



SMERA RATINGS LIMITED

**CODE OF CONDUCT**

**ASSESSMENT FOR**

**SAMASTA MICROFINANCE**

**LIMITED (SML)**

**Date of Report - 26<sup>th</sup> December, 2014**

**Valid Till - 25<sup>th</sup> December, 2015**



## EXECUTIVE SUMMARY

The Code of Conduct report for SAMASTA MICROFINANCE LIMITED (SML) evaluates the company's adherence towards different code of conduct parameters. The study examines and comments upon the common minimum indicators such as:

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

SMERA believes that SML exhibits **above average level of adherence** to all parameters and consequently complies well with the code of conduct laid out. This document details SMERA's approach and methodology for this study and gives observations of its assessment team while conducting the evaluation. The Approval; Documentation; Dissemination and Observance (ADDO) framework has been used for assessment and measuring SML's adherence towards ethical operational practices.



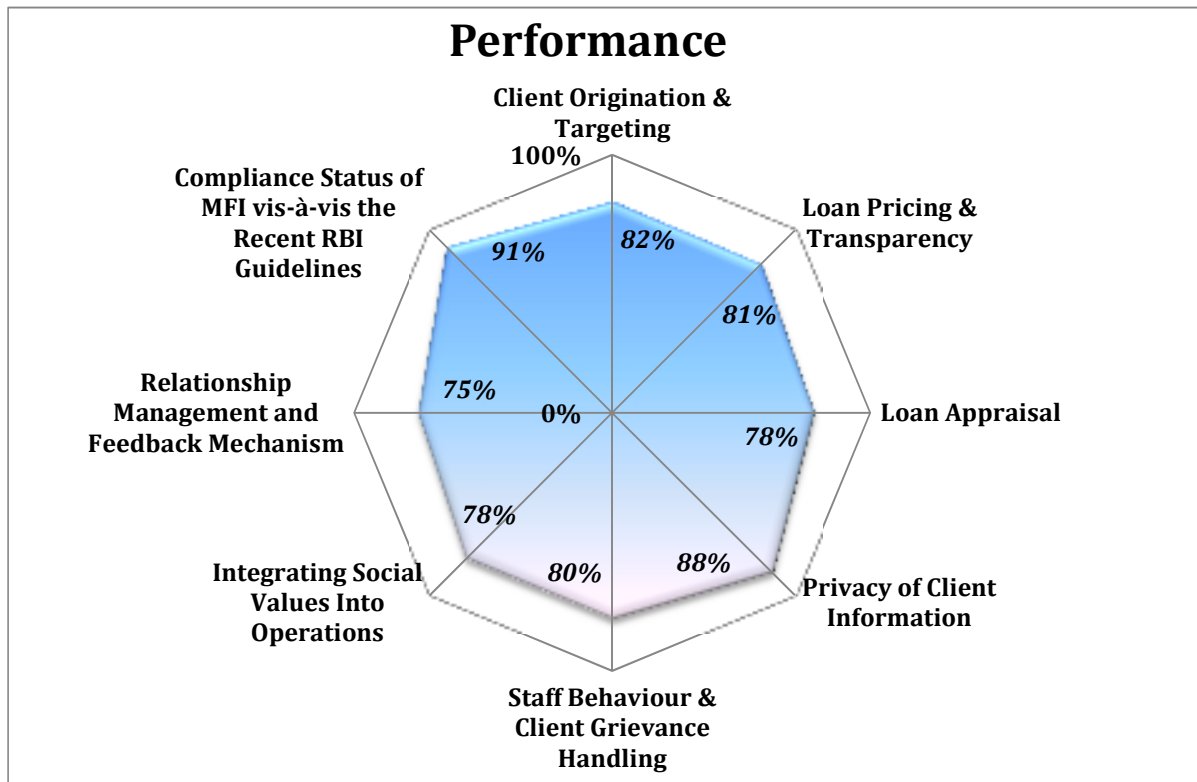
**RATING**

**Code of Conduct Assessment Score : 81 %, COCA Rating - 3 (Above Average Level of Adherence)**

**RATING SCALE**

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

**MATRIX**





**SCORES ON PARAMETERS**

<b>Code of Conduct Parameters</b>	<b>% Performance</b>
Client Origination & Targeting	82%
Loan Pricing & Transparency	81%
Loan Appraisal	78%
Privacy of Client Information	88%
Staff Behavior and Client Grievance Handling	80%
Integrating Social Values Into Operations	78%
Relationship Management and Feedback Mechanism	75%
Compliance Status of MFI vis-à-vis the Recent RBI Guidelines	91%

**SNAPSHOT**

<b>MFI Name</b>	SAMASTA MICROFINANCE LIMITED (SML)
<b>Tradestyle</b>	SAMASTA
<b>Head Office Address</b>	418, 1/2A, 4th Cross, 6th Main, Wilson Garden, Bengaluru - 560 027 Karnataka India
<b>Telephone</b>	(91) (80) (42913500)
<b>Email</b>	<a href="mailto:venkateshn@samasta.co.in">venkateshn@samasta.co.in</a> <a href="mailto:govindarajanr@samasta.co.in">govindarajanr@samasta.co.in</a>
<b>Webpage</b>	<a href="http://www.samasta.co.in">www.samasta.co.in</a>
<b>Line of Business</b>	Microfinance Services Using Joint Liability Group (JLG) Model
<b>Chief Executive</b>	Mr. N. Venkatesh, Managing Director
<b>Legal Form</b>	NBFC-MFI (Public Limited)
<b>Registration Number</b>	U65191KA1995PLC057884
<b>Establishment Date (Colanac Finance Limited)</b>	09/ Aug/1995
<b>Takeover and Commencement of Microfinance Operations</b>	March, 2008
<b>Operation Area</b>	Karnataka and Tamil Nadu
<b>No. of Branches</b>	24
<b>Total Staff</b>	155
<b>Visit of the Assessment Team</b>	05 <sup>th</sup> December, 2014 to 08 December, 2014



## **BACKGROUND AND LENDING METHODOLOGY**

SAMASTA MICROFINANCE LIMITED (SML), an NBFC – MFI registered with RBI, commenced its microfinance operations in March, 2008 by acquiring running business of Colanac Finance Limited. Further; in July 2008, name of the NBFC was changed to Samasta Microfinance Limited (SML). SML was promoted by Mr. N. Venkatesh (Managing Director), Mr. D. Shivaprakash (Director) and Mr. R. C. Shekar (Director).

SML was established with an aim to provide financial and non financial products to the economically poor to improve their standard of living in the southern states of India. It is focused on bridging the gap between ambition and achievement of the working poor across India, by providing financial and non-financial services, in a sustainable long-term relationship and enables them to achieve a better quality of life.

The operations are spread in two states i.e. Karnataka and Tamil Nadu, 09 districts with 24 branches and workforce of 165 employees through Joint Liability Group (JLG) lending model. As on 30/Nov/2014 the total portfolio stands at ₹ 421,700 (in thousands). SML has 57,339 active borrowers as on 30/Nov/2014 with different loan products. SML has been rated MF – 3 (Above Average) by SMERA in July 2014.



### **OBJECTIVE OF THE STUDY**

The objective is to evaluate SML's adherence to the code of conduct laid down by MFIN and Reserve Bank of India.

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

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



## **FRAMEWORK AND SCOPE**

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

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

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

As a part of the assessment, SMERA visited selected branches of SML in various districts of Karnataka. The assessment was conducted as per a specific methodology and questionnaire. Details of branches visited and methodology used for evaluation are provided in Annexure I and II.



**LIST OF BOARD MEMBERS**

<b>List of Board of Directors</b>	
N. Venkatesh	Managing Director
D. Shivaprakash	Director
R. C. Shekar	Director
A. Ramanathan	Director
A. Vikraman	Director
Badrinarayanan Seshadri	Director

**Promoters' Background**

Mr. N. Venkatesh has done B.Sc., Diploma in Microfinance and began his foray into financial services with PNV Techno Acquisitions Private Limited that markets financial products and expanded with his new operations, Affluence Edifice, offering wealth management services for high net worth individuals. Having worked in various districts in Karnataka and Tamil Nadu, he has a thorough understanding of the socio-financial requirements of the people in these areas.

Mr. D. Shivaprakash, has done B.E., Diploma in Microfinance. He has worked with major IT corporate for over a decade, successfully executing projects for global clients and nurturing client relationships. As CIO at Samasta, he brings a unique combination of technological expertise and management skills. He aims to leverage his industry experience in creating a robust MIS division for Samasta.

Mr. R. C. Shekar is the Founder of Dreamtex, which specializes in the creation of hand and machine embroidery on silk. His enterprise has provided employment for many people in the villages around Sriperumbudur, Tumkur and Kunigal. He is a strong believer in the creation of opportunity to bridge the divide between the privileged and lesser privileged. He takes care of the administration and equity raising functions at Samasta.



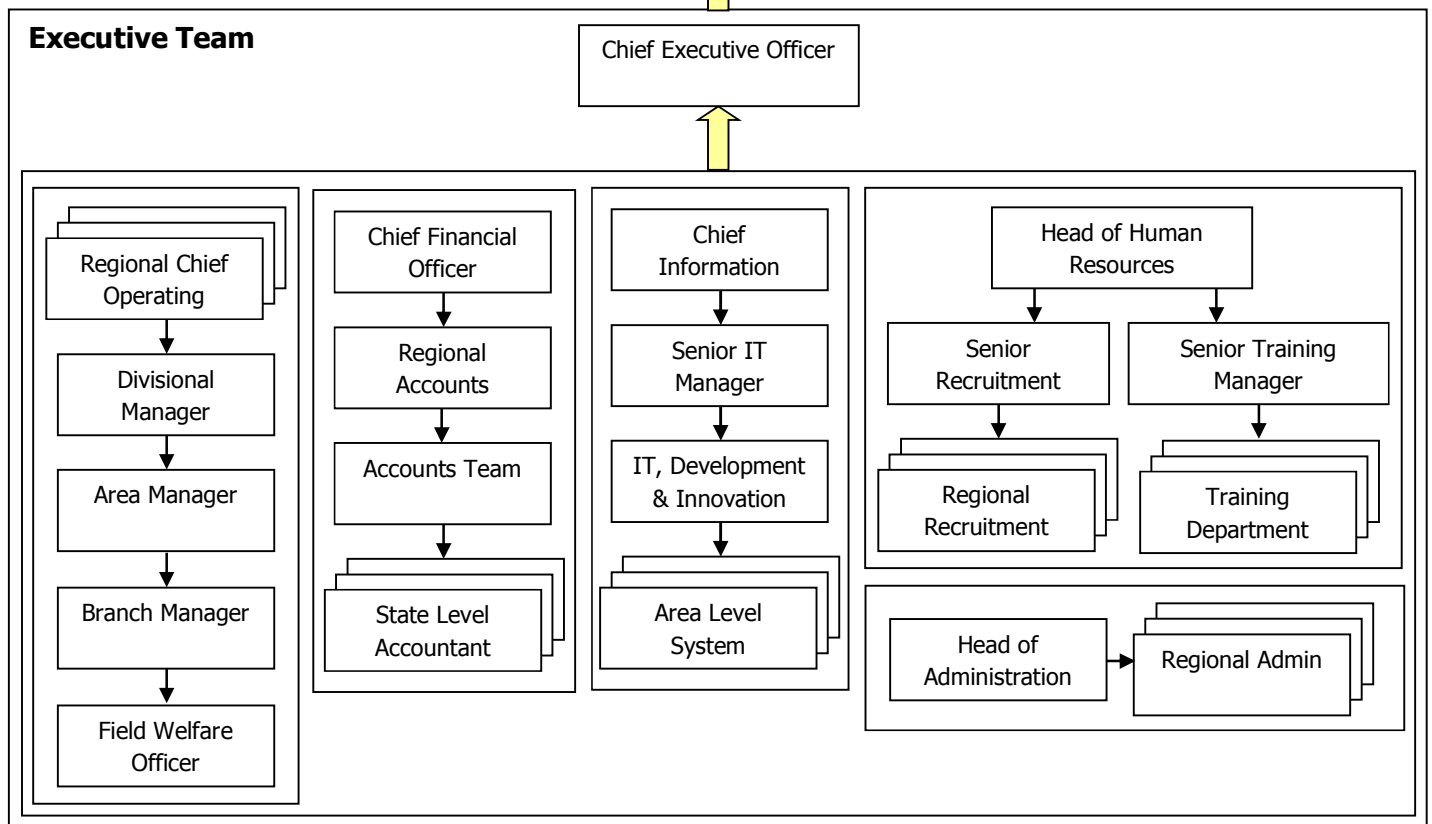
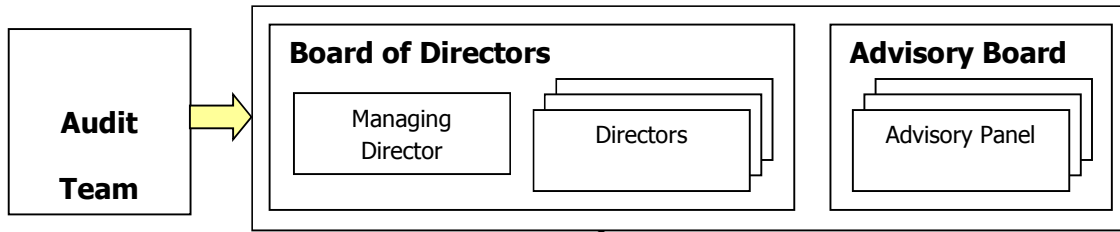
SMERA RATINGS LIMITED

**HIGHLIGHTS OF MICROFINANCE OPERATIONS**

<b>Particulars</b>	<b>31/Mar/2012</b>	<b>31/Mar/2013</b>	<b>31/Mar/2014</b>	<b>As on 30/Nov/2014</b>
No. of States	02	02	02	02
No. of Districts Covered	08	08	10	09
No. of Villages/Cities	186	224	232	279
No. of Branches	27	28	29	24
No. of JLGs	8,819	10,270	10,618	11,468
No. of Active Borrowers	44,093	51,351	53,088	57,339
Number of loans disbursed during the period	48,017	45,275	43,136	19,321
No. of Field Welfare Officers (FWOs)	126	111	113	100
No. of Employees	198	174	175	155
Net Portfolio outstanding (₹ in thousands)	342,072	471,791	491,347	421,700



**ORGANOGRAM**





### **Corporate Governance**

Governance, broadly defined, is the system of people and processes that keep an organization on track and through which it makes major decisions.

“Good governance is the ability of the board members to monitor the status of the organization, make good strategic decisions, and hold executives accountable for their execution. Ultimately, that comes down to the quality of the board members, the culture and practice of the board, and the power relationships among board members and executives.”

For a MFI, Corporate governance should cover,

- Client Grievance/Protection
- Employee Grievance/Protection
- Women Harassment Issues
- Credit Bureau Check etc.

As per discussion held with Mr. D. Shivaprakash, (Director), it can be seen that management of SML is very dedicated towards improving their operational efficiency. SML conducts board meetings on regular basis (quarterly) and points discussed therein are implemented by second line of management & operations team. It is observed that SML exhibits a high level of compliance towards corporate governance needs of an MFI.

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

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

SML originates clients by themselves and is directly involved in forming the JLGs. Field Welfare Officer (FWO) are responsible for client origination at SML. The client origination process begins with the FWOs visits to rural and urban areas to search for potential borrowers. FWO conducts projection meeting and provides information about SML and explains benefits and features of financial services provided by SML to the prospective borrowers. As per the guidelines and eligibility criterion, various centers are formed. Each center consists of 05 to 06 groups and each group includes 05 members. After center formation, FWO conducts Compulsory Group Trainings (CGT) for four days in order to provide training about Microfinance Program of SML, the products and services, attendance, fees and service charges, the importance of on time repayment & regular attendance at center meetings. Each group elects group leader to manage the operations of group and one center leader from 05 to 06 groups.

Criteria For considering a Group:

- Members living in one village, houses in same area
- Known to each other
- Age between 18 to 52
- Low income group Rural - 60,000 and urban 1,20,000
- 01 member only from each family

SML collects two KYC (Know Your Customer) documents from the group members such as proof of identity and proof of residence i.e. Voter ID Card and Ration Card & photograph.

SML has adopted codes of conduct of MFIN and RBI code for fair practices where it has committed to ensure that services will be provided to the low-income clients and total exposure of a single client will not be more than ₹ 50,000.



The identification of right target client, household income, and individual income is a challenge for SML. SML targets poor borrowers and to understand the poverty status and repayment capacity of the member.

Approval	Documentation	Dissemination	Observance
<ul style="list-style-type: none"><li>SML have approved policies for client origination &amp; targeting process.</li></ul>	<ul style="list-style-type: none"><li>Client origination process has been documented clearly in the operational manual.</li></ul>	<ul style="list-style-type: none"><li>SML has adequate system of dissemination of its approved policies through training.</li></ul>	<ul style="list-style-type: none"><li>FWOs are moderately aware about the guidelines for targeting (low income) clients.</li><li>Annual household income declared by few of borrowers in application form was less as compare to their standard of living observed.</li></ul>

**LOAN PRICING & TRANSPARENCY****Score 81%**

The transparency observed by the MFI in terms of pricing of loans is examined in detail. The pricing of loans covers interest rate, loan processing charges, additional charges taken if any, security deposits or advance installments, etc. Considering these costs while pricing the loans may change the effective interest rate charged to the clients. The scientific determination of loan price (interest rates) reflects well on the MFI's management and it also shows how effective the MFI is in providing loans to the clients at the least possible cost.

SMERA covers transparency by assessing honesty, communication, and accountability of the practices of MFI through sub parameters such as frequency of training given to clients, disclosure of terms and conditions of MFI, measuring awareness of the terms and conditions through client visit, language used in the disclosure and surprise visits conducted by the MFI staff.

SML maintains considerable level of transparency in interest rates and other charges on the loans. Interest is charged on a reducing balance basis and no security deposits and prepayment or late payment charges are collected from the borrowers. At the time of loan disbursement, all the terms and conditions are explained to borrowers. SML discloses its terms & conditions in the sanction letter along with interest rate, tenure of loan, and repayment schedule in individual loan pass books. SML gives separate loan passbook for every loan to the individual borrower and it is updated by FWO on loan collection date.

**Processing Charges and Service Tax**

SML charges 1.1236 % of loan amount (Processing fees 1% + Service Tax of 12.36% of processing fees) upfront from each individual borrower for every fresh disbursement of loan.

**Interest Rate**

SML charges interest @ 26.80% p.a. on Income Generation loan (IGL) products and pureit loan, 26% for dairy cow loan. A moratorium period is provided as per repayment frequency option (weekly/fortnightly/monthly) selected by the borrower.

SML is providing life insurance coverage to borrower and her spouse (through Kotak Life Insurance) without charging anything other than insurance premium as administrative expense. SML is also availing cash fidelity and cash in transit insurance from United India Insurance Company.



Approval	Documentation	Dissemination	Observance
<ul style="list-style-type: none"><li>• SML's board has approved principles of pricing loans and transparency in a responsible manner.</li></ul>	<ul style="list-style-type: none"><li>• The loan pricing criteria and method of charging have been clearly documented in policy circulars issued time-to-time.</li></ul>	<ul style="list-style-type: none"><li>• Members are given with loan repayment schedule on loan pass books which clearly shows the installment amount and loan outstanding balance.</li></ul>	<ul style="list-style-type: none"><li>• Awareness level of the borrowers about the interest rates, other charges and process of application was observed to be moderate. However, most of the clients were aware of the installment amount to be paid, tenure of the loan and outstanding installments to be repaid.</li></ul>



**LOAN APPRAISAL****Score 78%**

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

After center formation, FWO conducts Compulsory Group Trainings (CGT) for four days in order to provide training about Microfinance Program of SML, the products and services, attendance, fees and service charges, the importance of on time repayment & regular attendance at center meetings. Each group elects group leader to manage the operations of group and one center leader from 05 to 06 groups.

The loan appraisal or sanction process begins with the loan application by the JLG to avail the loan. The applications along with required documents are submitted to FWO during CGT. FWO conducts detailed survey of the individual members including verification of income sources, visiting households and collecting KYC documents.

KYC documents include:

- Photograph of member
- Identity Proof
- Address Proof

Once the CGT is conducted, Branch Manager (BM) conducts Pre-group recognition test (GRT) on the fourth day of CGT. BM also visits 50% of households during appraisal process and fixes the day of GRT in consultation with the center and the AM. Final GRT is done by the independent credit team and only those groups who pass final GRT qualify for next level of screening by credit department at HO. Loan processing (LP) team checks for the completeness of the forms and ensures that the photocopies of ID and address proofs are valid documents. If there are any discrepancies, LP team informs the branch and keeps the applications in hold till discrepancies are cleared. After verification, all documents are sent to "Vindhya" (data entry outsourcing agency) for data entry.



SML is availing credit bureaus services from High Mark Credit Information Services Private Limited and Equifax Credit Information Services Private Limited to check the multiple lending. Credit bureau check helps to comply with RBI guidelines for maximum credit exposure limit of borrower and abstain from lending defaulter applicants. Outsource partner Vindhya is conducting credit bureau check on behalf of SML and provides reports for the same.

These credit bureau reports are then sent to LP team at HO. On the basis of credit bureau reports loan processing (LP) team sanctions the loan and forward the information to MIS and Accounts team for further processing.

Approved loan applications are processed by accounts department and cheques are prepared for sanctioned centers. LP team prepares the disbursement sheet and encloses the cheque along with this sheet and hands over the kit to administration department. Administration department couriers the kit to the branch. Loan is disbursed in cash in the presence of FWO and all members of center. Loan processing fees and insurance premium is collected from the borrowers and receipt is issued for the same. At the time of disbursement, SML collects Demand promissory note and loan disbursement receipt from the borrowers.

### **Loan Utilization Checks**

Loan Utilization check (LUC) is an essential process to ensure that the loan is properly utilized for the purpose, for which the loan is sanctioned and is aimed at building good relations with the members and enhancing mutual trust.

SML conducts LUC only for first cycle loans. At SML, FWO carries out the LUC to verify whether the utilization is done for the purpose for which loan is sanctioned.

However, it is observed by the assessment team that FWOs are not following the guidelines for LUC. LUC registers were not maintained properly and inconsistency observed for LUC registers of different FWOs. In few cases it is observed that, purpose mentioned in application form was not matching with actual utilisation and same was not captured at the time of LUC.



Approval	Documentation	Dissemination	Observance
<ul style="list-style-type: none"><li>• SML's policy requires that adequate loan appraisal to be performed before disbursing a loan.</li><li>• SML has well stated policy to perform loan utilization check.</li></ul>	<ul style="list-style-type: none"><li>• The guidelines for appraising a loan application are clearly documented in the policy manuals. Information pertaining to income and the indebtedness of borrowers' households is obtained at the time of members' registration and loan application.</li></ul>	<ul style="list-style-type: none"><li>• FWOs have adequate knowledge about appraisal process and LUC.</li></ul>	<ul style="list-style-type: none"><li>• Some inconsistency in documentation was observed in filling of KYC file at different branches visited.</li><li>• LUC need to be given more importance.</li><li>• Operations staff found to have inadequate knowledge about loan products and interest rate.</li></ul>

**PRIVACY OF CLIENT INFORMATION****Score 88%**

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

SML has an adequate system of storage and retrieval of documents and information collected from the clients. The files containing loan application, loan agreement, KYC documents are kept at the head office.

The relevant data is entered into the software “BR.net”, web based MIS system (developed by M/s Craft Silicon) by Vindhya (outsourcer partner) and member Id and loan Id is generated. This increases the ability to retrieve client data in a timely manner. It was found that only authorized people had access to this sensitive data. SML has separate user account branch level and rights to access are defined for different user at HO. SML has defined policies pertaining to back up and disaster recovery of data.

Approval	Documentation	Dissemination	Observance
<ul style="list-style-type: none"><li>SML's policy requires that adequate safety to ensure privacy of client data. The software has well-defined security features and user rights.</li></ul>	<ul style="list-style-type: none"><li>Process manuals provide adequate guidelines on how clients' information and KYC documents have to be filed and stored at HO.</li></ul>	<ul style="list-style-type: none"><li>Branch staff is well informed about how to handle important documents provided by clients.</li></ul>	<ul style="list-style-type: none"><li>Branch staff has an access to entire data of the client and all loan files are kept at HO. The clients' personal information and important details are recorded in BR.net.</li><li>Some inconsistency is observed in maintaining files.</li></ul>

**STAFF BEHAVIOUR AND CLIENT GRIEVANCE HANDLING****Score 80%**

This section evaluates the process of the MFI with respect to staff's code of conduct and behavior with the clients.

**Staff Behavior -**

SML provides considerable emphasis on the conduct of its staff members towards the clients. The following are the important aspects of the expected behavior of staff towards the clients.

1. Staff should not discriminate the clients on the basis of caste or religion in extending credit.
2. Staff must behave politely with the clients at all the times and in all situations.
3. Staff should not use abusive language and threats for recovery of dues.
4. Staff should not ask for any physical collateral from the groups.
5. Staff should use peer pressure or social collateral for loan recovery.
6. Staff should not visit client's residence at odd hours for recovery.
7. Staff should not forcibly enter the client's house and threaten or force seizure of assets for recovery.
8. Staff should not collect any extra money from the client which is not permitted by the company.

One of the important aspects of staff's induction training is conduct towards clients. Guidelines (Do's and Don'ts for the field staff) have been provided to staff in the policy documents as well as operational manual regarding the way they should interact and behave with the clients.

**Loan collection and recovery process**

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

At center meeting, all members meet and handover their loan installments to the group leaders and group leaders handovers it to FWO. FWO collects the cash and updates the loan passbook.

In case one or more members of the group are not able to pay the installment, other members of the group are asked to contribute on their behalf. In case the amount does not come till the end of the meeting, FWO informs the group leader to collect the pending installment from the defaulted member. If required, the BM and FWO also visits the delinquent clients for recovery and try to understand their reason for

nonpayment. Further, it is observed that few FWOs are having insufficient training for handling delinquent clients.

An important aspect of the recovery procedure is that although there is high degree of emphasis on timely recovery and application of peer pressure, this does not always mean that all the scheduled installments should come on the same day. In case, one or more clients of the group are not able to repay during the scheduled meeting, the other group members contribute the amount.

Approval	Documentation	Dissemination	Observance
<ul style="list-style-type: none"> <li>• Various policies of the organization provide adequate directions for staff to treat client with respect and dignity.</li> </ul>	<ul style="list-style-type: none"> <li>• The organization has circulated dos and don'ts for staff members while dealing with the clients.</li> </ul>	<ul style="list-style-type: none"> <li>• The staff members interviewed displayed an average level of awareness on staff behavior.</li> </ul>	<ul style="list-style-type: none"> <li>• Staff behavior towards clients found to be respectful and professional.</li> <li>• Client grievance handling system is moderate at SML</li> </ul>

**INTEGRATING SOCIAL VALUES INTO OPERATIONS****Score 78%**

Sustainability is an increasingly relevant issue for MFIs; accordingly sustainability management strategies and practices are significant. For example, appropriate environmental and social performance objectives, targets and indicators need to be integrated with quality, cost and other more conventional performance measures. SMERA assess governance, board composition, and area of expertise of the board, how social values are assessed by the management or board and the transparency in financial accounting.

Samasta's Mission:

*"To bridge the gap between ambition and achievement of the working poor across India, by providing financial and non-financial services, in a sustainable long-term relationship to enable a better quality of life."*

SML maintains a high standard of governance and integrity by inducting people with good and sound reputation in the industry and understanding of microfinance as members of board of directors or governing body. SML has qualified and professional board having diversified functional expertise. The board members are actively involved in policy making and approvals, fund mobilization, responsible for all strategic decisions, approving business plans & new products, reviewing the performance and other important decisions pertaining to operations.

Currently, SML focuses on providing microfinance services to JLGs for income generation, livelihood improvement and social welfare purpose.

SML has extended credit to JLG members for improvement of livelihood with the products like Pure it loan, solar lamp.

The field staffs perform their duties as per operational guidelines and their conduct and attitude towards clients adequately reflects the social objectives of the company. SML's social mission and objectives are reflected well in its ground-level operations.



Approval	Documentation	Dissemination	Observance
<ul style="list-style-type: none"><li>• SML has approved principles of social values into operations.</li></ul>	<ul style="list-style-type: none"><li>• SML maintains integrity by inducting policies to attain the vision of the organization to improve the quality of life of the poor by providing access to financial and support service.</li></ul>	<ul style="list-style-type: none"><li>• SML provides funds to JLGs for carrying income generating activities and livelihood program to improve the living conditions of the target clients.</li></ul>	<ul style="list-style-type: none"><li>• SML maintains an moderate standard of governance and integrity into its operations.</li></ul>



**RELATIONSHIP MANAGEMENT AND FEEDBACK MECHANISM**

**Score 75%**

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

As per present policy and processes, SML does not have complaint drop box for suggestions or complaints from clients or employees at every branch. Further, complaint register is maintained at HO. A few of the feedback channels available to the client’s are -

- a) Toll free number printed on the pass book.
- b) Availability of mobile numbers of the FWO with the group members.

Approval	Documentation	Dissemination	Observance
<ul style="list-style-type: none"> <li>• The board has provided formal and informal channels for feedbacks and suggestions to handle complaints of clients.</li> </ul>	<ul style="list-style-type: none"> <li>• SMLs guidelines regarding collection of feedback from clients and actions to be taken are documented.</li> </ul>	<ul style="list-style-type: none"> <li>• The loan pass book given to the borrower contains toll free number for registering clients’ complaints.</li> </ul>	<ul style="list-style-type: none"> <li>• Borrowers have adequate information about available channels for feedback/complaints/suggestions to be made to SML.</li> <li>• Clients are more comfortable with discussing their problems and issues with FWOs.</li> </ul>



**COMPLIANCE STATUS OF MFI VIS-À-VIS THE RECENT RBI GUIDELINES**

**Score 91%**

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

Conditions as per RBI Guidelines	SML's Policy	Compliance
Household annual income levels for eligible borrowers in Rural Areas not exceeding : ₹ 60,000 Non-Rural Areas not exceeding: ₹ 120,000	The Annual income of the clients should be below ₹ 60,000 in rural areas and below ₹ 120,000 in non-rural areas	The company obtains the declaration from the borrowers.
Loan size should not exceed 1 <sup>st</sup> cycle loan : ₹ 35,000 2 <sup>nd</sup> cycle loan : ₹ 50,000 Tenure of the loan should be 24 months for amounts in excess of ₹ 15,000	The maximum loan size is ₹ 35,000 per member and repayment tenure ranges from 12 to 24 months.	SML meets the criteria prescribed by RBI.
Total Indebtedness of the borrowers should not exceed to ₹ 50,000	The company checks with the credit bureau and also takes a declaration from the client for the amount of indebtedness in the application form.	SML meets the criteria prescribed by RBI.
Share complete client data with at least one Credit Information Company (CIC) established under the CIC Regulation Act 2005, as per the frequency of data submission prescribed by the CIC.	SML shares its client data with High Mark and Equifax.	SML meets the criteria prescribed by RBI.
Minimum 75% of the MFIs portfolio should be given for income generation activities	Loans are given for Income generation, livelihood improvement and social welfare purpose. Majority loans are given for income generation activities.	SML meets the criteria prescribed by RBI.
Repayment frequency should be weekly, fortnightly or monthly at the choice of the borrower	Borrowers can opt for weekly, fortnightly or monthly repayment options.	SML meets the criteria prescribed by RBI.
Collateral free loans	The company does not accept any collateral for extending the credit.	No collateral or security deposits have been accepted from the borrowers.
No late payment or prepayment penalties and no security deposits	SML does not take late payment or prepayment penalties from the borrowers.	SML meets the criteria fully.



Approval	Documentation	Dissemination	Observance
<ul style="list-style-type: none"><li>• Board has approved policies and product features as per the guidelines issued by RBI.</li></ul>	<ul style="list-style-type: none"><li>• Circulars have been issued to follow the RBI guidelines.</li></ul>	<ul style="list-style-type: none"><li>• Management updates the staff on regular intervals on all the changes in the policy.</li></ul>	<ul style="list-style-type: none"><li>• All staff members showed a moderate degree of awareness on the recent changes in the business as per the RBI guidelines</li><li>• SML shares its database with credit bureau to understand the indebtedness of the client.</li><li>• Annual household income declared by few of borrowers in application form was less as compare to their standard of living observed.</li></ul>



### **LIST OF BRANCHES VISITED (Annexure I)**

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

This assessment includes:

1. Discussions with key staff members and the senior management at the head office, regional office and branch office, particularly the senior operational management team as well as the human resources team. These discussions focus on key issues of the code of conduct identified above and systems and process of MFI.
2. Review of manuals and policy documents at the head office. These are reviewed in order to assess the policy as well as documentation regarding important aspects.
3. Sampling of branches at the head office. The assessment team selected nine branches as samples, as per the size of the MFI for review. The branches are chosen in across different districts of Karnataka which include old & new branches as well as branches that are distant from the regional office and branches with the higher overdue. The sampling of the branches is performed at the head office of the MFI.
4. Detailed discussions with the branch staff to assess their understanding of the key code of conduct principles and systems and processes.
5. Review of loan applications, loan ledgers and registers maintained in the branch office. This review focuses on loan appraisal performed before disbursing loans as well as the documents collected from the clients and the process of recovery if the loans are overdue.
6. Selection of groups from the sample branches. A judgmental sampling is performed on the MFI's clients by the assessment team to draw respondents from the interest group. Two/three groups from each sample branches were selected for interviews. Out of which few respondents are those that have been having repaying loans on time, those having been facing problems in repayment, and the groups whose loans have been categorised as NPA, etc.
7. Interview with the clients. Information from the clients is collected ideally during the group meetings as well as visits are made to the clients' locations for collecting information.



As part of the assessment, SMERA visited following branches of SML's. The details of the branches visited are provided below.

Sr. No.	Branch Name	District Name	No. of Borrowers Visited
1.	Yelahnaka	Bengaluru	33
2.	Banaswadi	Bengaluru	30
3.	Yashwantpur	Bengaluru	16
4.	Uttarahalli	Bengaluru Rural	17
5.	Harohalli	Ramanagaram	43
6.	Hosur	Krishnagiri	15
7.	Chamrajpet	Bengaluru	15
8.	Gandhinagar	Bengaluru	15
9.	Magadi Road	Bengaluru	15
10.	Head Office	Bengaluru	-



### **METHODOLOGY (Annexure II)**

1. Collecting minimum documents from the MFI to understand in detail the scope of operations in terms of areas, products, borrower profile, etc.
2. Sample selection of branches as indicated by SIDBI (sample may be decided by taking into account the loan outstanding portfolio, recency customer grievances received, different products concentration, location, type of borrowers, PAR, etc.)
3. Visit to head office and understanding the code of conduct, vision and mission statement, policies, procedures and processes of MFI pertaining to loan appraisal, loan pricing, collection mechanism, documentation, re-scheduling & write off, etc.
4. Interacting with CEO and the core team and seeking relevant information.
5. Detailed review of the processes framed for selection of areas and villages, client orientation, group formation and pricing of loans.
6. Interaction with the groups to find out the extent of transparent disclosures, the MFI has made to them in terms of pricing, insurance, terms and conditions, overleveraging or multiple borrowings, frauds or corruption/commission kickbacks asked by the officers for sanctioning of loans if any. Unethical behavior of the staff, if any, would be specifically addressed.
7. Interaction with the credit officers on sample basis to assess compliance with policies and obtain their feedback / opinion on the policies and systems with specific focus on customer grievances and feedback mechanisms.
8. Prepare detailed report and submit to the management for review.
9. Prepare final report and submission to SIDBI.

**Questionnaire for the field visit**

1	Name of the Group/Member
2	How did members came to know about the MFI and who motivated to form the group
3	What kind of training provided before sanctioning of loan?
4	Does anyone visited the house pre and post disbursement
5	Loan amount taken
6	Amount applied for (If sanctioned is less - Reason)
7	Interest rate and any other charges
8	Any commission paid to anyone for availing loan
9	Purpose of loan
10	Mode of repayment
11	Installment amount
12	Aware of pending installments or balance outstanding
13	Any penalty charged
14	What are the KYC documents submitted?
15	Where the disbursement of loan happens and under who's presence?
16	Where collections of loan take place?
17	Any delays / default at present or in past, if yes, what is the reason?
18	Number of family members
19	Earning family member
20	Occupation of spouse
21	Monthly family income
22	Number of children going school
23	Aware about any other MFIs operating in the area
24	Loan from any other MFIs / banks / moneylenders / others
25	If Yes,
26	Name of the MFIs / bank / moneylender / others
27	Amount taken and interest rate
28	Is the group formed by the persons living in nearby vicinity?
29	Know the house / name of each group member?
30	What are the responsibilities of the group?
31	Attendance of members
32	Saving habit among the group members?
33	Dominant nature of group leader?
34	Familiar with the credit officer / branch staff?
35	How are the interaction / behaviour of the MFI staff?
36	Process / awareness of feedback / complaints mechanism?
37	Have made any complaints in past?



38	Any request / demand
39	Others, if any

\*\*\*\*\*The End of Report\*\*\*\*\*