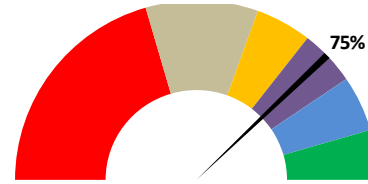
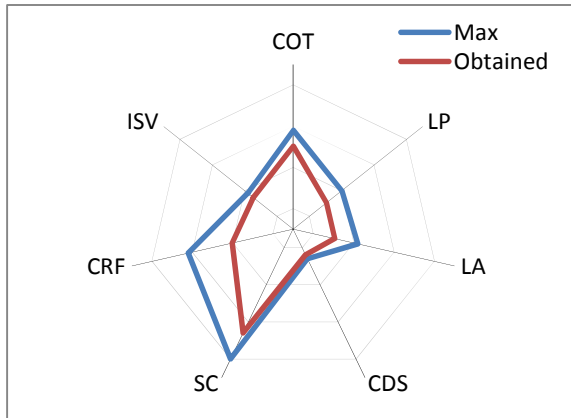


RGVN (NE) Microfinance Ltd (RMFL)
March 2013



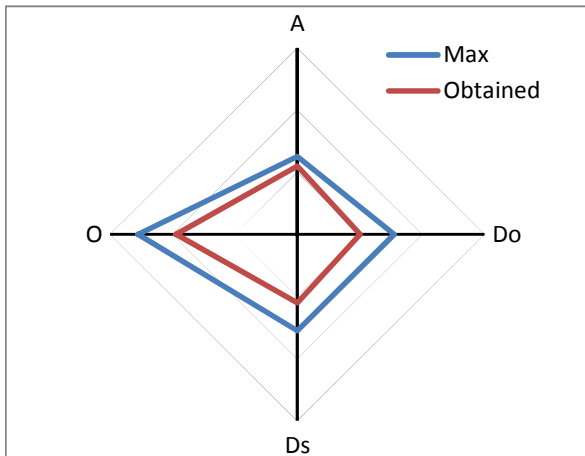
Composite COCA Score: 75%, Good level of adherence

Score on Dimensions



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

Score on Parameters



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

Rationale

RMFL has performed 'good' on code of conduct. It has a strong board which actively discusses code of conduct, client protection and social development issues. The company has adopted the RBI Fair Practices Code and has also developed a code of conduct for itself. Most of the staffs are aware of the code and observe it. RMFL has high outreach in remote areas. However, currently certain policies such as those on prepayments and grievance handling are not documented in adequate detail. Further, the handling of insurance process is inefficient. Loan appraisal is not rigorous as staffs do not have adequate understanding of cash flow analysis. On RBI directions, for the current financial year, RMFL is not complying with the interest rate margin cap as directed by RBI for large MFIs.

Highlights

- RMFL has well-structured and comprehensive social development programme.
- RMFL has proactive board, which has high focus on client development issues.
- The internal audit is rigorous and monitored by Audit Committee.
- The organization in general, has pro-client policies which reduce likelihood of stress on clients.
- RMFL has outreach in secluded pockets where no other MFI is working.

Areas of improvement

- RMFL needs to ensure compliances with all RBI directions.
- The company needs to strengthen its loan appraisal, particularly for higher size loans.
- Detailed policy on grievance redressal should be developed, disseminated to staffs and communicated to clients to make the function effective.
- The insurance management needs to be improved.
- Policies related to loan prepayments, client meetings and loan appraisal need to be documented.









Code of Conduct Assessment Compliance Assessment Tool






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

Disclosure

M2i has not been engaged in any assignment of advisory, capacity building or of consulting nature with RGVN (NE) MFL, Guwahati in the last one year. Further, none of M2i's staffs or their relatives is represented in the Board of RMFL or related institutions.







Section 1: Scores¹ and facts

| Code of Conduct dimensions ² | Maximum | Obtained | % |
|---|------------|--------------|------------|
|  Client Origination and Targeting | 24 | 20.2 | 84% |
|  Loan Pricing | 15 | 10.2 | 68% |
|  Loan Appraisal | 16 | 10.3 | 64% |
|  Client Data Security | 8 | 6.9 | 86% |
|  Staff Conduct | 35 | 28.0 | 80% |
|  Client Relationship and Feedback | 26 | 15.1 | 58% |
|  Integrating Social Values into Operations | 14 | 12.4 | 88% |
|  Total | 138 | 103.0 | 75% |
| RBI's Directions | 12 | 11 | 92% |

| Compliance parameters | Maximum | Obtained | % |
|---|------------|--------------|------------|
|  Approval | 25 | 22.0 | 88% |
|  Documentation | 31 | 20.2 | 65% |
|  Dissemination | 31 | 22.0 | 71% |
|  Observance | 51 | 38.9 | 76% |
|  Total | 138 | 103.0 | 75% |

MFI's profile – December 2012

| | |
|--|--|
| Name of the MFI | RGVN (NE) Microfinance Ltd |
| Legal form | NBFC |
| Operational Head | Ms Rupali Kalita |
| Year of starting microfinance | 1995(CSP), August 2010 (NBFC) |
| Branches | 104 |
| Operational area | Assam, Meghalaya and Arunachal Pradesh |
| Total number of staff involved in microfinance | 506 |
| Visit of the Assessment team | 4 March 13 – 7 March 13 |
| Correspondence address | RGVN (NE)Microfinance Ltd. House No. 2, Padma Path, 8 th Bye lane, ZOO Road, Tiniali, RG Baruah Road, Guwahati- 781024 Phone : +91-361-2464612 Email : rgvnne.nbfc@yahoo.in |

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

²Scores have been reduced by a factor of 0.92 to reflect overall achievement on regulatory compliance.

Microfinance Methodology

RMFL primarily follows the JLG methodology although it has some SHGs too. Under the JLG method, women members are organized in the groups of five who have to bear the joint liability for the loans provided to them. Five to six such groups form a centre, however the centre is mainly for facilitating collections and there is no joint liability across groups. The disbursements are done through bearer cheques in the name of individual member in the branch and collections are done in cash in the centre meetings. RMFL follows similar methodology for the SHGs. RMFL also provides individual loans, for business, to its matured clients who have availed at least three cycles of loans.

The company is member of High Mark Credit information Services and has also become member of Equifax Credit Information services. However, currently credit checks through credit bureau are not being done in some branches while it is being done in other branches.

Details of the loan products - 31 December 2012

| Product | Description | Loan size* | Interest Rate | APR (Interest Rate and Processing Fees) | % in portfolio |
|--------------------------------|--|---|---|---|----------------|
| Group loans (JLG and SHG loan) | Loans given to members of Joint Liability Groups of women. These loans are given for income generation activities. Loan tenure is 52 weeks or 104 weeks depending on loan size. Repayment is weekly or monthly, depending on clients' choice. | Rs10,000 to Rs50,000. In first cycle maximum loan amount is Rs10,000. | 26% pa, reducing balance basis and 1% processing fees | 28.0% (for one year loan) 27.1% (for two years loan) | 96.5% |
| Individual loan | After successful completion of three cycles, SHG ad JLG clients become eligible for Enterprise Development loans, which is individual loan. Loan tenure is 52 weeks or 104 weeks depending on loan size. Repayment is weekly or monthly, depending on clients' choice. | Rs10,000 to Rs50,000. | 26% pa, reducing balance basis and 1% processing fees | 28.0% (for one year loan) 27.1% (for two years loan) | 3.5% |

Notes:

1. APR has been calculated by taking the actual cash flow for each loan including principal, interest and processing fee.
2. EIR for RMFL's loan products is 30.7% and 31.9% for two years and one year loans respectively. EIR has been calculated through compounding interest on monthly rests: $EIR = (1+r)^n - 1$, where $r = APR/12$ and $n=12$ (for 12 months to annualize).

| Key facts and figures | | | |
|--|------------------|------------------|------------------|
| Parameters | 31-Mar-11 | 31-Mar-12 | 31-Dec-12 |
| No. of groups (SHGs and JLGs) | 34,588 | 40,101 | 44,037 |
| Active borrowers | 126,240 | 139,182 | 151,322 |
| Branches | 92 | 95 | 104 |
| States | 3 | 3 | 3 |
| Number of districts | 26 | 26 | 29 |
| Total staffs | 495 | 496 | 506 |
| Number of loans disbursed for the FY ending | 123,712 | 142,144 | 94,627 |
| Amount of loan disbursed for the FY ending (Rs mn) | 127.7 | 167.3 | 115.6 |
| Loan portfolio outstanding (Rs mn) | 765.4 | 1,022.3 | 1,059.4 |
| PAR-60 | 3.3% | 0.6% | 0.6% |
| PAR-30 | 3.6% | 0.7% | 0.7% |
| Yield on portfolio | NA | 19.7% | 25.1%* |
| OSS | 117% | 128% | 132% |

Source: Data as given by RMFL

*Annualized figure

| RMFL Board Members – 31 December 2012 | |
|--|---|
| Name | Profile |
| Mr Brij Mohan (Chairman)) | Mr Brij Mohan is former Executive Director of SIDBI. Currently, he is the Policy Advisor of Sa-Dhan; Chairman of Access Development Services, National Consultant of SIDBI Foundation for Micro Credit and Consultant to United Nations Industrial Developmental Organisation on cluster development. He has also been a Short Term Consultant of South Asian Enterprise Development Facility (managed by IFC, Washington), and likewise is associated with many such institutions and organizations. He is Vice-Chairperson of Rashtriya Gramin Vikas Nidhi. He is associated with RMFL since 18 July 2008. |
| Mr K N Hazarika | Mr K N A Hazarika is Post Graduate in Arts with training in Wharton (USA) in Strategic Management. He is a banker with 33 years of service in the State Bank of India. Mr Hazarika was the former Chairman & Managing Director of North Eastern Development Finance Corporation Ltd. (NEDFi) and served as Advisor for the North Eastern Council, Ministry of Doner, Govt. of India, Shillong. He has also served on the Boards of several Corporations and Companies viz., AIDC, MIDC, IIBM, IIE, NERAMAC, Tea Board of India, APEDA, Spices Board of India. He was a member of the Committee on Financial Sector Plan for the North Eastern States set up by the Reserve Bank of India , the Empowered Committee on North East Industrial Investment Promotion Policy of the Ministry of Commerce & Industries of Govt. of India and various sectoral Consultation Groups set up by the Planning Commission. He is now a freelance Consultant. He has been associated with RMFL since 17 July 2008. |
| Mr Saneesh Singh | Mr Saneesh Singh has over 20 years of experience in the field of Development Banking, Promotion and Financing of MSMEs, Microfinance, Financial Structuring and Investment Bankin. He is the Executive Director- Investments in Dia Vikas Capital Pvt. Ltd., a subsidiary of Opportunity International Australia. He has also worked in various senior managerial capacities in the Small Industries Development Bank of India (SIDBI). Mr. Singh holds a Post Graduate Diploma in Information Management and Systems Administration; a Master’s Degree in Social Work and is a British Chevening Scholar of Banking and Finance from London School of Economics. He is also an associate of the Indian Institute of Bankers and is also an alumnus of Indian School of Business. He is associated with RMFL from 23 February 2012. |
| Mr Deep Joshi | Mr Deep Joshi is a Social Worker and NGO activist. He Co-founded a non-profit organization, Professional Assistance for Development Action (PRADAN) of which he was the former Executive Director. Mr Joshi was awarded the 2009 Magsaysay award for Community Leadership for his work for “development of rural communities” and winner of ‘Padmashree’ award of the Government of India in 2010. He is associated with RMFL since 1 January 2011. |

| | |
|--------------------|--|
| Dr Amiya Kr Sharma | Dr Amiya Sharma is presently the Executive Director of Rashtriya Gramin Vikas Nidhi (RGVN), Guwahati. He is alumnus of Delhi School of Economics and has taught in various Universities like Tezpur University, Rutgers University, University of Delhi and also served in the Indian Statistical Institute, New Delhi. Dr Sharma is actively involved in various activities related to the voluntary sector and has assisted in development of many NGOs in the region. At present he holds the position of the Co-Chairman of Sa-Dhan. Mr Sharma is associated with RMFL since 5 September 2008. |
| Mr S K Baruah | Mr S K Baruah is the General Manager of North Eastern Development Finance Corporation Ltd. He has been nominated by NEDFi as Director of RMFL from July 2011. He is associated with RMFL since 28 July 2011. |
| Ms Rupali Kalita | Ms Rupali Kalita is the Managing Director of RMFL. She is a Rural Development Banker with more than 20 years of working experience in the banking sector. She has been instrumental in spreading the outreach of the microcredit wing of RGVN into many pockets of Assam, Meghalaya and Arunachal Pradesh and transformation of the programme into an NBFC. She has been associated with RMFL since 18 July 2008. |

| Equity Structure – 31 December 2012 | |
|--|---------------------------------------|
| Shareholders | % stake in the company holding |
| Client/Promoters | 13.96% |
| BCDT* | 6.61% |
| SIDBI | 19.86% |
| Dia Vikas | 39.71% |
| NEDFI | 19.86% |
| Total | 100.0% |

*BCDT is a trust that RGVN had formed during process of legal transformation.

Section 2: Status of Regulatory Compliance

2.1 Compliance with regulations

RMFL is not complying with the cap on interest rate margin, for the FY 2012-13, as directed by the RBI for the large MFIs. Apart from the margin cap, RMFL is complying with all other directions.

RMFL's compliance with RBI's directions for NBFC-MFIs is presented below.

Capital requirement

RMFL had Net Owned Fund (NOF) of Rs162.7 million as on 31st March 2012, which was higher than the required Rs10 million by March 2012 for NBFC-MFIs operating in Northeast region. Even in December 2012, the NOF of RMFL was Rs229.7 million which was significantly higher than Rs10 million, thus RMFL was complying with the RBI directions on NOF.

Proportion of qualifying assets and income generation loans

RMFL has been obtaining CA certificate for its qualifying assets on quarterly basis. As per CA's certificate for the quarter ending in December 2012, RMFL had 87.6% of its total assets (excluding cash and bank balance) as 'qualifying assets'. Further, CA has certified that 99.0% of the company's loans were for income generating purposes. This is in compliance with the RBI directions given for NBFC-MFIs.

M2i during its assessment has also verified the conditions for qualifying assets, the observations are presented below:

- Loan size verification

RMFL does not provide loans beyond Rs10,000 in the first cycle which is well within the loan size cap as directed by RBI of Rs35,000 for the first cycle. The maximum loan size of RMFL is Rs50,000 and hence it complies with the RBI directions on loan size. Physical verification of over 200 loan documents as well as visit to over 140 clients across 8 branches of RMFL corroborated this.

- Collateral verification

M2i has verified that RMFL does not take any collateral or security on its loan, thus complying with RBI directions.

- Loan duration verification

All of RMFL's loans of amounts greater than Rs15,000 (disbursed after January 2012) are for tenure not less than 104 weeks (24 months). RMFL does allow prepayments without any penalty. This is in compliance with the RBI directions.

- Household income

RMFL, as a policy, has adopted its target clients as those having annual household income of not more than Rs60,000 in rural areas and Rs120,000 in non-rural areas. Thus RMFL complies with the RBI directions on target clients. RMFL captures business income, business expense and household expense in the loan application. In a check of 200 loan documents

selected randomly across all 8 branches, no case in violation of this direction was observed. The visit to clients during assessment also indicate that the income level of clients were largely in accordance with the assessment performed by the organization..

Multiple lending and Indebtedness

RMFL does not lend to any member who has already borrowed from two other sources. RMFL itself does not give loan beyond Rs50,000 and also ensures that total indebtedness of the clients from all sources does not exceed Rs50,000. The indebtedness of the client is captured in the loan application. Thus, it complies with the RBI direction regarding client indebtedness. M2i did not find any of these directions breached in the loan documents checked and the clients visited.

Pricing of credit

RMFL charges interest rate of 26% per annum on reducing balance basis and 1% processing on all its loans. It does not collect any security deposit or any other fee for any loan. The insurance premium is also collected on actual basis. RMFL does not charge any penalty for overdue loans or for prepayments. In case of prepayment of loan, excess interest for the unexpired period of loan is not collected. Thus, all products offered by RMFL comply with the RBI directions as far as interest rate and other fees are concerned.

However, the margin on interest rate of RMFL is higher than 10% as stipulated for large (loan portfolio greater than Rs100 crore) NBFC-MFIs by the RBI. The average annualized cost of borrowing of RMFL calculated on the basis of April to December 2012 period was 12.6%, while its annualized yield on portfolio calculated based on same period was 25.1%. Thus, its interest rate margin was 12.5% which is higher than the stipulated 10% for the large MFIs. **Thus, RMFL is not in compliance with the interest rate margin cap direction of RBI for the current financial year.** However, in the last financial year RMFL was compliant with the interest rate margin cap.

Capital adequacy

As per the CA certificate, RMFL had capital adequacy of 21.8% as of 31 December 2012, which is higher than the 15% benchmark directed by RBI.

Customer Protection Initiatives

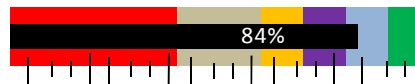
RMFL has formally adopted the RBI Fair Practices Code, which has been approved by its Board in its meeting of August 2010 when it got the NBFC license. The Board adopted revised code in board meeting of January 2011. RMFL has displayed the Fair Practices Code in local language in all its branches and staffs have been informed of it.

Membership with SRO and credit bureau

RMFL has become member of Sa-Dhan only in June 2012 and is still not member of MFIN. The company has not adopted the Industry Code of Conduct, which is also stipulated by RBI. RMFL became member of High Mark Credit Information Services Limited but since its major competitors were not members of High Mark, it has now taken membership of Equifax in November 2012. However, process of credit checks is still not operational in some of the branches.

Section 3: Observations

3.1 Client Origination and Targeting (COT)



RMFL's score on client origination and targeting is 'very good'. RMFL has clearly defined its target clients, client origination policies and staffs are well aware of them. The company has outreach in remote areas and has been the first to start operations in many locations.

| Approval (A) | Documentation (D) |
|---|--|
| <ul style="list-style-type: none"> ✓ RMFL's board has approved policy to target clients as per RBI directed income criteria. ✓ The board has approved of policies regarding proper authentication of clients and to focus on low income segment. | <ul style="list-style-type: none"> ✓ Clear policies have been documented on member eligibility criteria and group formation process. ✗ There is no documented policy regarding avoidance of unauthorized agents in client acquisition process. |
| Dissemination (D) | Observance (O) |
| <ul style="list-style-type: none"> ✓ Staff members have been provided trainings on client origination process. ✓ All policies related to client origination are documented in manual which is available in each branch. Time to time circulars are issued to branches for any change in policy. | <ul style="list-style-type: none"> ✓ Staffs had understanding of the client origination process and were following the policies. ✓ No evidence of use of any external agent or payment of unfair money for client origination was observed. |

RMFL generally expands operations organically. It tries to open branches in areas near its existing branches and hence it has good understanding of the socio-economic context. For opening a new branch a survey is conducted by Area Manager, but there is no format or reporting system for surveys. However, in survey following aspects are observed:

- Population density
- Economic activities
- Other sources of financial services
- Law and order situation
- Infrastructure
- Projected business

In recent times RMFL has opened branches in new states like Sikkim, Meghalaya and Arunachal. Barring Sikkim these states are mostly financially excluded.

RMFL has clearly defined its target clientele in accordance with the RBI income and indebtedness criteria. The clients are inducted through a series of meetings viz. Introduction

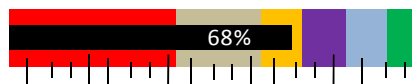
& Marketing meeting, Orientation meeting, Loan Origination meeting and Loan Appraisal meeting.

The income and indebtedness details of the clients are gathered during filling of loan applications. During the process of four meetings, client house visit is compulsorily made by the Credit Officer and then randomly cross-checked by the Branch Manager. KYC documents are obtained and verified with the originals during house visit.

The overall client origination policies and practices of RMFL are good, some of the key highlights are:

- RMFL has good outreach in remote areas of Assam. In many parts of its operational areas, it was the only MFI operating
- In areas where RMFL had overlap with other MFIs, in most cases it was the first MFI which had started operations and other MFIs had come later
- The profile of the visited clients during assessment largely matched the target clientele as per the policy
- RMFL does not provide any incentive for client origination which reduces the likelihood of indiscriminately inducting clients

While no case of involvement of any agent or payment of unfair money for client origination was observed, RMFL does not specifically have a policy on avoidance of unauthorized persons in client origination or other field operations. Further, in loan forms rural/urban classification of clients is not marked.



3.2 Loan Pricing (LP)

RMFL's score on Loan Pricing aspects is 'reasonable'. RMFL's pricing is transparently displayed at all branches and also communicated to clients. The interest rate and other charges are in accordance to regulatory directions. However, in case of insurance claim, interest for full tenure of the loan was being collected until February 2013, which was not a fair practice. However, from March 2013, RMFL has stopped that practice. Further, for the current financial year, RMFL's interest rate margin breaches the RBI stipulated margin cap.

| Approval (A) | Documentation (D) |
|---|---|
| <ul style="list-style-type: none"> ✓ RMFL board has discussed loan pricing and issued guideline to ensure that loan pricing is in accordance with RBI directions and is effectively communicated to clients. | <ul style="list-style-type: none"> ✓ RMFL has clearly documented its pricing for all its loan products. ✗ Interest rate to be charged in case of prepayment is not documented. |
| Dissemination (D) | Observance (O) |
| <ul style="list-style-type: none"> ✓ Staffs have been informed about pricing through staff meetings and circulars. ✓ Pricing is prominently displayed in branches and documented in operational manual and circulars available with the branches. ✗ Staffs have not been communicated the interest to be collected in case of prepayments. | <ul style="list-style-type: none"> ✓ The interest rates, processing fees and insurance charges are written in the loan passbooks. ✓ Awareness of clients regarding pricing was found to be reasonable. ✗ The loan passbook given does not have insurance terms and condition as well as no repayment schedule is given to clients. ✗ In case of insurance claim, entire amount of principal outstanding and interest for the full tenure of the loan was being settled until February 2013. ✗ RMFL is not complying with the interest rate margin cap currently. |

RMFL charges 26% interest on reducing balance basis along with 1% processing fee. Insurance premium is collected on actual basis. Apart from this no other fee is charged. All its loans are collateral free (including individual loans) and no security deposit is taken for any loan.

The interest rate, processing fee and insurance premium are displayed in all branches. In loan passbook of client following information is revealed:

- Interest rate on reducing balance basis
- Processing fee and Insurance premium
- Loan installment
- Tenure of loan

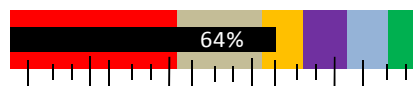
RMFL does not charge any penalty for overdue loans. In case of prepayments also no penalty is charged but the policy regarding interest to be collected in case of prepayment is not documented. However, in past cases of prepayments (which are rare) no excess interest for unexpired period of loan had been collected.

One of the key concern areas which RMFL has now taken care of, was that in case of insurance claim, the entire principal outstanding at the time of death as well as interest for entire tenure of the loan (including that for unexpired) period was being collected until February 2013. However, in a circular dated 9 March 2013, RMFL has now stopped that practice and has instructed all its branches to collect interest only until the date of death and settle only the principal outstanding amount with the insurance claim amount.

The awareness on interest rate among clients was reasonable, although it was comparatively lower for rural clients.

Some other issues in the pricing include:

- No acknowledgement of loan application is being given to the clients
- The loan passbook does not have terms and conditions related to insurance
- No repayment schedule is given to clients. In the client loan passbook also, no details of principal, interest and principal outstanding is mentioned.



3.3 Loan Appraisal (LA)

There is scope of improvement in current loan appraisal process of RMFL. It was observed that the staff had confusion over calculating household income. Also, credit checks through credit bureau are currently not being done in some branches. But the company has good policy on cautiously increasing the loan size. Also most clients do not have loans from other MFIs.

| Approval (A) | Documentation (D) |
|--|---|
| <ul style="list-style-type: none"> ✓ RMFL has board approved policy for avoiding over indebtedness of clients and to lend as per the repayment capacity of the members. | <ul style="list-style-type: none"> ✓ RMFL has documented policy for checking client’s income and indebtedness before lending. ✗ Policies on loan decision making based on client data gathered are not documented. |
| Dissemination (D) | Observance (O) |
| <ul style="list-style-type: none"> ✓ RMFL’s staffs are trained on collecting client data, indebtedness status ascertaining past loan performance before lending. ✗ Staffs do not have clarity over ascertaining household income and cash flows. | <ul style="list-style-type: none"> ✓ The loan application format provides for calculation of house hold income, expenditure, assets and indebtedness details. ✗ The income and expense data filled in the form appears to be arbitrarily done. Inaccuracies and inconsistencies were observed. ✗ Credit bureau checks are not being performed currently for some branches, which also have operational area overlap with other MFIs. |

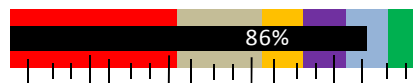
RMFL has the policy of lending within the RBI guidelines on indebtedness and hence the organization does not lend to any client having loan from two other institutions. Further, the company maintains overall indebtedness of the client within Rs50,000. RMFL’s stipulates the lending to be done according to the repayment capacity of the client and this is also part of the internal audit check.

The loan process starts with Credit Officer mobilizing the loan application, which is followed by the Branch manager appraising the loan. There is no separate sheet for appraisal but the Branch Manager, cross-checks the data provided in the application form. The final sanctioning of loan is done by the credit committee. The Area Manager and two other Branch Managers comprise the credit committee.

However, the effectiveness of the loan appraisal is restricted as it was observed that field staffs had confusion over calculating household income and ascertaining the surplus. Further, the income, expense data filled in the form appeared arbitrary. The frequent discrepancies on income-expense data in loan forms had not been pointed out by the Credit Committee which

also reflects on its capacity. The issue of loan appraisal gains significance as the process even for the highest size loan up to Rs50,000 is absolutely same including the loan forms, staffs involved in process and sanctioning.

There are also no clear guidelines linking the client data collected with the loan decision-making. Further, currently RMFL is not obtaining credit bureau reports for some of its branches. Earlier it used to take credit reports from High Mark but it has recently shifted to Equifax and the credit check process has not yet become operational in some branches, although these branches also have operational area overlap with other MFIs.



3.4 Client Data Security (CDS)

RMFL has ‘very good’ performance on client data security. There is documented policy on client data security which is observed in the field and also checked by the internal audit.

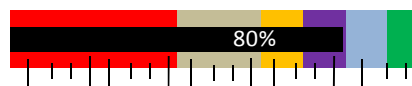
| Approval (A) | Documentation (D) |
|--|---|
| <ul style="list-style-type: none"> ✓ RMFL has a board approved policy regarding client data security. | <ul style="list-style-type: none"> ✓ RMFL has clear policy regarding storage of client documents and need for its protection. |
| Dissemination (D) | Observance (O) |
| <ul style="list-style-type: none"> ✓ RMFL’s policy on client data security has been communicated to its staffs through meetings and through manuals. ✓ Staffs are well aware of client data protection policy. | <ul style="list-style-type: none"> ✓ The rights regarding accessing and modifying MIS are well defined for different levels of staffs. Regular back-up of data is taken. ✓ Documents at all visited branches were safely stored as per the policy and internal audit had made checks of document security. ✗ Physical documents are not stored at a centralized location but at branches. Also MIS is off-line and hence any tempering with data at branch office does not immediately reflect at Head Office. |

RMFL has clear guidelines for staffs for safely keeping the loan documents of clients in lock and key and to maintain confidentiality on client data. It was observed that in all branches, the loan documents had been safely kept in the custody of the branch manager in almirahs. The data in the MIS is also well protected as rights for data access are well defined for each level of staff. No staff except the Head Office IT team can make any change in MIS.

Regular back-ups of data on software are taken at branch level as well as at the Head office level.

The staffs of RMFL were well-sensitized on the need for maintaining discreetness over client data. The client data security is also checked during internal audits.

However, RMFL stores all client documents at branch level and not at a centralized location, which makes documents susceptible to mis-utilization or loss. Also the MIS of RMFL is not online; hence any changes in MIS at branch level are not immediately reflected at HO level.



3.5 Staff Conduct (SC)

RMFL's score on staff conduct is good. RMFL mostly has client friendly policies and has clear directions for staff on acceptable staff behavior. The staffs are aware of code of conduct aspects related to behavior with clients. Visited clients did not report of any incidence of any misconduct or coercion by any staff in the past.

| Approval (A) | Documentation (D) |
|---|--|
| <ul style="list-style-type: none"> ✓ RMFL board has approved policy for acceptable staff behavior in all situations. | <ul style="list-style-type: none"> ✓ RMFL has clearly documented policy for staffs on their conduct with clients. ✗ Policy regarding conduct of staff during client meetings and DO's and DON'T's are not documented |
| Dissemination (D) | Observance (O) |
| <ul style="list-style-type: none"> ✓ Each branch has the Operations Manual and the Staff Regulations handbook which contains the code of conduct and expected staff behavior in different situations. ✓ Staffs were aware of the expected behaviour with the clients. | <ul style="list-style-type: none"> ✓ In all visited clients staff behavior was found to be good in accordance with the code. ✓ Visited clients did not report any incidence of staff misconduct or coercion. ✗ It was observed that staffs tended to procrastinate certain issues – such as handling insurance cases. |

RMFL has documented staff code of conduct in its service regulation's book. Further different policies on client protection are documented in the operations manual. Some of the key points in the RMFL's policy related to staff behavior and client protection are:

- All employees shall deal with clients in a fair and non-discriminatory manner.
- All clients should be treated with courtesy and respect and no rude or offensive language should be used.
- No physical force or abusive language should ever be used to get back dues.
- No recovery should be made without issuing receipts
- In case of death in the family of client, the repayment will not be collected for a week on humanitarian ground.
- In case of *bandh* the repayment will be rescheduled with no additional interest or penalty
- In case of natural calamity loan will be rescheduled.
- For recovering defaults only peer pressure and frequent visit to clients will be done. No force can be used even for recovering overdue loans.
- All visits to clients have to be made between 6.00am and 7.00pm.

It was observed in the field that staffs had awareness on code of conduct regarding staff behavior and the staffs were complying with it. None of the clients, including overdue clients, visited by M2i, reported of any use of coercion or abusive language by staffs.

RMFL does not have a policy to provide incentives to its staffs for collections, on-time repayments or for overdue recoveries, which reduces the likelihood of forceful collection of dues by staffs.

Caselet: Client friendly policies of RMFL

In July 2012 in Jagori branch, RMFL rescheduled the loans of 11 JLGs after the flood. The loan schedule was extended by two weeks to ease the burden of loan repayment on the affected families.

Similarly, loan was rescheduled for JLGs in Bongaingaon village under Chapar branch as the clients were affected by floods. The loans of the client were rescheduled for two months.

Earlier, RMFL did not have insurance for the spouse of its clients. Therefore, RMFL had formed a Client Welfare Fund through which its provided Rs5,000 relief to its members in case of death of husband.

While, RMFL has fair practices towards clients, its insurance function is currently inefficient. It was observed that while collection of installment is immediately stopped after the death of the client or her spouse, the claim settlement process typically takes 4-5 months. The delay is primarily because of procedural issues within RMFL.

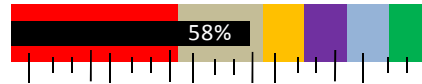
Inefficiency in insurance process

Client Tara Gupta of Sonapur branch died on 16 December 2010. At the time of death a few installments of the client were remaining. However, the husband of the client willfully continued to make the installment payment and cleared the loan. Since then he has been trying to claim the insurance amount which at the time of M2i's visit on 7 March 2013 had still not been settled. The husband of the client, who is also the nominee, had lodged complaint twice in the compliant register at the branch and has visited branch office several times since then but still the claim had not been processed. However, the company did take notice of the case during M2i visit and settled the case.

In other branches also it was observed that it took 4-5 months for the organization to settle the insurance claims.

Further, in some client meetings it was observed that RMFL field staffs conducted meetings sitting on chairs while client sat on the ground. Also in a few meetings it was observed that men gathered around the meetings. Currently, there are no specific guidelines for:

- Involvement of unauthorized persons in field activities or involvement of men in proceedings.
- Client friendly practices like sitting along with clients (on ground) during meetings
- Not accepting any courtesy offerings from clients such as tea, snacks etc.



3.6 Client Relationship and Feedback (CRF)

The grievance redressal function of RMFL is not well structured and is not effective.

| Approval (A) | Documentation (D) |
|---|---|
| <p>✓ The Board has approved the policy on providing a platform to clients for lodging any grievances.</p> | <p>✗ The policy of grievance redressal is not documented in the manual in sufficient detail.</p> |
| Dissemination (D) | Observance (O) |
| <p>✓ Staffs are aware of the grievance redressal forum.</p> | <p>✓ The organization provides Head Office number in loan cards and maintains complaint register at Head Office and branches.</p> <p>✗ The awareness about process of grievance lodging, Head Office location and contact details was low among clients.</p> <p>✗ There is very low call volume and grievance reporting in complaint registers.</p> <p>✗ There is no fixed time frame to resolve complaints also there is no centralized system to track complaints and their resolution.</p> |

RMFL has made efforts to develop grievance redressal mechanism for its members. Under the current mechanism, the Head Office and branch Manager’s phone number are provided on the client pass book. Branches also have complaint registers. A complaint register is also maintained at the Head Office.

In case the client has any complaint, she may contact the Branch Manager and can get the complaint lodged in the register. In case the client is not satisfied, she may also call the Head Office, where complaint is recorded in the Head Office complaint register. At Head Office, the complaints are brought to the notice of the MD and then the Nodal Officer for complaints at the Head Office informs the concerned Area Manager for resolution.

It was observed that the current system of grievance redressal was not effective. The volume of calls at the Head Office was very low. Many branches had complaint registers which were completely empty, while others had 2 to 3 complaints written in them in last one year. The key areas which limit the effectiveness of the current grievance redressal system are:

- There is no dedicated phone line or toll-free number for grievance handling
- The staffs at branches do not pro-actively inform members of grievance redressal process. It was found that clients had low awareness about Head Office location, phone numbers and often were not aware that there is a Head Office number printed on the passbook. In many passbooks Branch Managers’ number had not been stamped.

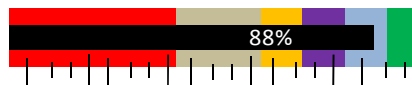
- Members had low awareness that something like a ‘Complaint Register’ existed at the branches.
- While the complaints which are registered at the Head Office level are brought to the notice of the Managing Director and are also followed up by the Nodal officer, there is no mechanism to track the complaints at the branch level. The complaints registered at branches are not consolidated or followed up through a centralized system. The Branch Manager lodges the complaint and also writes the response (action taken) him/herself.
- There is no fixed timeline for resolving client complaints.
- There is lack of mechanism to check if all complaints lodged across branches have been resolved to the satisfaction of the client.
- No consolidated analyses of complaints registered across all branches is done or presented to the Senior Management.

Caselet: Lacunae in grievance redressal function

In Sonapur branch, the husband of one of the clients who had died in December 2010, lodged complaint twice in the branch complaint register regarding insurance claim settlement of his wife. Despite the fact that over two years had passed and he his claim had not been settled, the problem had not been resolved.

Due to lack of a centralized grievance handling system, the problem had not come to the notice of the Head Office. The Branch Manager had simply written a response saying that he has asked the nominee to visit Head Office. Also the husband clearly was not aware of the grievance handling process at Head Office level and neither did the branch lodge the complaint at the Head Office level.

3.7 Integrating Social Values into Operations (ISV)



RMFL has ‘very good’ performance on ISV. This is on account of its active board and a structured approach towards providing non-financial services through a separate ‘Society’ financially supported by RMFL.

| Approval (A) | Documentation (D) |
|---|--|
| <ul style="list-style-type: none"> ✓ RMFL has adequate representation of independent members in its board, and the board comprises of eminent persons from the sector. ✓ The organization’s mission is to provide financial and other services to underprivileged households in Northeast to improve their quality of life. | <ul style="list-style-type: none"> ✓ RMFL’s mission, vision and values are clearly documented and displayed across its branches. ✓ It has registered a separate organization (a Society) to carry out non-financial interventions. Society’s mission and vision are also documented. |
| Dissemination (D) | Observance (O) |
| <ul style="list-style-type: none"> ✓ RMFL’s staffs are aware of the target clients who are mainly from low income category. ✓ The staffs of RMFL are aware of the mission and vision of the organization. The staffs are also involved in non-financial social activities. | <ul style="list-style-type: none"> ✓ RMFL has taken a structured approach for social performance management by forming a Society with full focus on activities benefitting large section of its clients. The society is financially supported by RMFL. ✓ The staffs of RMFL are involved in various social interventions, which are integrated in the financial programme. ✓ RMFL has made efforts to assess impact of its services on its members. |

RMFL has seven member board and of these three members are independent. It was observed that the board was quite active and discussed most of the organization’s matters including non-financial services on regular basis. The board also has a three member Audit Committee. The Audit Committee meets regularly and discusses the internal audit reports.

In order to have dedicated focus on non-financial development activities, a separate Society, ‘Gyanarun’ has been formed in May 2012 at the initiative of RMFL. RMFL is committed to financially support this Society out of its profits. For the financial year 2012-13, RMFL provided Rs2.0 million for its various activities. For the next financial year also Gyanarun is in the process of preparing the budget for all the activities and will be submitting a proposal to RMFL.

Various non-financial social activities undertaken by Gyanarun in the current financial included:

- Health check-up camps
- Financial literacy workshops for community along with Indian School of Microfinance for Women (ISMW)

- Social Awareness Programme on subjects like environment, women empowerment, health & nutrition and legal rights of women.
- Technical trainings on livelihood activities such as on poultry, duckery, piggery etc.
- Skill based trainings such as on tailoring, doll making, cutting knitting etc.

RMFL has also made efforts to assess impact of its activities on its members. It engaged an independent consulting company to carry out the impact assessment of its clients. A baseline survey of close to 2,000 members from 30 branches has been conducted so far.

Earlier, RMFL had also got an impact assessment done from another consulting organization at a smaller scale involving 500 client responses.

Recently, RMFL has also collaborated with Water.org and will now be introducing water and sanitation loans. Also it has developed new financial products to meet emergency needs of clients such as for medical needs, marriages, education etc. RMFL is integrating Progress Out of Poverty Index (PPI) indicators in its loan forms and it plans to track clients' economic progress using PPI.

Annexure 1: Matrix of Score Obtained³

| Indicators | A | | Do | | Ds | | O | | Total | |
|---|-----------|-------------|-----------|-------------|-----------|-------------|-----------|-------------|------------|--------------|
| | Max | Obt | Max | Obt | Max | Obt | Max | Obt | Max | Obt |
| Client origination and targeting | 5 | 4.6 | 5 | 3.7 | 5 | 3.7 | 9 | 8.3 | 24 | 20.2 |
| Loan Pricing | 3 | 2.8 | 1 | 0.0 | 2 | 1.8 | 9 | 5.6 | 15 | 10.2 |
| Loan Appraisal | 4 | 3.7 | 4 | 1.8 | 3 | 0.9 | 5 | 3.9 | 16 | 10.3 |
| Client Data Security | 1 | 0.9 | 3 | 2.8 | 2 | 1.8 | 2 | 1.4 | 8 | 6.9 |
| Staff Conduct | 7 | 5.5 | 7 | 5.5 | 10 | 8.3 | 11 | 8.7 | 35 | 28.0 |
| Client Relationship and Feedback | 2 | 1.8 | 8 | 3.7 | 6 | 2.8 | 10 | 6.9 | 26 | 15.1 |
| Integrating Social Values into Operations | 3 | 2.8 | 3 | 2.8 | 3 | 2.8 | 5 | 4.1 | 14 | 12.4 |
| Total* | 25 | 22.0 | 31 | 20.2 | 31 | 22.0 | 51 | 38.9 | 138 | 103.0 |

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

³ ADDO © Prime M2i Consulting Private Limited

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

The code of conduct compliance assessment tool was developed as a response to the need expressed in a meeting of stakeholders in Indian microfinance by the Small Industries Development Bank of India (SIDBI) and the World Bank in December 2009. The code of conduct dimensions were identified by reviewing the various norms for ethical finance. These included RBI’s fair practices guidelines for Non Banking Financial Companies, industry code of conduct (Sadhan-MFIN) and CGAP’s client protection principles. The most important challenge for M2i was to create objective indicators which could comprehensively measure the seven dimensions. A total of 138 indicators⁴ were developed across these dimensions, so that subjectivity in measurement could be minimized. The numbers of indicators for each dimension are presented below.

| Dimension | Nos. of Indicators |
|---|---------------------------|
| Client origination and targeting | 24 |
| Loan Pricing | 15 |
| Loan Appraisal | 16 |
| Client Data Security | 8 |
| Staff Conduct | 35 |
| Client Relationship and Feedback | 26 |
| Integrating Social Values into Operations | 14 |
| Total | 138 |

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

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

Illustration

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

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

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

The basis of scoring this indicator is the proportion of operational staff interviewed who have received training on these specific aspects. In case all the staff members have received trainings on each of these aspects then the score is 1 on each of these indicators, totaling to 3. If only 50% of the operational staff members interviewed have received training on these specific aspects then the score totals to 1.5 (0.5+0.5+0.5).

⁴ Integrating Social Values into Operations with 14 indicators was added to tool in September 2012.

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

RBI's Directions and Guidelines

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

Methodology

The code of conduct exercise is spread over four to eight days. The first day is spent at the head office. The assessment team visits the branches over the next three to eight days. Depending upon the size and the operational area of the MFI, three to fifteen branches and between 120 and 200 clients are sampled for primary survey.

Key Aspects

- Duration of the exercise: Four to eight days
- Nos. of branches to be visited: Eight to Fifteen
- Nos. of MFI clients to be interviewed: 120-200

This exercise requires:

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

As part of this assessment, we visited. The details of the project offices (branch) visited are provided below.

| Sr No | Branch* | State | No of clients interviewed |
|--------------|------------|-------|---------------------------|
| 1 | Baihata | Assam | 26 |
| 2 | Mangaldoi | Assam | 21 |
| 3 | Kharupetia | Assam | 10 |
| 4 | Sonapur | Assam | 21 |
| 5 | Khetri | Assam | 12 |
| 6 | Jagiroad | Assam | 8 |
| 7 | Missamari | Assam | 30 |
| 8 | Tezpur | Assam | 15 |
| Total | | | 143 |

Annexure 3: Code of Conduct Assessment – Framework

Code of conduct dimensions

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

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

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

Compliance

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

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

Weights

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

| Weight Matrix | Approval | Documentation | Dissemination | Observance | Totals |
|---|------------|---------------|---------------|------------|-------------|
| Client Origination | 4% | 4% | 4% | 7% | 19% |
| Loan Pricing | 2% | 1% | 1% | 7% | 11% |
| Loan Appraisal | 3% | 3% | 2% | 4% | 12% |
| Client Data Security | 1% | 2% | 1% | 1% | 5% |
| Staff Conduct | 5% | 5% | 7% | 8% | 25% |
| Client Relationship and Feedback | 1% | 6% | 4% | 7% | 18% |
| Integrating Social Values into Operations | 2% | 2% | 2% | 4% | 10% |
| Totals | 18% | 23% | 21% | 38% | 100% |

Regulatory compliance (ReC)

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