



SMERA RATINGS LIMITED

**CODE OF CONDUCT
ASSESSMENT (COCA)
FOR
MIDLAND MICROFIN LIMITED
(MMF)**

Date of Report - 24/Dec/2014

Valid Till - 23/Dec/2015

EXECUTIVE SUMMARY

The Code of Conduct report for MIDLAND MICROFIN LIMITED (MMF) evaluates the company's adherence to various code of conduct parameters. The study examines and comments upon the common minimum indicators such as:

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

SMERA believes that MMF exhibits [Above Average 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 MMF's adherence towards ethical operational practices.

**SNAPSHOT**

D&B D-U-N-S® Number	65-079-1515
MFI Name	MIDLAND MICROFIN LIMITED
Trade Style	MMF
Registered Office & Corporate Office Address	02 nd Floor, Gobind Niwas, 36 G. T. Road, Jalandhar - 144 001 Punjab India
Telephone	(91) (181) (5085555) (91) (181) (5086666)
Fax	(91) (181) (2236070)
Webpage	www.midlandmicrofin.com
Email	info@midlandmicrofin.com
Line of Business	Microfinance services under Joint Liability Group (JLG) Model
Chief Executive	Mr. Amardeep Singh Samra, Managing Director
Legal Form	Non-Deposit Taking Non-Banking Finance Company (NBFC) Microfinance Institution (MFI)
Incorporation Date	27/May/1988
Date of Commencement of Microfinance Operations	25/Dec/2010
Company Registration Number	U65921PB1988PLC008430
RBI Registration Number	A-0600458
Total Employees	261
No. of Active Branches	28
Geographical Reach	Punjab, Haryana & Rajasthan (03 States)
Visit of the Assessment Team	09 th December, 2014 to 12 th December, 2014

BACKGROUND

MMF operations are spread in three states namely Punjab, Haryana and Rajasthan with the mission to do large scale poverty alleviation by providing micro-finance services to poor women, and through them to their families, facilitating increased earnings, better money management, and life quality improvement. Majority loan portfolio of MMF is maintained at Punjab state.

Mr. Amardeep Singh Samra, is a commerce graduate and has 15 years of experience in the fields of Finance, Hire Purchase and Leasing activities. He is co - ordinator of Punjab & Haryana Finance Co's Association and Joint Secretary of Federation of Indian Hire Purchase Association and actively participates in various socio - economic activities. He is also one of the principal promoter of 'Capital Local Area Bank Limited' the largest local area bank of the country.

Mr. Dinesh Gupta is Commerce and Law Graduate and a fellow member of Company Secretaries of India. He has more than 25 years of rich experience in the fields of Corporate Law, Banking, Finance, Taxation and Social Administration. He is an instrumental in formation of Capital Local Area Bank Limited.

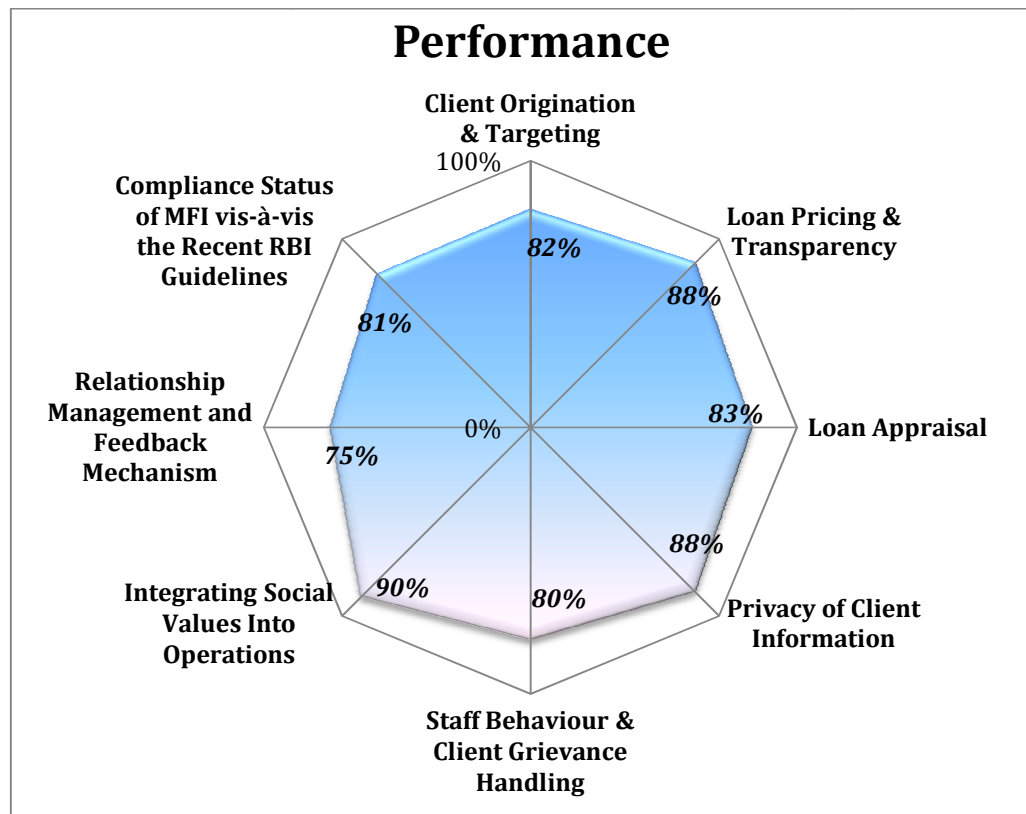
RATING

**Code of Conduct Assessment Score : 82%,
COCA Rating - COCA 3 (Above Average Level of Adherence)**

RATING SCALE

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

MATRIX



**SCORES ON PARAMETERS**

Code of Conduct Parameters	% Performance
Client Origination & Targeting	82%
Loan Pricing & Transparency	88%
Loan Appraisal	83%
Privacy of Client Information	88%
Staff Behavior and Client Grievance Handling	80%
Integrating Social Values Into Operations	90%
Relationship Management and Feedback Mechanism	75%
Compliance Status of MFI vis-à-vis the Recent RBI Guidelines	81%



Business Model

Loan Products

MMF follows group based lending approach with a joint liability within the centre. The group consists of five members, to open a new centre, there must be minimum 03 groups are compulsory, later there can be up to maximum 08 groups. Loans from MMF are given only for the income generation activities.

Repayment Frequency	Fortnightly Repayment		
	Business Loan	New Business Loan	Pragati Loan
Loan Products	Long Duration - Fortnightly Business Loan (LD - BL)	Long Duration - Fortnightly New Business Loan (LD - NBL)	Long Duration - Pragati Loan (LD - PL)
Loan Term/Duration	25 Fortnightly Installments	25 Fortnightly Installments	50 Fortnightly Installments
Loan Size	BL - I = 10,000 to 15,000 BL - II = 13,000 to 15,000 BL - III = 20,000 to 25,000* BL - IV = 26,000 to 30,000*	7,000 to 13,000	16,000 to 22,000
Interest Rate	27.70% per annum on diminishing balance method with Fortnightly rest (rounded to nearest rupee)		
Loan Processing Fee	01% on the disbursed loan amount plus 12.36% applicable service tax. (rounded to next rupee)		

*Loan Term/Duration - 50 Fortnightly Installments.

OBJECTIVE OF THE STUDY

The objective is to evaluate MMF's adherence to the code of conduct,

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

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

FRAMEWORK AND SCOPE

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

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

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

As part of the assessment, SMERA visited 09 branches of MMF in Punjab. The assessment was conducted as per a specific methodology and questionnaire.

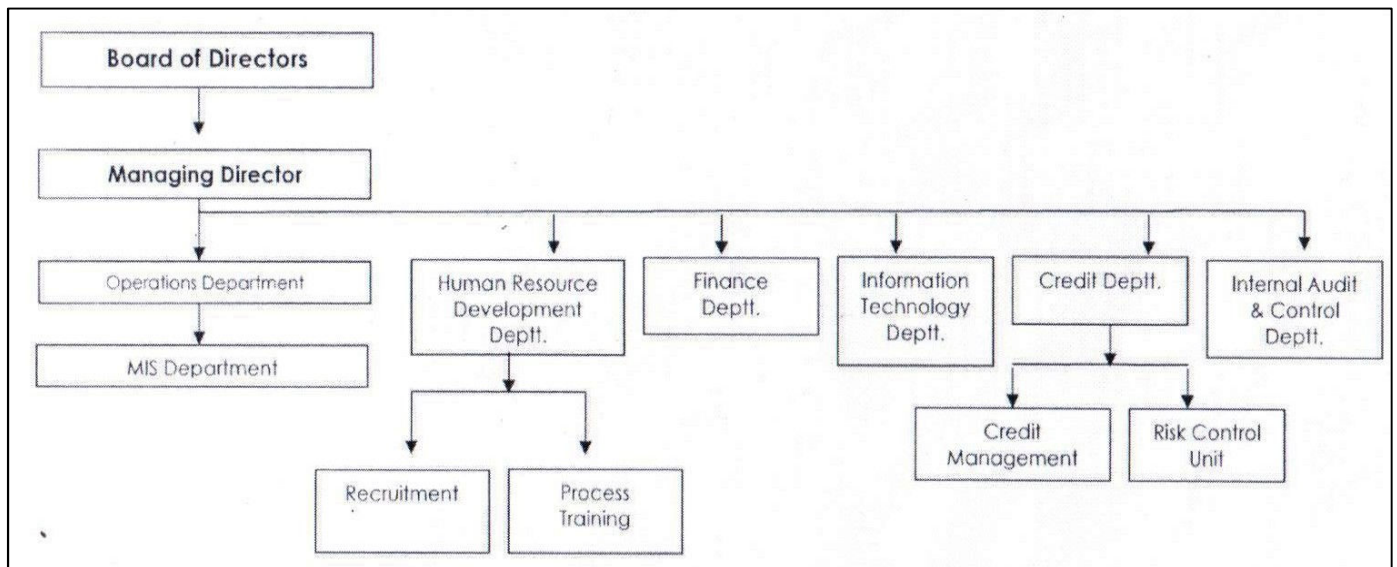
BOARD OF DIRECTORS

List of Board of Directors		Board Appointment date
Amardeep Singh Samra	Managing Director	07/06/2010
Dinesh Gupta	Director	31/03/2011
Santosh Singh Chhokar	Director	31/03/2011
Shant Gupta	Director	01/09/2011
Surinder Kaur	Director	07/06/2010
Vijay Kumar Bhandari	Director	28/03/2014
Jagdeep Singh	Director	27/05/1988

**HIGHLIGHT OF OPERATIONS**

Particulars	31/Mar/2012	31/Mar/2013	31/Mar/2014	10/Dec/2014
No. of states	1	2	3	3
No. of districts	4	11	21	28
No. of Centre offices	6	12	21	28
No. of total members	6,284	24,420	66,064	88,890
No. of active borrowers	5,756	23,376	46,525	69,159
No. of active loans	5,642	22,479	46,825	69,159
No. of loans disbursed during the period	6,110	22,952	48,309	52,605
No. of total employees	62	116	184	261
No. of field staff	30	63	84	101
Loan disbursements during the period (₹ in thousands)	62,900	244,100	559,945	667,748
Net Loan portfolio outstanding(₹ in thousands)	38,100	144,300	332,100	528,649
Active borrowers per field staff	192	371	554	685

ORGANOGRAM



CLIENT ORIGINATION & TARGETING**Score - 82%**

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

Centre Officer (CO) is responsible for client origination in MMF. MMF conducts study of the potential new area and conducts survey on the basis of primary and secondary data of area to be entered. The criteria for selecting a new area for lending are: type of area (rural/semi-urban/urban), residential area for low-income groups, population density, proximity to existing operational areas, sources of income, socio-economic and political features, occupational activities, other loan sources, other MFI's in the area, etc.

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

Once the area is selected, CO organizes orientation meeting to inform the members about MMF, objective, product & services, lending methodology and group & centre formation, etc. CO need to form minimum 03 groups each consisting of five members and three groups together will be called as one centre. The objective of centre meeting is to educate the members on financial and non-financial aspects such as product & services, interest rate structure, repayment schedule, group responsibilities, proper utilization of loan, prompt repayment, attendance, KYC documents etc. through Group Formation Meeting (GFM).

Once the centre is formed, CO provides Mandatory Group Training (MGT) to members, duration of this training is 05 days approximately. CO 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. The CO plans and provides 03 days of MGT to a group to inculcate credit discipline. The series of MGT shall proceed according to the curriculum developed by MMF for 03 different days. Members are made aware about the products and its benefits. Lending process and policies are informed in details and members are trained with regards to credit discipline. Every client shall undergo MGT, and shall have mandatory orientation on the following fundamental aspects of MMF business relationship with its groups / clients.



1. Financial obligation and duties under group guarantee lending
2. Group leadership & management
3. Group constitution and its cohesiveness
4. Loan products and its disbursement pattern
5. The agenda focus on group lending policies and procedures and the loan approval procedures.

Membership form is capturing most of the data/details regarding the borrower & its family.

For a Know Your Customer (KYC) purpose MMF is collecting photocopy of two documents issued by the government institutions containing photograph and date of birth of the member.

The identification of right target client, household income, and individual income is a challenge for MMF. Targeting poor is the approach which MMF follows. However, MMF has robust system for capturing an alternative source such as housing index or asset classification. *SMERA's assessment team has observed that few members of the MMF were living in well-furnished houses and income level was quite high, however annual household income declared in the loan application form is very less (As per example no.1).*

MMF has tie-up with "Equifax" RBI approved credit bureau for sharing clients' data to check the indebtedness of the members; hence indebtedness is promptly captured in the MIS system.

Staffs have been trained on how to apply this aspect of client origination and MMF also provides an incentive to the CO on the basis of sub-group/centre formation.

Example 1 – Mrs. Kamaljit Kaur, member of –Sidhwan Bet branch.

The borrower was availing loan of ₹13,000 from MMF. Assessment team has observed that she has been living in well-constructed& furnished house and income level was quite high. Further, in the loan application form annual household income declared by her was only ₹ 41,000.

Approval	Documentation	Dissemination	Observance
<ul style="list-style-type: none"> MMF has approved principles of ethically originating clients. This includes ensuring identity of clients before application of loans through appropriate documentary evidences and non-involvement of unauthorized agents in the client origination process. For capturing annual household income MMF depends on information provided by the borrowers which is provided to CO during the time of filed investigation. 	<ul style="list-style-type: none"> Policy document clearly specify the directions for obtaining KYC documents from client. The procedure for conducting centre meeting and client origination is clearly laid out. As per policy notes, MMF captures annual household income as well as detailed annual household expenses. 	<ul style="list-style-type: none"> MMF has a comparatively good system of dissemination of its approved policies through MGT. 	<ul style="list-style-type: none"> Interviewed Staff members were aware of the client origination process and products. Annual household income declared by few of the borrowers in application form was less as compare to their standard of living observed, as per example no. 1.

**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 (service tax) 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 visit conducted by the MFI staff.

Internal audit also takes place every quarterly for review. Currently MMF charges interest of 27.70% per annum on diminishing balance method with fortnightly rest (rounded to nearest rupee) for all the loan products with processing fee of 01% on the disbursed loan amount plus applicable service tax. (rounded to next rupee).

MMF maintains high transparency in the interest rates charged to its clients. The organization discloses all terms & conditions of all financial products to the borrowers including interest rate on the loan and processing fees in written as well as verbal communication at the time of training. The details are printed on the loan passbook which is available with the borrowers. *The assessment team of SMERA has observed in very few cases that the borrowers were not aware of interest rate and other fees charged; however they were familiar with the installment amount.*

MMF loan ranges from 7,000 to 30,000. The loan amount is depends on the loan cycle, repayment track record of previous loan and attendance of centre meeting. There is no uniformity of loan amount within the group. According to its policy, MMF does not charge any prepayment charges & onetime membership fees from its members.

Approval	Documentation	Dissemination	Observance
<ul style="list-style-type: none"> MMF board has approved principles of pricing loans and transparency in a responsible manner. 	<ul style="list-style-type: none"> The loan pricing criteria and method of charging have been clearly documented in the loan policy document of the organization. 	<ul style="list-style-type: none"> Interest rate and loan processing fee on the loans are mentioned clearly on the loan passbook provided to the borrower at the time of disbursement. Borrowers are already informed about the interest rate & charges during the orientation meeting conducted by the COs. 	<ul style="list-style-type: none"> Awareness level of the borrowers about the interest rates and method of application and other charges was observed to be moderate. However, almost all the clients are aware of the installments size & duration.

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

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

Loan appraisal is primarily the responsibility of the GET officer who conducts Group Eligibility Test (GET) to check whether members have understood the MMF's loan product and loans are provided only after successful completion of GET. In GET, GET officer seeks clarifications on the dynamics of the group, credit mechanisms, organization products & services, terms & conditions, interest rate, purpose of loan etc.

After approval of GET authority, the documents are forwarded to the Head Office (HO) for sanctioning of loans. The loan amount to be disbursed as recommended by Branch Manager (BM) is authenticated by GET authority, which may increase or decrease depending upon facts and circumstances of each case. CO fills application forms of eligible members and collects photocopy of mandatory KYC document after verifying it with original. Loan applications received from the members have been sent to Equifax (Credit Bureau), after receiving verification report from Equifax eligible applications have been considered for loan disbursement.

MMF has a policy of recording the annual household income of the borrower in the application form and the value of loan taken from MMF and value of loan outstanding from other MFIs based on the information provided by the client. However, MMF has captured annual household expense of the borrower.

Once the loans are approved, the initial centre meeting is held, here the concerned CO intimates members about the sanction of loan, charges to be paid, etc.

MMF conducts End User Verification (EUV) for all the loans by its EUV team. A visit is planned to each borrower's place of business between 07 to 10 days from disbursement to ascertain the utilization of loan. During the visit, it has been determined the money has been put to use for the purpose indicated by the borrower at the time of applying the loan. If the money has been put to use for the specified purpose it is recorded and report is prepared for the same. *Further check is also done by an employee in HO over the call so as to cross confirm the EUV.*

Loan disbursement takes place by way of cash at Branches. Further 100% attendance is compulsory during time of disbursement. MMF collects the processing & insurance fees at the time of disbursement and also issues the receipt to the centre for the same. *Further disbursement process taking place in any branch can be viewed simultaneously from HO through web cam which is being made available at the branch level and the same is also being cross verified by a customer care executive through individually calling the borrower at the same time.*

As per the policy; centre meeting and loan repayment should be conducted at a designated place decided by the centre members and loan disbursement is conducted only at branches. MMF issues 'loan passbook' to each borrower and informs them to keep the respective passbook with themselves at the time of group formation.

Example 2 –Mrs. Rimpi, member of –Sidhwan Bet branch

She was availing loan of ₹15,000 from MMF. Purpose of the loan was being mentioned as sewing machine on loan passbook as well as in loan appraisal cum sanction note. However, she has utilized the loan for personal purpose i.e. medical reason for its children. However the assessment team has observed that rest of the borrowers had utilized the loans for the same purpose as being mentioned in their loan pass books.

Approval	Documentation	Dissemination	Observance
<ul style="list-style-type: none"> • MMF policy requires that adequate loan appraisal could be performed before disbursing a loan and proper examine of the repayment capacity of the borrowers. • MMF have a policy to check multiple lending / indebtedness of the borrower through credit bureau check. 	<ul style="list-style-type: none"> • The guidelines for appraising a loan application are clearly documented in the loan policy document. Information pertaining to income, purpose of loan and loan taken from other source is obtained at the time of membership form / loan application and also during MGT. • MMF has as robust system of capturing EUV details through physical forms. 	<ul style="list-style-type: none"> • The branch staffs were found to be aware of how to conduct the loan appraisal and EUV as per the guidelines. 	<ul style="list-style-type: none"> • All the loan applications verified contained details of annual household income; however the details pertaining to annual household income were not properly captured in application forms. • CO conducts compulsory EUV; however random EUV is conducted by BM and further cross verification is done by HO within 14 - 21 days after disbursing the loan. • It is observed that in very few cases purpose of loan was wrongly mentioned in the loan pass book, as per example no. 2. • Annual household incomes of some of the borrowers have mentioned quite low in the application forms.

PRIVACY OF CLIENT INFORMATION

Score - 88%

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

MMF has an adequate system of storage and retrieval of documents and information collected from the clients. The files containing documents and members profile are kept at the respective branches. The relevant data is entered into the MIS software “CRAFT SILICON” at Head Office level.

Approval	Documentation	Dissemination	Observance
<ul style="list-style-type: none"> MMF’s policy requires that the information received from the clients is stored properly and unauthorized access is prohibited. The software has well-defined security features. 	<ul style="list-style-type: none"> MMF provided adequate guidelines on how the client documents and information has to be recorded and files have to be stored. 	<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"> All the files are kept properly in all the branches. Branch staffs have access to entire data of client. The clients’ personal information and important details are recorded in CRAFT SILICON.

STAFF BEHAVIOUR & CLIENT GRIEVANCE HANDLING**Score - 80%**

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

Staff Behaviour -

MMF has adopted policies that lay adequate emphasis on the conduct of its staff members towards the members. The following are the important aspects of the expected behaviour of field staff towards the clients.

1. While collecting loan repayment from members, field staff should not behave indecently with the members and their family members, and should not use bad words.
2. Should not practice any kind of muscle power methods in order to collect loan repayment.
3. If member lodge complaints with regards to their grievances, then staff should resolve that as early as possible.
4. Any kind of bribe, gift and hospitality cannot be accepted from the members and their families.
5. Should not have any kind of personal financial business with the members and their families.
6. Any kind of false assurance should not be given to members under any circumstances.
7. Discrimination on basis of cast, religion, race, etc. cannot be done with any member.
8. Staff should not engage in any political activities, have association with political people or get involved with any political parties, etc.
9. All the grievance related to staff can be communicated through Toll Free number i.e. 0181 – 508 5555 and 508 6666 which is mentioned in the borrowers passbook.

MMF has written HR circular related to selection, recruitment, training, evaluating the staff performance and promotions. One of the important aspects of staff's induction training is conduct towards clients. Detailed guidelines have been provided to staff in the policy documents regarding the way they should interact with the clients. MMF also provides incentives to the field staff on performance basis i.e. number of client handling, asset quality, punctuality etc. Promotion of staff is done in the organization from one job position to another on the basis of the staff performance and organization requirement.

Loan collection and recovery process -

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

All centre members are required to meet every fortnightly at centre meeting for the purpose of repayment of their fortnightly installments. These meetings are conducted by the CO, who carries collection sheets which contains the loan installment member-wise generated through system. The centre leader collects the installments from the respective groups and hands over the amount collected along with the loan passbook to CO. CO after ensuring that the amount is correct updates the each member's passbook and centre minutes register.

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.

Approval	Documentation	Dissemination	Observance
<ul style="list-style-type: none"> • Various policies of the organization provide adequate directions for staff to treat client with respect and dignity. Clear directions are there on how to deal with situations where one or more clients are facing problems in repayment of installments. • In case of delay or default in installment repayments, MMF has the policy to visits the house of borrowers or conducts the special meeting for centre members to motivate them to make repayment after 02 consecutive centre meetings. 	<ul style="list-style-type: none"> • There are detailed guidelines in the policy on the expected conduct of the staff members with the client. 	<ul style="list-style-type: none"> • The entire branch staff members interviewed displayed moderate level of awareness on staff behaviour & client grievance handling. 	<ul style="list-style-type: none"> • All staff was found to be aware of the rules of staff conduct and grievance handling. • Behaviour of staff towards clients was found to be professional in almost all situations encountered. • It was observed that in the visited branches; grievance redressal was not adequately captured in complaint register. Further complaint register was not being maintained in Kapurthala branch. • MMF has an in-house call centre which addresses the grievances of the borrowers.

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.

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

MMF vision is to be a world class, role model, techno savvy international Micro Finance Institution providing support to poverty stricken at low cost.. MMF does not charge any prepayment charges or onetime membership fee from the borrowers. MMF has provided insurance cover to its borrowers and their spouse.

Approval	Documentation	Dissemination	Observance
<ul style="list-style-type: none"> MMF has approved principles of integrating social values into operations. 	<ul style="list-style-type: none"> MMF maintains integrity by adopting policies or process notes to attain the vision of the organization to see an India where every child, woman and man can be the best that god meant for him or her to be, without the burden of poverty. 	<ul style="list-style-type: none"> MMF has a system of dissemination of its social values. 	<ul style="list-style-type: none"> MMF maintains an adequate standard of governance and integrity in operation. MMF has provided insurance cover to its borrowers and their spouse. So that, in case of death of the insured member and her spouse, MMF write off the remaining loan amount.

RELATIONSHIP MANAGEMENT AND FEEDBACK MECHANISM

Score - 75%

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

MMF has a moderate procedure to be responsive to client feedback and to established dedicated feedback and grievance redressal mechanisms. As per the policy every branch has to have a complaint register in branch & complaint box outside the branch for clients.

For any grievance Toll Free number is provided in the passbook provided to the clients. Members have been informed of this mechanism during training and group formation. *However, during the branch office visit it has been observed that few of the branch offices were not maintaining any records for the action taken against the complaint registered.*

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"> MMF guidelines regarding collection of feedback from clients and actions to be taken are documented. 	<ul style="list-style-type: none"> Toll Free number is provided to the clients on their passbooks. Every branch was having a complaint register in branch & complaint box outside the branch office. 	<ul style="list-style-type: none"> Generally clients said that they were satisfied overall with the services of the MMF. It has been observed that very few of branches were not maintaining any records for the action taken against the complaint registered.

COMPLIANCE STATUS OF MFI VIS-À-VIS THE RECENT RBI GUIDELINES
Score - 81%

SMERA examines the adherence level of the MFIs with respect to the recent draft guidelines issued by RBI. Thus the Code of Conduct exercise involves a comprehensive review of MFIs policies and systems and whether these translate into ethical microfinance practices. MMF fall under the purview of RBI, hence they have complied with the most of the terms and conditions of guidelines issued by RBI. Such as-

<u>Conditions as per RBI Guidelines</u>	<u>MMF's Policy</u>	<u>Compliance</u>
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	During the branch visit, it was observed that in few applications annual household income declared by few of the borrowers was less as compare to their standard of living observed.
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.	MMF loan ranges from ₹ 7,000 to ₹ 30,000. The loan amount depends on the loan cycle, repayment track record of previous loan and attendance of centre meeting.	MMF meets the criteria.
Total Indebtedness of the borrowers should not exceed to ₹ 50,000	The company checks the credit report of borrowers with Credit Information Company (CIC) i.e. "Equifax".	MMF meets the criteria.
Tenure of the loan not to be less than 24 months for amounts in excess of ₹ 15,000	The maximum loan size is ₹ 30,000 repayments tenure is 50 Fortnightly Installments.	MMF meets the criteria.
Repayment frequency should be weekly, fortnightly or monthly at the choice of the borrower	Repayments of loans are collected only on fortnightly installment basis.	MMF provides loans on Fortnightly Installments basis.

<p>With effect from the quarter beginning April 01, 2014, the interest rates charged by an NBFC-MFI to its borrowers will be the lower of the following:</p> <p>a) The cost of funds plus margin or</p> <p>b) The average base rate of the five largest commercial banks by assets multiplied by 2.75. The average of the base rates of the five largest commercial banks shall be advised by the Reserve Bank on the last working day of the previous quarter, which shall determine interest rates for the ensuing quarter.</p>	<p>MMF charges 27.70% per annum on diminishing balance method (Rounded to nearest rupee).</p>	<p>MMF meets the interest rate criteria.</p>
<p>Loan pricing to include processing fee (not exceeding 1% of the loan amount)</p>	<p>MMF is charging processing fee of 01% on the disbursed loan amount plus applicable service tax. (rounded to next rupee).</p>	<p>MMF meets the processing charges criteria fully.</p>
<p>Collateral free loans</p>	<p>MMF does not accept any collateral for extending the credit.</p>	<p>No collateral have been accepted from the clients.</p>
<p>MFI's shall not collect any Security Deposit / Margin from the borrower.</p>	<p>MMF does not collect any security deposit / margin from the borrower.</p>	<p>MMF meets the criteria fully.</p>
<p>No late payment or prepayment penalties</p>	<p>MMF does not take late payment or prepayment penalties from the clients.</p>	<p>MMF meets the criteria fully.</p>
<p>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.</p>	<p>Currently MMF is availing credit bureau check from Equifax.</p>	<p>MMF meets the criteria fully.</p>
<p>Minimum 75% of the MFIs portfolio should be given for income generation activities</p>	<p>MMF provides loan only for the income generation activities.</p>	<p>MMF meets the criteria fully.</p>



Approval	Documentation	Dissemination	Observance
<ul style="list-style-type: none">• The policies framed by board of MMF mostly adhere with respect to 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">• Policies were updated / modified on most of the recent guidelines issued by RBI.	<ul style="list-style-type: none">• Most of the guidelines issued by RBI are adhered by MMF.

LIST OF BRANCHES VISITED

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

This assessment includes:

1. Discussions with key staff members and the senior management at the head office 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 (located in Punjab) as samples, as per the size of the MFI for review. Care is exercised to include old & new branches as well as branches that are distant from the regional office and branches with the overdue.
4. Discussions with the branch staff at the field office. Discussions with field office managers and centre managers are carried out to assess their understanding of the key code of conduct principles and systems and process.
5. 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. One/two centres from each sample branches was selected for interviews. Out of which few respondents are those that have been having problems in attending meetings. SMERA has also selected respondents those have defaulted in the past or started repaying on defaulted loans.
6. Interview with the clients. Information from the clients is collected ideally during the centre meetings as well as visits are made to the clients' locations for collecting information.
7. Review of loan application 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 the assessment, SMERA visited following branches of MMF in Punjab. The details of the branches visited are provided below.

Sr. No.	Branch Names	District	Branch Opening date	No. of Borrowers Visited
1.	Jalandhar	Jalandhar	01/Apr/2010	18
2.	Ludhiana	Ludhiana	11/Dec/2010	17
3.	Kapurthala	Kapurthala	07/Sep/2010	15
4.	Moga	Moga	02/Aug/2013	16
5.	Faridkot	Faridkot	02/Aug/2013	18
6.	Zira	Firozpur	26/Nov/2013	18
7.	Bhagta Bhai Ka	Bhathinda	26/Jul/2014	19
8.	Raikot	Ludhiana	26/Jul/2014	16
9.	Sidhwan Bet	Ludhiana	01/Aug/2014	17
10.	Head Office	Jalandhar, Punjab	-	

METHODOLOGY

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

Questionnaire for the field visit

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

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