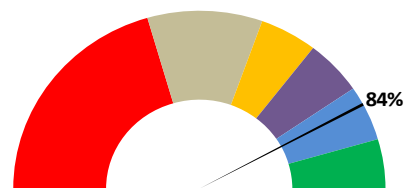
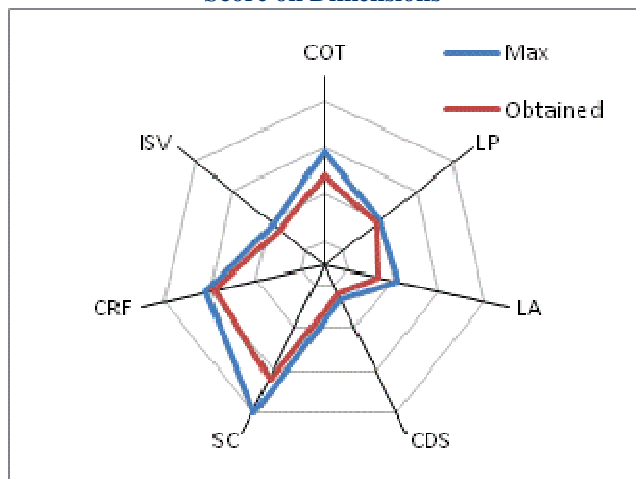


**SV Creditline Private Limited (SVCL),**  
Dec 2012



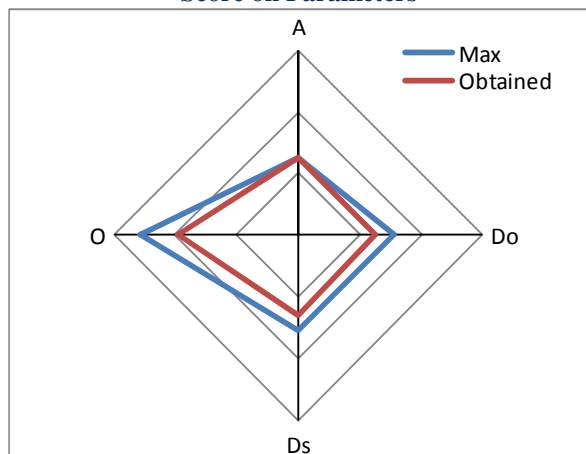
**Composite COCA Score: 84%, Very Good level of adherence**

**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**

SVCL receives a “very good” overall score on account of its well-documented policies and adherence to regulatory directions. SVCL’s Board has experienced professionals and the Board is quite active in overseeing company’s adherence to code of conduct guidelines and other compliance related issues. However, there is a need for training of staffs on certain aspects of its conduct with clients and on loan appraisal.

**Highlights**

- SVCL’s Board regularly reviews company’s performance on code of conduct related issues. It has also approved most of the operational policies.
- SVCL has a strong internal audit which reports to the five-member Audit Committee. Scope of internal audit is comprehensive.
- The policy documentation of SVCL is very good and comprehensively covers code of conduct aspects.

**Areas of improvement**

- SVCL needs to train its field staffs on soft skills so that they interact with the clients with humility.
- SVCL needs to design policies to ensure that enforcement of joint liability does not lead to unpleasant situation and undue stress for the clients.
- SVCL needs to strengthen its loan appraisal and train its staffs on cash flow analysis to prevent possibility of client over-indebtedness.









**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 SV Creditline Private Limited in the last one year. Further, none of M2i's staffs or their relatives are represented in the Board of Directors of SVCL or related institutions.







### Section 1: Scores<sup>1</sup> and facts

Code of Conduct dimensions <sup>2</sup>	Maximum	Obtained	%
 Client Origination and Targeting	24	20	83%
 Loan Pricing	15	14	93%
 Loan Appraisal	16	12	75%
 Client Data Security	8	7	88%
 Staff Conduct	35	27	77%
 Client Relationship and Feedback	26	24	92%
 Integrating Social Values into Operations	14	12	86%
 <b>Total</b>	<b>138</b>	<b>116</b>	<b>84%</b>
<b>RBI's Directions</b>	<b>12</b>	<b>12</b>	<b>100%</b>

Compliance parameters	Maximum	Obtained	%
 Approval	25	25	100%
 Documentation	31	25	81%
 Dissemination	31	26	84%
 Observance	51	40	78%
 <b>Total</b>	<b>138</b>	<b>116</b>	<b>84%</b>

### MFI's profile – September 2012

Name of the MFI	SV Creditline Pvt Ltd (SVCL)
Legal form	Non Banking Financial Company (NBFC)
Operational Head	Mr Rakesh Dubey
Year of starting microfinance	2010
Branches	50
Operational area	UP, MP, Rajasthan
Total number of staff involved in microfinance	309
Visit of the Assessment team	12 December 12 – 15 December 12
Correspondence address	SV Creditline Pvt Ltd, 10th Floor, Tower D, Global Business Park, MG Road, Gurgaon – 122 002

<sup>1</sup>The 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).

<sup>2</sup> Satin was found to be complying with all RBI's directions.

### Microfinance Methodology

SVCL has a Grameen Bank based Joint Liability Group (JLG) model. Clients are organized in the groups of five and two to five such groups form a centre. Thus, in a centre there could be 10-25 members. The centres are formed after 4 days of Compulsory Group Training (CGT) followed by Group Recognition Test (GRT). The group members are jointly responsible for each others' loans. The centre meetings in SVCL are weekly but now it is shifting to bi-weekly meetings and will gradually phase out weekly meetings. At the time of M2i visit, both types of centres – ones with weekly and bi-weekly meetings – existed. Disbursements of loans are done at branches but collections are done in the centre meetings by the Field staffs.

SVCL is member of High Mark Credit Information Services as well as Equifax Credit Information Services and all loans of SVCL are checked for their credit history through credit bureau before approval.

### Details of the loan products - 30 September 2012

Product	Description	Loan size*	APR*	EIR*	% in portfolio
Income Generation Loan – Group	Loans given to Joint Liability Groups of women. These loans are given for deployment in income generation activities. Interest rate charged on these loans is 30% per annum* on reducing balance basis with 1% processing fees. Loan term is 46 weeks and loan amount is collected in 23 bi-weekly installments.	Rs10,000 to Rs15,000.	32.3%	37.6%	100%

\*Prior to 21 October 2012, the interest charged by SVCL was 26% on reducing balance basis and loans were collected in 46 weeks through 45 weekly installments. One week moratorium was given after disbursement.

\*APR and EIR are for the loans disbursed from 21 October 2012 onwards.

#### Notes:

1. APR has been calculated by taking the actual cash flow for the loan including principal, interest and processing fee.
2. EIR has been calculated through compounding interest on monthly rests. EIR has been calculated as:  $EIR = (1+r)^n - 1$ , where  $r = APR/12$  and  $n=12$  (for 12 months to annualize).
3. As on 28 December 2013, SVCL had loans outstanding both on 26% per annum and 30% per annum interest rates. Break-up is shown below.

Interest rate	Principal outstanding (Rs million) as on 28 Dec 2012	% in total portfolio as on 28 Dec 2012
26% per annum	368.5	57.6%
30% per annum	271.0	42.4%
<b>Total</b>	<b>639.5</b>	<b>100.0%</b>

Key facts and figures			
Parameters	31-Mar-11	31-Mar-12	30-Sep-12
Total JLGs	13,861	20,484	23,083
JLG Members	66,801	90,092	98,470
Active borrowers	63,062	80,583	92,296
Branches	50	50	50
States	3	3	3
Number of districts	27	27	27
Total staff	347	337	309
Number of loans disbursed (Cumulative since inception)	77,135	173,579	212,790
Amount of loan disbursed, (Rs Mn) (Cumulative since inception)	772.5	1,764.4	2,317.3
Loan portfolio outstanding (Rs Mn)	351.7	563.8	599.7
PAR <sub>60</sub> (%)	0.27%	0.88%	0.86%
PAR <sub>30</sub> (%)	0.45%	0.92%	0.92%
Yield on portfolio	34%	31%	26%
OSS	69.10%	102.71%	104.14%
RoA		0.74%	0.59%
RoE		1.49%	1.42%

Source: Data provided by SVCL

SVCL Equity Structure (30 September 2012)		
	Shareholders	% stake in the company
1	SV Corporation Pvt Ltd - Domestic	50%
2	Vans Pte Ltd – Foreign	50%
	<b>Total</b>	<b>100%</b>

The promoters have invested in SVCL through their existing investment companies. Mr Sunil Sachdeva has invested through SV Corporation Pvt Ltd and Mr Vijay Parekh has invested through Singapore based company Vans Pte Ltd. Both have invested Rs133.3 million each.

<b>SVCL Board of Directors – 30 September 2012</b>	
<b>Name</b>	<b>Profile</b>
Mr S S Kohli	Mr S S Kohli has vast experience in managing key positions in various financial institutions. He is presently on board of organizations such as Maharashtra Airport Development Company Limited, SME Rating Agency of India Limited, Punjab Infrastructure Development Board and India SME Technology Services Limited. In addition, Mr Kohli has also served as Managing Director and Chairman of SIDBI, India Infrastructure Finance Company, Punjab and Sind Bank, and of Punjab National Bank. In his present capacity in SV Creditline as Chairman, Mr Kohli provides guidance in Banking and Financial matters.
Mr Vijay Parekh	Mr Vijay Parekh is the Co-Promoter and is banking and finance professional. In his professional career of twenty-six years, Mr Parekh has served as President of American Express Company (International) and Vice-Chairman and Board Member of American Express Bank. His last assignment has been as Chief Operating Officer and Senior Managing Director, Temasek Holdings, the sovereign wealth fund of the Singapore government. Mr Parekh also has experience of risk management and has been Chief Risk Officer for American Express Company (International).
Mr Sunil Sachdeva	Mr Sunil Sachdeva is the Co-Promoter of SVCL and has been an entrepreneur having experience of setting up social enterprises. One of Mr Sachdev's ventures was to alleviate Faridabad's water distribution problems which now serve 1.5 million residents in the area. He is also the Co-Founder of India's largest stand alone medical facility "Medanta Medicity" Hospital. His other business interests are in the areas of financial services, technology, hospitality, infrastructure and real estate.
Mr Sundeep Kalsi	Mr Sundeep Kalsi, Director Currently is associated with the SAS Group as Promoter Director for the last fifteen years. SAS is Infrastructure Development and Facility Management Services company. SAS is involved in many public-private partnerships. One of the projects of SAS is of water distribution to 1.5 million residents of the city of Faridabad which has been successfully running for more than seven years in association with the Government of Haryana.
Mr Rakesh Arora	Mr Rakesh Arora, is a qualified Chartered Accountant, with professional experience of more than two decades in Finance and Taxation. He has been advising on all Financial, Taxation, Accounts and other related matters of the organization. He provides an overall perspective and direction in financial and strategic matters for the Group.

## Section 2: Status of Regulatory Compliance

### 2.1 Compliance with regulations

*SVCL complies with critical RBI directions regarding NBFC-MFIs and priority sector classification of microfinance assets.*

SVCL's compliance with RBI guidelines for MFIs is presented below.

#### **Capital requirement**

As per SVCL's audited financial statements for the year ending 31 March 2012, it had Net Equity of Rs174.9 million as of 31<sup>st</sup> March 2012. This is more than the required Rs50.0mn of Net Owned Fund (NOF) prescribed by RBI for NBFC-MFIs.

#### **Proportion of qualifying assets and income generation loans**

SVCL has obtained a CA's certificate that states that as of 30 September 2012, it had 'qualifying assets' of 87.8% excluding cash and bank balances. This is more than the 85% limit of 'qualifying assets' prescribed by RBI for NBFC-MFIs. The CA has also certified that over 75% of SVCL's total loans have been given for income generation purposes. This is in compliance with the RBI guidelines for NBFC-MFIs on income generating loans.

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

- Loan size verification

SVCL's first cycle loans are less than Rs 35,000, in fact the highest loan offered by SVCL is currently Rs15,000. Physical verification of over 150 loan documents corroborated this.

- Collateral verification

SVCL does not take any collateral on its loans, this is in accordance with RBI's guidelines. M2i's check of loan documents and direct verification with clients did not reveal any deviation on this guideline.

- Loan duration verification

SVCL's loans carry a repayment period of 46 weeks and the maximum loan offered by it is Rs15,000. Thus, SVCL complies on the loan duration direction of RBI.

- Household income

SVCL takes self-declaration from the client on their household income. In a check of randomly selected 150 loan documents across 8 branches it was observed that all members had declared their income within the RBI stipulated annual households income limit of Rs60,000 in rural areas and Rs120,000 in urban areas. Rural/non-rural classification of the borrowers, however, is not marked on the loan application forms which it makes it difficult to verify if the income criteria for rural and non-rural area has been correctly observed.

### **Multiple lending and Indebtedness**

As per the existing policy of the organization, total indebtedness of a client under microfinance loans cannot be more than Rs50,000. Further, as a policy SVCL does not extend loan to any client who has existing borrowing outstanding from two other institutions. In addition to verification of client indebtedness during its appraisal process, SVCL checks the client indebtedness through credit bureau. It also obtains the self-declaration from the clients stating that their total indebtedness from all sources, including the impending loan from SVCL, does not exceed Rs50,000. M2i did not find any of these guidelines breached in any of the 150 random loan documents checked and over 150 clients visited.

### **Pricing of credit**

SVCL charges interest rate of 30% per annum on reducing balance basis. In addition, clients are charged 1% processing fee upfront. Loan insurance is charged on actual premium paid basis. All these prices are revealed to clients during compulsory group training and are mentioned on loan card of clients. The interest rates are also displayed in the branch premises of SVCL. Loan cards are signed by SVCL staffs as evidence for payment received and a copy of collection sheet is also given. All clients visited by M2i had signed loan cards and no charges in excess to the ones mentioned above had been taken.

For the year 2011-12, SVCL charged interest of 26% on reducing balance basis, thus it complied with RBI's directions for FY-12 which had the interest rate cap of 26%. But after, RBI's directions of August 2012, which relaxed the interest rate cap (subject to margin on interest of 12% for NBFC-MFIs with loan portfolio less than Rs1 billion), SVCL revised its interest rate to 30% on reducing balance basis for new loans disbursed after 1<sup>st</sup> October 2012. The company could do so as the interest rate margin for SVCL company for second quarter of FY 2012-13 came to 8.26% and the company had the scope to increase the interest rate. But since the company has made significant change in the interest rate, it will be necessary to monitor the margin cap carefully for the FY 2012-13.

### **Capital adequacy**

The statutory auditor has certified the CRAR of SVCL to be 37.18% as of 31<sup>st</sup> March 2012 which complies with the minimum CRAR requirement of 15% for NBFC-MFIs as prescribed by RBI. SVCL does not have any exposure in Andhra Pradesh.

### **Diversification**

SVCL has loan portfolio in 27 districts of 3 states which include Uttar Pradesh, Madhya Pradesh and Rajasthan.

### **Customer Protection Initiatives**

SVCL has formally adopted the industry Code of conduct and the RBI Fair Practices code. In its board meeting held on 22<sup>nd</sup> April 2011, the company adopted the industry code of conduct (unified code of Sa-Dhan and MFIN).

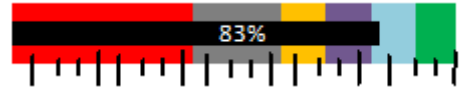
### **Membership with SRO and credit bureau**

SVCL is a member MFIN. SVCL has also become member of High Mark Credit Information Services Limited and Equifax and shares client data with them.



## Section 3: Observations

### 3.1 Client Origination and Targeting (COT)



*SVCL's score on client origination is 'very good'. It has very clear guidelines for client targeting and client acquisition. It has policies to establish identity of clients, for avoiding unauthorized agents and to ensure that no unfair payments are made by clients. But SVCL is mostly operating in high competition areas, having significant client overlap with other MFIs. Further, a number of center leaders of SVCL are also center leaders in other MFIs.*

Approval (A)	Documentation (D)
<ul style="list-style-type: none"> <li>✓ SVCL's Board has approved policy for targeting low income clients in a fair manner.</li> <li>✓ The board discusses client origination policies. Any policy change is effected only after Board approval.</li> </ul>	<ul style="list-style-type: none"> <li>✓ SVCL, in its Operation Manual has given very detailed guidelines for operational area identification, branch establishment and target client identification.</li> <li>✓ The manual also describes client origination process in detail to ensure accurate client targeting, avoidance of agents and other malpractices.</li> </ul>
Dissemination (D)	Observance (O)
<ul style="list-style-type: none"> <li>✓ SVCL's staffs have been made aware of client origination and targeting methods through regular trainings by senior staffs and also through operation manual and circulars. The operation manual is printed in Hindi for better understanding of field staffs.</li> </ul>	<ul style="list-style-type: none"> <li>✓ No evidence of use of any external agent or payment of unfair money for client origination was observed.</li> <li>✓ SCL uses PPI tool to identify low income households.</li> <li>✗ In almost all visited areas, SVCL was a late entrant in the area with other MFIs already operating. It had clients and centre leaders who were also clients and leaders of other MFIs.</li> <li>✗ A number of center leaders of SVCL were found to be the center leaders of other MFIs.</li> </ul>

SVCL has a structured approach for operational area identification. At the first-level, state is identified this is followed by Division identification, District identification and finally Village identification.

The survey looks at market potential, population density, livelihood options, infrastructure, competition etc.

However, it was observed that in most of the visited areas SVCL was third MFI to enter. In four out of fourteen centres visited by M2i, the centre leaders of SVCL were also leaders of other MFIs.

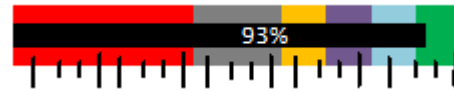
For client level identification, SVCL collects information on PPI tool of Grameen Foundation and only clients having score of less than 71 are eligible to become members. M2i observed that in all the visited branches this criterion was being followed.

Before inducting clients, the field staffs of SVCL have to compulsorily visit client houses to gather data on family profile and KYC documents. Only eligible clients are selected and provided four days of Compulsory Group Training (CGT). This is followed by Group Recognition Test (GRT) by Branch Manager. During GRT, Branch Manager has to verify the client details and documents by again making 100% house visit. During house verification BM cross-checks the PPI data, family profile and KYC. BM also verifies if there are any unauthorized agents involved in the process.

Before providing loans, SVCL performs a credit bureau check on all of its potential clients to ensure that the clients' indebtedness is not over Rs 50,000 and that the client has not borrowed from more than one other MFI. Since the MIS of SVCL is on-line the time lag between credit bureau check and actual disbursement is generally not more than one week.

SVCL, provides incentives to its field staffs for new client origination, repeat clients and the total number of clients being serviced by the field staffs. This is a significant proportion of the total salary of field staffs and has the possibility of adversely affecting client origination process.

### 3.2 Loan Pricing (LP)



*SVCL's score on loan pricing is 'excellent' on account of the transparency it maintains on pricing. SVCL charges interest rate on reducing balance basis and discloses all its charges to its clients in its communications.*

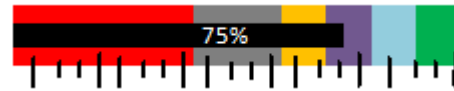
Approval (A)	Documentation (D)
<ul style="list-style-type: none"> <li>✓ SVCL's board has actively discussed loan pricing during the previous one year and issued guidelines to ensure that these are in line with RBI's directions regarding interest rates, processing fees and margins.</li> <li>✓ Board has approved policies regarding clear communication of accurate pricing to clients.</li> </ul>	<ul style="list-style-type: none"> <li>✓ SVCL's pricing guidelines are clearly documented in operation manual and company documents.</li> </ul>
Dissemination (D)	Observance (O)
<ul style="list-style-type: none"> <li>✓ All the staff interviewed had received training and communication on pricing and were aware of the interest rate, processing fee and insurance premium being charged on SVCL's loans.</li> </ul>	<ul style="list-style-type: none"> <li>✓ The interest rates, processing fees and insurance charges are printed prominently in the loan cards provided to clients and are also displayed in the branches.</li> <li>✓ High proportion of visited clients had correct awareness on pricing.</li> <li>✗ In Kotputli branch acknowledgement of loan application was not being given to clients.</li> </ul>

SVCL charges interest on reducing balance basis. Loan insurance is compulsory and premium is charged on actual basis. Processing fee is 1% which is charged upfront. Except these charges no other fee is collected from the clients.

The break-up of principal and interest collected in each installment is printed on the loan card of the client and the interest rate is also mentioned. Clients are made aware of the interest rate during the CGT process. The awareness of clients on loan pricing is also part of the internal audit check. During client interviews it was found that nearly 78% the clients were aware of the interest rates while over 90% clients could correctly tell their loan installments, processing fee and insurance premium paid.

SVCL provides the acknowledgement of loan application but in Kotputli branch it was observed that acknowledgement of loan application was not being given to the clients.

### 3.3 Loan Appraisal (LA)



*The loan appraisal process of SVCL is ‘good’ for the size of loan it provides. However, there is scope for improvement to make it more rigorous. Staffs needs to be trained on household cash flow analysis.*

Approval (A)	Documentation (D)
<ul style="list-style-type: none"> <li>✓ SVCL has a board approved policy of appraising loans as per the directions of the RBI to prevent over-indebtedness of its clients.</li> </ul>	<ul style="list-style-type: none"> <li>✓ SVCL has clearly documented policies to avoid over indebtedness as per the RBI’s directions.</li> <li>✓ The loan forms allow collection of data on household cash flow.</li> <li>✗ The manual does not provide guidelines for ascertaining repayment capacity of clients through cash flows analysis or linking loan size with net income.</li> </ul>
Dissemination (D)	Observance (O)
<ul style="list-style-type: none"> <li>✓ SVCL’s field staffs have been trained on collecting information related to indebtedness of their potential borrowers as well as ascertaining indebtedness through credit bureau.</li> <li>✗ SVCL’s staffs have not been trained to effectively analyze the household cash flows and to take credit decisions based on it.</li> </ul>	<ul style="list-style-type: none"> <li>✓ SVCL verifies each loan through credit bureau to ensure that clients are lent strictly according to RBI directions to avoid over indebtedness.</li> <li>✗ SVCL collects information on household cash flows but the data is not effectively utilized for loan decisions.</li> <li>✗ Inconsistencies were observed across branches in the way the cash flow data was being recorded.</li> </ul>

SVCL has good process to ensure that clients are strictly lent according to RBI directions on avoiding client over-indebtedness (Rs50,000 total indebtedness and loan from maximum of two sources). SVCL has on-line MIS and hence there is not more than one week lag between credit check and disbursements. In none of the branches any violation to RBI directions was observed.

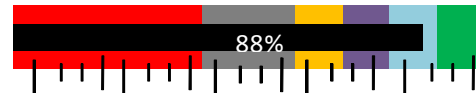
SVCL collects household cash flows but it was observed that the data collected was not being effectively used for loan decision making. The surplus (income minus expenses) part is not effectively linked to amount of loan that can be disbursed. Further, it was observed that there were inconsistencies in recording cash flow data across branches. In some branches month-wise cash flow information was being collected while in some other branches annual cash flow information was being collected.

**Issues with cash flow analysis at SVCL**

In many loan documents checked by M2i it was found that the net annual income (Total annual income – Total annual expenses) was coming very low and was not sufficient to support the loan given by SVCL. But still the loan had been disbursed, clearly indicating that either the cash flow data has not been correctly collected or was not being effectively utilized for loan decision making.

In Hathras branch the cash out flow of clients on account of loans from other sources was not being recorded while calculating net income while it was being recorded in other branches.

In Gadhrukteswar and Kotputli branches, the cash flow was being recorded in the loan document on monthly basis, while in other branches it was being done on annual basis.



**3.4 Client Data Security (CDS)**

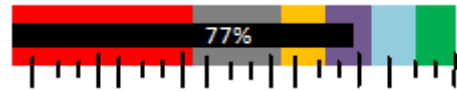
*SVCL’s performance on CDS is ‘very good’ on account of sound policies and systems for keeping the client data secured.*

Approval (A)	Documentation (D)
✓ SVCL has a board approved policy regarding client data security.	✓ SVCL has documented its policy of client data security.
Dissemination (D)	Observance (O)
✓ There is awareness among the staffs regarding client data security and how client data should be stored.	<p>✓ SVCL has secured on-line MIS with clearly defined access rights. No client data can be accessed or manipulated by any unauthorized person at any level.</p> <p>✓ Physical documents are stored securely at the Branch Offices with Branch Manager responsible for the safety of the documents.</p>

SVCL has formulated policies for protection of client data and preventing unauthorized access to client records. Most of the information pertaining to clients is maintained in the MIS software. Designated protocols are required to be followed for accessing or editing the client records. No client data can be modified by any staffs at the branch level. Required back-ups are taken to ensure business continuity.

In visited branches staffs were aware of issues pertaining to client data security. The physical loan documents are stored at the branch level. The documents are stored in lock with custody of keys being with the Branch Manager or the Cashier. Clear guidelines have been issued regarding safe-keep of keys.

### 3.5 Staff Conduct (SC)



SVCL’s score on staff conduct is ‘good’. This is on account of SVCL’s approvals and clear documentation of policies for preventing harassment of clients. However, there is need to train staffs on soft skills while dealing with clients. Further, the policy of SVCL on joint liability has the potential to lead to client stress.

Approval (A)	Documentation (D)
<ul style="list-style-type: none"> <li>✓ SVCL has adopted the industry code and RBI fair practices code for staff behavior which includes policies regarding expected staff conduct with clients.</li> </ul>	<ul style="list-style-type: none"> <li>✓ SVCL has very clearly documented its policies for staff conduct with clients for carrying out different activities.</li> <li>✓ The policies emphasize to only deal amiably with clients under any situation and bars staffs from using any harsh methods in conducting their activities.</li> <li>✗ The policy avoiding visit to clients at odd hours needs to be documented clearly.</li> </ul>
Dissemination (D)	Observance (O)
<ul style="list-style-type: none"> <li>✓ SVCL has trained its staffs on behavioral aspects with clients and on avoidance of any use threat, force or coercion under any circumstance.</li> <li>✗ The staffs have not been properly trained on soft skills and client level communication.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Staffs were found to be aware of behavioral issues with clients. Visited clients did not report any incidence of staff misconduct or coercion.</li> <li>✗ It was observed that SVCL’s staffs generally have the tendency to talk ‘loudly’ in firm tones.</li> <li>✗ It was also observed that, in some branches, staffs sit on chair while clients sit on ground for conducting meeting.</li> <li>✗ Under the current policies, there is no limit for enforcing joint liability, this policy has the potential to lead to client stress.</li> </ul>

SVCL has well documented policies on avoiding client harassment by staffs. The policy document clearly mentions the expected staff behavior while dealing with clients for different activities. None of the visited clients reported any instance of abuse, coercion or misbehavior by SVCL’s staff.

It was also observed that staffs were aware of the issues related to client behavior and had been trained on avoiding any situation which can lead to conflict.

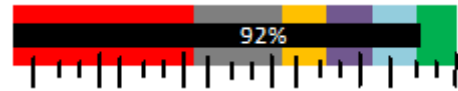
However, it was observed that staffs need be trained on soft-skills by SVCL and to adopt more customer friendly practices. In most of the center meetings attended by the assessment

team, it was observed that staffs talk ‘loudly’ to clients in order to enforce discipline. The tone of talking is firm and almost ‘teacher-like’, which makes the staffs more difficult to approach.

Further, there are no policies of avoiding the enforcement of joint liability or limiting its use in specific situation. In case of overdues the meeting is not officially dissolved until the clients have repaid (although SVCL does not use any force to stop clients from leaving the meeting). This policy on joint liability has the potential to lead to stress for the clients.



**3.6 Client Relationship and Feedback (CRF)**



SVCL has received ‘excellent’ score on CRF. This is on account of having formal process for recording and reporting of client grievances. Client grievance redress system of SVCL is also covered under the scope of internal audit.

Approval (A)	Documentation (D)
<ul style="list-style-type: none"> <li>✓ The Board has approved policy for providing effective grievance redressal mechanism to clients.</li> </ul>	<ul style="list-style-type: none"> <li>✓ SVCL has documented process for grievance redressal.</li> <li>✓ The policy defines process of taking client feedback and resolving any grievances.</li> </ul>
Dissemination (D)	Observance (O)
<ul style="list-style-type: none"> <li>✓ Staffs have been trained on the existing grievance redressal mechanism.</li> </ul>	<ul style="list-style-type: none"> <li>✓ SVCL has provided a dedicated Head Office phone for reporting any grievances to all its clients. The number is printed on the loan cards.</li> <li>✓ Almost all clients met by M2i were aware of such a number, although very few had actually used it.</li> <li>✓ The grievance calls are systematically recorded at Head Office and reported to senior management.</li> <li>✓ There is a dedicated staff in the Head Office who calls clients over telephone to obtain feedback.</li> <li>✗ There is no formal process for recording grievances at branch level.</li> </ul>

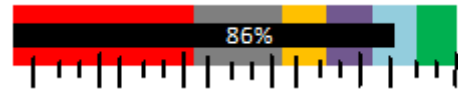
SVCL has a formal mechanism to record client grievances. A dedicated phone number has been provided to all clients, which is printed on all loan cards. All calls received from clients are systematically recorded. There is a fixed timeframe to resolve client grievances and the report is presented to the Senior Management on a monthly basis. It was observed by M2i that the complaints lodged by clients had been effectively addressed by SVCL within reasonable timeframe, generally not exceeding two weeks. The grievance redress process is also covered under the scope of internal audit.

There is a dedicated staff in the Head Office which call clients after loan disbursement to obtained feedback on the disbursement process. This process covers about 30% of all disbursements.

Almost all visited clients had awareness of the phone number but only a small proportion had actually used it. It was found that the staffs actively inform clients of the grievance phone number.

However, at the branch level there is no formal system to record client grievances or feedback.

**3.7 Integrating Social Values into Operations (ISV)**



*SVCL has ‘very good’ score on ISV. SVCL has professional and well structured Board. The Board actively discusses various organizational policies and social performance initiatives. SVCL tracks its clients’ socio-economic progress.*

Approval (A)	Documentation (D)
<ul style="list-style-type: none"> <li>✓ SVCL board has adequate representation of independent directors.</li> <li>✓ The organization’s mission is to help improve the income of people through financial services to enable them to move out of poverty.</li> <li>✓ SVCL has approved policy to work only with low income and poor households.</li> </ul>	<ul style="list-style-type: none"> <li>✓ SVCL has documented guidelines regarding its social performance management and also has Social &amp; Environmental policy.</li> <li>✓ SVCL has document policies to identify poor and low income clients.</li> </ul>
Dissemination (D)	Observance (O)
<ul style="list-style-type: none"> <li>✓ SVCL’s staffs are trained in identifying poor clients using PPI data.</li> <li>✓ Staffs have been made aware of the social and environmental policy of SVCL.</li> </ul>	<ul style="list-style-type: none"> <li>✓ SVCL uses objective tools to identify its target clients.</li> <li>✓ SVCL tracks the social and economic progress of its clients using scientific methods.</li> <li>✗ SVCL does not have diversity in its financial products to address vulnerabilities of its clients.</li> </ul>

SVCL has five-member Board of Directors of whom three are independent Directors. There is a five member Audit Committee comprising three members from the Board and two from senior management including the CEO (called ‘President’ at SVCL). It was observed that Board had discussed various social performance management issues and initiatives that can be taken for the future.

SVCL has well articulated Social & Environmental policy. The organization collects indicators for required for computation of Progress out of Poverty (PPI) scores and plans to use this for tracking changes in socio-economic status of its clients. In addition, SVCL has also compiled client case studies across its different branches to see the impact of its services on its clients. About 500 case studies have been compiled although no consolidated report for these has been prepared so far.

SVCL has focus on low income clients and identifies them using PPI score, only those households getting score of less than or equal to 70 are selected.

However, in financial products SVCL does not have products to meet any emergency or other needs of people. SVCL currently offers loans only for income generation purposes.

### Annexure 1: Matrix of Score Obtained<sup>3</sup>

Indicators	A		Do		Ds		O		Total*	
	Max	Obt	Max	Obt	Max	Obt	Max	Obt	Max	Obt
Client origination and targeting	5	5.00	5	5.00	5	5.00	9	4.50	<b>24</b>	20
Loan Pricing	3	3.00	1	1.00	2	1.00	9	8.20	<b>15</b>	14
Loan Appraisal	4	4.00	4	1.00	3	2.00	5	4.80	<b>16</b>	12
Client Data Security	1	1.00	3	3.00	2	1.00	2	2.00	<b>8</b>	7
Staff Conduct	7	7.00	7	5.00	10	7.00	11	8.00	<b>35</b>	27
Client Relationship and Feedback	2	2.00	8	7.00	6	6.00	10	9.29	<b>26</b>	24
Integrating Social Values into Operations	3	3.00	3	3.00	3	3.00	5	4.00	<b>14</b>	12
<b>Total*</b>	<b>25</b>	<b>25</b>	<b>31</b>	<b>25</b>	<b>31</b>	<b>26</b>	<b>51</b>	<b>40</b>	<b>138</b>	<b>116</b>

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

Note: Totals have been rounded to the nearest integer.

<sup>3</sup> 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 indicators<sup>4</sup> 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
<b>Total</b>	<b>138</b>

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).

<sup>4</sup> 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	Mathura	UP	35
2	Hathras	UP	8
3	Hapur	UP	22
4	Gadmukteswar	UP	14
5	Bhopal	MP	31
6	Obedullaganj	MP	3
7	Behror	Rajasthan	36
8	Kotputli	Rajasthan	10
<b>Total</b>			<b>159</b>



## 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%	<b>19%</b>
Loan Pricing	2%	1%	1%	7%	<b>11%</b>
Loan Appraisal	3%	3%	2%	4%	<b>12%</b>
Client Data Security	1%	2%	1%	1%	<b>5%</b>
Staff Conduct	5%	5%	7%	8%	<b>25%</b>
Client Relationship and Feedback	1%	6%	4%	7%	<b>18%</b>
Integrating Social Values into Operations	2%	2%	2%	4%	<b>10%</b>
<b>Totals</b>	<b>18%</b>	<b>23%</b>	<b>21%</b>	<b>38%</b>	<b>100%</b>

## 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.