well-defined methods in case of default; clear situations that are acceptable and others that are not; decision-making process exists to deal with such occurrences 	

9. Governance	Score 3.33
<p>Key Elements: Responsibility, Experience/ exposure/reputation in MF, Composition, Role, Code of Compliance report, Members' attendance in meeting</p>	
<p>a. Responsibility</p>	
<ul style="list-style-type: none"> • Functional responsibilities are well defined. Specific sub-committees of board are in place: <ul style="list-style-type: none"> – Resource Mobilization – Human Resources – Internal Audit – Social Performance Management & Staff Capacity Building – Loan and Credit Policy Committee – Executive Committee 	
<p>b. Experience/ exposure/ reputation in MF</p>	
<ul style="list-style-type: none"> • The board of Margdarshak has diverse experience in banking, development finance, risk management, microfinance, poverty elimination program, livelihood and entrepreneurship development. 	
<p>c. Composition</p>	
<ul style="list-style-type: none"> • Six members' board of Margdarshak is chaired by Mr. D.P.S. Rathore; one institutional nominated member from Dia Vikas – Mr. Saneesh Singh, Head of Investments and Director Relationships; one independent director - Mr. K. Prasad, retired chief general manager of RBI. Remaining board members are Ms. Saroj Mittra, Executive Director and two promoter directors Mr. Rahul J. Mittra and Mr. Arup Baruah. • Board has only one female member and is also represented by family members. 	
<p>d. Role</p>	
<ul style="list-style-type: none"> • Roles of members of Board are very clear on policy setting; all strategic decisions are taken by the board. Different committees (within the board) are responsible for different aspects. 	
<p>e. Code of conduct compliance report</p>	
<ul style="list-style-type: none"> • Code of Conduct compliance report is prepared and presented in the board and accordingly corrective actions taken. 	
<p>f. Members' attendance in meeting</p>	
<ul style="list-style-type: none"> • More than 85% of the members of the board were present in the Board meeting (last three). 	

10. Human Resources	Score 3.38
Key Elements: Field staff experience/ exposure in MF, Recruitment, Staff Exit, Complaint Redressal	
a. Field staff experience/ exposure in MF	
<ul style="list-style-type: none">• Field staff of Margdarshak has significant experience of the microfinance operation. However, Margdarshak prefers to recruit those candidates who have no experience in microfinance, on an average the field level operation team has 2-3 years of experience in microfinance.	
b. Recruitment	
<ul style="list-style-type: none">• Recruitments are done by publishing the requirements with the job profile in local newspaper and through references. Proper recruitment process followed for each level of staff. Recruitment is conducted with reference checks.	
c. Staff Exit	
<ul style="list-style-type: none">• Staff exit interviews conducted for all staff quitting the organisation to ascertain the reasons why the staff is leaving and how the institution can better itself to enhance the staff retention.	
d. Complaint Redressal	
<ul style="list-style-type: none">• Complaint redressal mechanism exists in the organization, dedicated systems are in place, and there is a clear process to ensure that complaints are processed, considered and resolved.	

Compliance to RBI Guidelines

The major aspects of the RBI guidelines and its compliances by Margdarshak are mentioned below:

- a) Interest cap on loans: Post the RBI guidelines, Margdarshak have reduced its interest rates. Pragati, Unnati and Livestock loans are priced at 26% declining interest rate. Samriddhi loans are priced at 28.5% declining interest rate, which forms part of the non qualifying assets.
- b) Loan pricing to include processing fee (not exceeding 1 percent of the gross loan) interest charge and insurance premium (to be paid directly to the insurance provider): Margdarshak is currently charging 1% loan processing fees as per the RBI guidelines issued. Moreover, the insurance charges recovered from the clients are paid directly to Kotak Mahindra Life & Bajaj Allianz Insurance.
- c) No penalties for delayed payments, security deposit or margin money to be taken upfront: There is no penalty for delayed repayments. No penalty on prepayment charges, however, prepayments are discouraged. There is No security deposit on Pragati, Unnati and Livestock loans. There is 5% security deposit on Samriddhi loans, which forms part of the non qualifying assets.
- d) 85 percent of MFI assets being under agriculture, micro and small enterprises: Around 99.30% of their portfolio is under micro, small and medium enterprises.
- e) Lending to borrowers whose household income does not exceed Rs60,000 (in rural areas) and Rs120,000 (in urban areas): Calculating the household income in rural and urban areas is a debatable since they do not have fixed monthly income. Their income is seasonal and dependant on several factors. However, Margdarshak puts all efforts to verify the household income and adheres to RBI guideline on household income.
- f) Total indebtedness of borrower not exceeding Rs50,000: Margdarshak strictly follows this guideline and does not lend to members who have a loans from 2 or more MFIs and Rs50,000 as the total loan outstanding. This is mentioned in their loan cards as well.
- g) Tenure of loan not being less than 24 months: All the loans larger than Rs15,000 have a tenure of 24 months and loans below Rs15,000 have a tenure of 12-15 months, as desired by the clients.

Overall, Margdarshak is compliant on the RBI guidelines issued.

Conclusion

Margdarshak Financial Services Ltd has achieved a composite CoCAT score of “3.10” with an overall grade of “A”, indicating that the organisation is growing. The organization has good appraisal systems, transparent pricing policies, employee friendly HR policies to ensure alignment and adherence to a developed Code of Conduct. The loan documentation and feedback systems are excellent with defined Code of Conduct practices followed throughout the operations. More could be done to refine product aspects and disclosing the institutional information on public platforms.

Highlights and best practices:

- Code of Conduct customized and simplified as per the Margdarshak’s mission, vision, values and displayed in all branch offices & HO.
- Focus on operating in areas which are not covered by other MFIs.
- Policy of not being a Third lender to any borrower.
- Good loan documentation. Disclosing maximum pricing information broken into fees, interest, insurance charges etc.
- Multiple channels for client feedback/grievance redressal (Client Interface Meet, Complaint Boxes at Branch Offices, Dedicated Customer Care Helpline for client feedback, Option of complaining through SMS).
- Through data collection at the client level including the PPI data
- Systematic and multi level loan approval and verification process
- Diverse products catering to different needs of the clients.

Areas to Strengthen:

- Prepayment is discouraged. Does not make an interest collection adjustment in case of prepayment.
- Internal Audit checklist does have code of conduct compliance aspects. However, there is a need to strengthen and include more aspects like behaviour of staff (for clients / members), awareness regarding the RBI compliances (for clients / members and staff), among others.
- Scope of increasing staff’s understanding on code of conduct.
- Can also disclose pricing and other information on public platforms (Data sharing with MFT & MIX).

Average Score	Rating	Grade
3.10	3.50-4.00	AA
	3.00-3.49	A
	2.50-2.99	BB
	2.00-2.49	B
	1.50-1.99	CC
	1.00-1.49	C

Annexure 1: Code of Conduct Assessment Tool (CoCAT)

Introduction

The Code of Conduct Assessment Tool (CoCAT) is a comprehensive instrument used to measure the development and implementation of policies that best serve the client. Starting with the Code of Conduct, CoCAT determines whether written procedures have been generated in accordance with the mission and vision of the institution. Through a careful analysis of internal documents and conversations with staff members, CoCAT seeks to analyse the alignment between theory and reality, checking at all levels to see how well policies align with practice. Where possible, CoCAT tries to quantify the parameters to remove subjectivity.

CoCAT has been developed to address some of the ideas that are implicit in Social Performance and Client Protection, but to do so in a structured manner with set parameters that have to be fulfilled. One of the major tenets of this tool is analysing the quality of service provided by the staff, and the quality of delivery offered to the client. Ultimately, the tool is used to identify important policies that could strengthen practices, enhancing the relationship between customer and institution.

CoCAT has ten broad assessment components which are further disaggregated into 58 elements. The ten broad components are: *Code of Conduct, Market Entry, Appraisal Process, Client Comprehension, Products and Services, Pricing, Feedback Mechanisms, Staff Conduct, Board and Human Resources.*

Each component is made up of between 4 and 7 elements. Each element has been allocated a **Weight** that ranges from 1% to 3% of the total score. The components are weighted according to the sum of their constituent elements. These elements are given a **Score** from “1” (Lacking) to “4” (Excellent). In case an element is not applicable, it is removed from the overall rating and the weights are adjusted accordingly.

CoCAT helps to:

- Generate baseline information on institutional conduct and the relationship between staff and clients
- Build a practical, experiential profile of the institution’s methodology
- Understand the formal institutional processes that govern client interactions
- Analyse the institutional mentality and correspondence between social and financial missions
- Provide detailed information on best practices being followed by the institution

Methodology

CoCAT is administered in a participatory manner and is a multi-stage process:

1. Collection of primary and secondary data: Website, Annual reports, Audited financial statements; Institutional manuals (HR, Operations, IA), Training materials; 3rd party ratings, etc.
2. Structured discussions: Board, Senior Management, Head office staff, Field personnel
3. Field visit: Branch office discussions with field personnel, meetings with clients, observation of different stages of the operational process

CoCAT is largely based on observation of behaviour, conduct, and practices. Although the premise is the existence of a Code of Conduct, the tool is really meant to monitor compliance with the principles laid out by the organization. If broad principles are missing from the institution’s consideration, these will be identified. Other standards may be written, but may not be turned into any meaningful practice. CoCAT differentiates between each of these, and provides a comprehensive portrait of the institution’s ability to focus on its clients, serving them ethically and responsibly.