

CONFIDENTIAL



Code of Conduct Assessment Tool Report

Spandana Sphoorty Financial Limited

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Conducted by:

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Spandana Sphoorty Financial Limited		
Legal Form	NBFC	About Spandana Sphoorty Financial Limited Spandana Sphoorty Financial Limited is a Non Banking Finance Company (NBFC) established in March 2003. Spandana's mission is "to be one of the most significant microfinance service provider by offering a range of financial and non financial products and services to low income households and individuals to improve the quality of life". Spandana started its operations as an NGO in Guntur District of Andhra Pradesh in the year 1997-98. In 2001-2002, M-Cril rating benchmarked Spandana as the most cost-efficient MFI in the World. Promoter, Mrs. G Padmaja Reddy has 30% shareholding in the Company and around 35 Banks hold preference shares in the Company. Other Key institutional shareholders are: JM Financial India Fund, Valiant Capital Management, Lok Capital, Helion Venture Partners and SIDBI. Its head office is located at Hyderabad, Andhra Pradesh. Spandana offers four types of loan products – General Loan (Abhilasha) for women engaged in business, Enterprise Loan (Pragathi) for mature microfinance clients (both are group lending products), Farm Equipment Loan (Karshak) and Loan against Gold (Keertana) are for men and women and are individual lending products. Spandana currently operating with 41.77 lakh borrowers with Rs3435.92 crores as loans outstanding through 1,731 different branches in 182 districts of 12 states i.e. Andhra Pradesh, Karnataka, Tamil Nadu, Kerala, Orissa, Madhya Pradesh, Uttar Pradesh, Gujarat, Goa, Jharkhand, Chattisgarh and Maharashtra. While Andhra Pradesh and Tamil Nadu are the withdrawal states for Spandana, Karnataka, Goa, Gujarat and Jharkhand are the high focus states.
Date Established	March 2003	
Initiation of Operations		
Operational Area	<ul style="list-style-type: none"> 12 states 	
Services and Products offered	<ul style="list-style-type: none"> General Loan (Abhilasha), Micro Enterprise Loan (Pragathi), Farm Equipment Loan (Karshak), Loan against Gold (Keertana) 	
Lending Model	<ul style="list-style-type: none"> Joint Liability Group (JLG) and Individual 	
Average Score	Rating	Grade
2.76	3.50-4.00	AA
	3.00-3.49	A
	2.50-2.99	BB
	2.00-2.49	B
	1.50-1.99	CC
	1.00-1.49	C

Key Performance Indicators (Institutional reporting)			
	2008-09	2009-10	2010-11
Active borrowers (in '000)	2,432	3,663	4,177
Gross Portfolio Outstanding (millions)	18,683	35,405	34,359
Portfolio Yield (nominal)	27%	27%	21.41%
Financial expense ratio	9.47%	8.46%	8.83%
Operating cost ratio	6.24%	5.97%	6.29%
Operational self-sufficiency	167%	175.5%	100%
Return on Assets	7.67%	9.14%	-0.33%
Return on Equity	49.29%	53.33%	-1.93%

Key Performance Indicators (Institutional reporting)			
Branch Offices	944	1,533	1,731
Staff	6,373	10,428	11,696

Loan Products				
	General Loan (Abhilasha)	Micro Enterprise Loan (Pragathi)	Farm Equipment Loan (Karshak)	Loan against Gold (Keertana)
Clientele	Women	Women & Men	Women & Men	Women & Men
Utilization	Small Ventures	Income Generation Activities	Farm equipment	Emergency, Working Capital, Business, Home Repair etc.
Loan size	Rs2,000-30,000	Rs8,000-15,000	Rs.50,000 – Rs.3,00,000	Rs.1000 – Rs.1,00,000
Loan tenure	1 year – 2 years	1 year – 2 years	3 years	30 to 180 days
Guarantor	JLG	JLG		
Collateral requirements	Group (5-10 members)	Group (5-10 members)	Hypothecation of the farm equipment	Gold Jewellery / Gold Coins
Repayment	Weekly, <i>Fortnightly</i> , <i>Monthly</i>	Monthly	Tailored repayment	Varied repayment options
Interest rate	12.5% flat	26%, reducing	19-25%, reducing	12 – 26%, reducing
Other charges (Insurance)	1% (for client & spouse)	1%	1%	
Processing fee	1%	1%	1-2%	Nil
Security deposit / risk contribution	Nil	Nil	Nil	Nil

Highlights

Strengths:

- Unified Code of Conduct and the board approved note on recovery practices is displayed in all branch offices and HO.
- Takes less time in loan processing (within a week).
- Pricing information verbally as well as written, communicated to clients with break-up.
- Clients were able to recall the pricing terms and conditions.
- Credit Bureau reports are mandatory and need to be checked prior to sanctioning a loan and this is an integral part of the appraisal process.
- Loan processes are easily acceptable by client with small group size (less time taken for meeting)
- Pricing data is transparent, information available publicly. (Shared with MFT & Mix)
- Never collected Cash Security from client and also no prepayment charges collected now. \
- Employee Behaviour Verifier is a unique system of Spandana wherein the behaviour of the staff is verified from their family members, neighbours and other acquaintances.
- Dedicated Customer Care Helpline for client feedback, issues/ complaints.
- Multi level feedback mechanism exists.

Areas to Strengthen:

- Staff, especially the frontline staff to be provided training on Code of Conduct
- Mechanisms to assess client awareness on a regular basis to be incorporated.
- Internal Audit checklist does not have code of conduct compliance.
- Client targeting criteria exist but tools for poverty targeting are not used.
- No code of conduct compliance report presented and discussed in Board meeting.

Code of Conduct Assessment Report for Spandana Sphoorty Financial Limited

Summary of the study

The overall grade obtained by Spandana Sphoorty Financial Limited is BB, with a composite score of 2.76, which indicates that the organization has good appraisal systems, transparent pricing policies to ensure alignment and adherence to a developed Code of Conduct. The client comprehension across Spandana is needs improvement with defined Code of Conduct practices. More could be done to improve the staff training, diversity in products and services offered and feedback mechanisms.

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

Baseline Results for Spandana Sphoorty Financial Limited		
Assessment Area	Score (out of 4.00)	Key Elements to be evaluated
Code of Conduct	2.00	<ul style="list-style-type: none"> • Design • Visibility/ Dissemination • Training (Staff) • Refresher • Awareness (Staff) • Awareness (Client)
Market Entry	3.25	<ul style="list-style-type: none"> • Criteria for identification • Procedure • Saturation • Due diligence
Appraisal Process	2.92	<ul style="list-style-type: none"> • Client data collection • Repayment capacity • Debt thresholds • Loan History • Processing time • Approval • Verification
Client Comprehension	2.83	<ul style="list-style-type: none"> • Client Review Time • Explanatory Channels • Awareness • Disclosure of prices & terms • Rights and obligations • Training (Staff)
Products and Services	2.35	<ul style="list-style-type: none"> • Design & appropriateness • Review • Diversity • Convenience • Linkages
Pricing	3.14	<ul style="list-style-type: none"> • Competition • Transparency • Fees • Security Deposits • Prepayment • Default
Feedback Mechanisms	2.95	<ul style="list-style-type: none"> • Existence • Training (Staff) • Client awareness • Usage • Checking • Staff Resources • Client Exit Interviews/ Drop-out surveys

Baseline Results for Spandana Sphoorty Financial Limited		
Assessment Area	Score (out of 4.00)	Key Elements to be evaluated
Staff Conduct	2.60	<ul style="list-style-type: none"> • Rule Book • General training • Induction • Evaluation • Review of conduct • Incentive/ Disincentive • Recovery/ defaults
Governance	2.92	<ul style="list-style-type: none"> • Responsibility • Member experience/ exposure/ reputation in MF • Composition • Role • Code of Conduct Compliance Report • Member attendance in meeting
Human Resource	3.13	<ul style="list-style-type: none"> • Field staff experience/ exposure in MF • Recruitment • Staff Exit • Complaint Redressal

Code of Conduct Assessment Tool Results

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

1. Code of Conduct	Score 2.00
Key Elements: Design, Visibility, Training, Refreshment, Awareness	
a. Design	
<ul style="list-style-type: none"> The aspects mentioned in the Unified Code of Conduct of Sadhan and MFIN has been incorporated in the Spandana Code of Conduct which is also customized on the institutional values, mission, vision and expectations. 	
b. Visibility	
<ul style="list-style-type: none"> Code of Conduct was displayed in all the branch offices in local languages and English (in few of them) and except on the notice boards, it was not mentioned anywhere in the branch offices or brochures or client material. 	
c. Training	
<ul style="list-style-type: none"> There is no exclusive training programme on Code of Conduct for the staff. However, during the induction and on-the-job training, the staff is briefed about the Code of Conduct and its aspects. The compliance of these aspects are also verified during their interaction with clients. The elements of Code of Conduct are covered in the training programs (Regional Manager's training and Internal Audit training). 	
d. Refreshment	
<ul style="list-style-type: none"> There is no refresher training on code of conduct. 	
e. Awareness	
<ul style="list-style-type: none"> The frontline staff including the Credit Assistants and Branch Managers was aware of the Code of Conduct and its aspects. Around 20% of the staff has understanding of overall code, details and expectations. During the meeting with branch staff, maximum members were aware of the Code of Conduct and its aspects. Around 25% clients have very good understanding of overall code, details, and expectations. 	

2. Market Entry	Score 3.25
Key Elements: Identification, Procedure, Saturation, Due Diligence	
a. Identification	
<ul style="list-style-type: none"> • The target segment is women though Spandana does not exclude men. Its focus is towards low income households among the socially underprivileged. However, while selecting the clients, preference is given to clients who own houses and who are staying in the respective village / slum for quite a long time. 	
b. Procedure	
<ul style="list-style-type: none"> • Spandana follows a uniform procedure for market entry - general community survey, random household visits; evaluation formats exists to evaluate new market along with the potentiality of the area / village with approachable road, political / criminal record, within 30 km radius of branch. 	
c. Saturation	
<ul style="list-style-type: none"> • During the market identification procedure, Spandana does identifies the number of MFIs working in the new identified market and accordingly takes a decision; if it is more than 2 MFIs are operating, Spandana rejects the proposal of initiating their operations in that area. However, this is limited to NBFC MFIs since only these MFIs are currently reporting to the credit bureau. 	
d. Due Diligence	
<ul style="list-style-type: none"> • The branch selection criterion has been approved by the Board and as part of the annual business plan approval, the geography approval is given by the Board. Moreover, the Board monitors the opening and closing of branch offices regularly. Research is conducted by the operations and the strategic planning departments regarding the feasibility of opening a branch office in a particular area and the potential of member acquisition. Inputs of field staff are also sought prior to finalisation. 	

3. Appraisal Process	Score 2.92
Key Elements: Client Data Collection, Repayment Capacity, Debt Thresholds, Loan History, Processing Time, Approval, Verification	
a. Client Data Collection	
<ul style="list-style-type: none"> In Spandana, once the interested members' meeting is conducted by the CA, they fill the individual loan application form for evaluation, followed by a 4-day Compulsory Group Training (CGT) by the CA. Group Recognition Test (GRT) is conducted by the ABM / BM. There is use of peer verification across groups, information collection from neighbours / household members. However, only primary information about the member is captured in the database along with the KYC documents. Cross-verification from group members is also done. 	
b. Repayment Capacity	
<ul style="list-style-type: none"> Repayment Capacity is assessed during the individual primary evaluation & CGT by CA; critically evaluated during GRT by ABM/BM on door-to-door basis; information collection on household incomes, expenditures, assets and liabilities. 	
c. Debt Thresholds	
<ul style="list-style-type: none"> Loans to clients are given based on the loan cycle, minimum loan size and also the repayment capacity. However, it was observed in the field that there were clients who were given a loan of Rs20,000 in the first cycle itself, deviating from this principle. It was also observed that under normal circumstances, the loan size for the entire group is the same. 	
d. Loan History	
<ul style="list-style-type: none"> Loan history of the client also captured in the loan application form and it is checked and kept available during and throughout the appraisal process (CGT and GRT), if the client had long term relation with Spandana. If the client has any outstanding loans of other MFIs, which is shared by the credit bureau, they visit the client to recheck. 	
e. Processing Time	
<ul style="list-style-type: none"> It was observed through the interaction with the staff members and clients in the field that the loan processing time of Spandana is less than 1 week and this is the USP of the Spandana loan. This generated the acceptability of customers in the field where other MFIs also working. 	
f. Approval	
<ul style="list-style-type: none"> Loans are approved by the BM (within the overall threshold of the loan cycles), subject to the approval by HO based on the credit bureau check. Approval of RM / DM is needed in branch offices rated as 'risky' and State Incharge / MD approves loans in branch offices rated as 'very risky'. There is limited credit committee or board involvement while approving loans. 	
g. Verification	
<ul style="list-style-type: none"> Separate Audit team exist in the organization who conducts audit of all the branch offices in their area, on a surprise basis. Audit team verify loan documents, all client enrolment documents, transaction related documents, bank documents and conducts the field audit by attending centre meetings. Audit team submits their compliance report to concerned branch office with copies to all concerned in the head office. In respect of appraisal and application process, the IA team checks the loan application form and appraisals of clients on a random basis. 	

4. Client Comprehension	Score 2.83
Key Elements: Client Review Time, Explanatory Channels, Disclosure of Price and Terms, Rights and Obligations, Staff Training	
a. Client Review Time	
<ul style="list-style-type: none"> The terms and conditions of Spandana, product features etc. are informed to the client before formation of group and the clients were asked to form into groups of 10 members each. They were further explained during the CGT process. Once the client joins the group and attends the CGT, application is collected in day 1, followed by house visit in day 2 and loan disbursement in a week. 	
b. Explanatory Channels	
<ul style="list-style-type: none"> There is no other media except the loan card and the verbal communication of staff of Spandana. The verbal communication channels include: Training by CA during CGT, BM at the time of field verification and loan disbursement, visits by IA or any other senior members. Except for the GRT by BM and some visits by IAs / senior team persons to understand the levels of awareness through questions posed to the groups, there is no other attempt made to make the assessment of client's awareness. 	
c. Awareness	
<ul style="list-style-type: none"> Except for the GRT by BM and visits by IAs / Senior team persons to understand the levels of awareness through questions posed to the group, there is no formal mechanicals to assess clients awareness. 	
d. Disclosure of Price and Terms	
<ul style="list-style-type: none"> The price and terms of the loan are clearly disclosed to all the clients during their personal form filling, CGT, GRT, disbursement and center meetings (whenever there is a change / modification). Full and thorough, both verbal and written materials (loan card) are supplied to the client; all pricing information is broken into fees, interest and insurance premium. 	
e. Rights and Obligations	
<ul style="list-style-type: none"> The client is given loan if and only if she agrees for the terms and conditions and there is no scope for any other negotiation or discussion. During the training, the obligations and rights of the client were stressed upon. 	
f. Staff Training	
<ul style="list-style-type: none"> The frontline staff are provided training on how to interact with clients during the 3-day theoretical training followed by 3 months field training attached to the seniors. Moreover, staff is explained with examples and guidance for interaction with the clients, roles and responsibilities of all staff levels and do's & don'ts to be followed by the staff while interacting with the clients. 	

5. Products and Services	Score 2.35
Key Elements: Design and Appropriateness, Review, Diversity, Convenience, Linkages	
a. Design and Appropriateness	
<ul style="list-style-type: none"> • Earlier both the products were designed on the basis of clients' needs and requirements. They have now been modified as per guidelines issued by RBI with slight modifications based on clients need. Even though Spandana has 4 loan products, majority of the portfolio is Group loan which is a generic product. 	
b. Review	
<ul style="list-style-type: none"> • To comply with RBI guidelines, loan sizes of Rs15,000 and above are offered for 24 months. For the general loan, change in fee / interest rates is made. New products like Krishak, Pragathi and Keertana were developed based on the feedback / requirement of clients. 	
c. Diversity	
<ul style="list-style-type: none"> • Spandana has four loan products which can be broadly classified into two (Group Loan and Individual Loan). The main differentiating factors are the loan size, repayment frequency and loan tenor in respect of group loans and in respect of individual loans, it is the collateral, loan size and repayment tenor. 	
d. Convenience	
<ul style="list-style-type: none"> • Spandana's loans are highly convenient which was also shared by clients during the client visits. The clients need to attend weekly group meetings which are held for 5-10 minutes and recoveries take place in the group meetings. However, client has to visit the Branch office along with the spouse while disbursement of the loan. 	
e. Linkages	
<ul style="list-style-type: none"> • There is only one linked products with the loan to client i.e., credit life insurance provided to the client. However, if the client does not want to avail this service, he / she is rejected the loan. 	

6. Pricing	Score 3.14
Key Elements: Competition, Transparency, Fees, Security Deposit, Prepayment, Default	
a. Competition	
<ul style="list-style-type: none"> • Pricing of the loan product of Spandana is very competitive, and the institution has occasionally reduced interest rates to remain competitive and to adhere with the norms of RBI. The product features are uniform from the start of operations. 	
b. Transparency	
<ul style="list-style-type: none"> • Spandana's pricing is highly transparent. The pricing information is displayed in all the branch offices and the individual loan cards. Further, pricing information is made available to the client in the form of total interest amount, price in fixed flat rate, price in declining interest rate and also in terms of rate per 100 rupees. 	
c. Fees	
<ul style="list-style-type: none"> • Spandana charges two types of fee i.e. processing fee of 1% and insurance fee of 1% to all clients. 	
d. Security Deposit	
<ul style="list-style-type: none"> • Spandana has not collected any security deposit from their client against their loan. 	
e. Prepayment	
<ul style="list-style-type: none"> • There is no prepayment penalty. Only interest for that week is collected and the clients can prepay their loans at any given point of time. 	
f. Default	
<ul style="list-style-type: none"> • There is no description of the penalties for default. Board has approved the recovery practices in case of default, but as per the discussions with the clients and staff, in case of default, the peer pressure and group guarantee mechanisms will be implemented and if the entire group has defaulted, then the persuasion and discussions with the clients are conducted and there is no subsequent loan for those clients / groups. 	

7. Feedback Mechanisms	Score 2.95
Key Elements: Existence, Staff Training, Client Awareness, Usage, Checking, Staff Resources, Client Exit Interviews / Drop out Surveys	
a. Existence	
<ul style="list-style-type: none"> In Spandana, multi level feedback mechanisms exist. BMs, RMs, DMs, IAs and all the senior management staff who visit the field do take the feedback and appropriate steps are undertaken on the same. In addition, customer care number (non toll free), industry association number (like that of AKMI/MFIN) and also complaint boxes exist in the branch where clients are free to write / drop their feedback. However, clients are not aware of the complaint box and tend to call DMs / RMs whose numbers are available on the branch office display board, in case of any complaints. 	
b. Staff Training	
<ul style="list-style-type: none"> Training is provided in client relations in different formats including role playing. 	
c. Client Awareness	
<ul style="list-style-type: none"> Clients have shared that there were no complaints and that they are aware of the contact numbers given on the loan card. (AKMI number which is a toll free number and Spandana Customer Care number which is a non toll free number). However, none of them used those numbers. In one case, the clients had requested for change of center meeting day from Friday to any other day as the Friday being hectic day for them being close to Maha Lakshmi temple. In spite of facing the difficulty, the clients did not go beyond the BM. 	
d. Usage	
<ul style="list-style-type: none"> Feedback mechanism is frequently used by different branches' client, more used by the urban clients. 	
e. Checking	
<ul style="list-style-type: none"> Dedicated systems are in place within the organization across all the branch offices. There is a clear process to ensure that complaints are processed and resolved. After receiving a call from the client regarding any feedback / complaint, the staff (at HO level) circulates the same to all senior management staff, operations head and concerned staff. The concerned staff / department need to discuss with the complainant and should respond within 24 hours. The complaint need to be resolved within a week. 	
f. Staff Resources	
<ul style="list-style-type: none"> For client feedback mechanism, there is adjunct responsibility of head office staff. 	
g. Client Exit Interviews/ Drop out Survey	
<ul style="list-style-type: none"> Client exit interviews / drop-out surveys are conducted by Management Trainees and to gather unbiased views from the ground. In addition to that Spandana has commissioned a summer Intern (from IIM, Lucknow) to conduct client survey across two states based on random sampling. 	

8. Staff Conduct	Score 2.60
<p>Key Elements: Rule Book, General Training, Induction, Evaluation, Review of Conduct, Incentive / Disincentive, Recovery / Default</p>	
<p>a. Rule Book</p>	
<ul style="list-style-type: none"> Recovery practices exist which contains dos and don'ts of acceptable behaviour of staff. Normally, if the staff does anything that is under the don't list, the staff is terminated. Termination letters are only issued at the HO. The decisions are taken by a committee comprising of MD, Whole Time Director, COO, IA. The BM or RM can only report or recommend. 	
<p>b. General Training</p>	
<ul style="list-style-type: none"> There is no dedicated session / module that demonstrate acceptable and unacceptable conduct for different tasks. However, the staff are given training on the acceptable and unacceptable conduct for different tasks through practical onjob training imparted by seniors right from BM to RM level. There were occurrences of termination of staff for unacceptable behaviours. Other staff have to compulsorily undergo training of 1 day induction, 2 days CA class room, 2 weeks CA field. . 	
<p>c. Induction</p>	
<ul style="list-style-type: none"> All the staff, especially the credit assistants, undergo a 90 days induction programme. They would be be imparted theoretical (and practical training on their roles, responsibilities and the acceptable and unacceptable behaviour. 	
<p>d. Evaluation</p>	
<ul style="list-style-type: none"> Field staff are evaluated on a monthly basis and salaries are paid based on the performance. There are harsh punishments, like termination, if the staff are found to be behaving in any unaccepted way. At the same time, there exist rules for promotion and increments. 	
<p>e. Review of Conduct</p>	
<ul style="list-style-type: none"> Evaluation of the field staff as well as branch personnel is done by his / her superior only. 	
<p>f. Incentive / Disincentive</p>	
<ul style="list-style-type: none"> Incentive and disincentives is based on recovery and outreach but done for first two levels of the field staff (CA and BM). 	
<p>g. Recovery / Default</p>	
<ul style="list-style-type: none"> In operation manual of Spandana, broad guidelines for collection in case of defaults are mentioned. No specific parameters or procedures are defined in the operation manual for the recovery / defaults, no Turnaround Time (approximate) is mentioned in the operation manual for collection of the defaults. 	

9. Governance	Score 2.92
<p>Key Elements: Responsibility, Experience/ exposure/reputation in MF, Composition, Role, Code of Compliance report, Members' attendance in meeting</p>	
<p>a. Responsibility</p>	
<ul style="list-style-type: none"> • Functional responsibilities are well defined in bye-laws and business rules, individual board members assigned and undertake committee functions on a regular basis. Board of Spandana is very vibrant, each individual member are assigned their work and are performed accordingly. Several committees are formed and their report reviewed at the Board level. 	
<p>b. Experience/ exposure/ reputation in MF</p>	
<ul style="list-style-type: none"> • Three members of the board have experience in microfinance. Remaining board members are professionals with banking / finance related experience. 	
<p>c. Composition</p>	
<ul style="list-style-type: none"> • 2 out of 8 board members are female members. There is no representation of clients in the board. However, there is representation of public institution (SIDBI) and professionals / representation from investment bankers. 	
<p>d. Role</p>	
<ul style="list-style-type: none"> • There is a role clarity on policy setting, strategic directions as is evident from the last four board meeting minutes. However, periodic interference by board is seen in financial transparency and disclosure. 	
<p>e. Code of conduct compliance report</p>	
<ul style="list-style-type: none"> • No separate Code of Conduct compliance report is prepared and presented in the board. However, aspects of the Code of Conduct are mentioned in the other reports presented to the Board. Moreover, Spandana is planning to provide Code of Conduct Compliance Report from the next FY, on an annual basis. 	
<p>f. Members' attendance in meeting</p>	
<ul style="list-style-type: none"> • The average % of attendance of board members during the last 4 board meetings is 75%. 	

10. Human Resources	Score 3.13
Key Elements: Field staff experience/ exposure in MF, Recruitment, Staff Exit, Complaint Redressal	
a. Field staff experience/ exposure in MF	
<ul style="list-style-type: none"> The average tenure of field staff is 739.09 days. The staff taken for this computation are CAs, BMs, RMs, DMs and ZMs. 	
b. Recruitment	
<ul style="list-style-type: none"> There is a separate department in Spandana who is responsible for HR functions. Recruitments are done by publishing the requirements with the job profile in job sites, local newspaper and word of mouth for field staff. Proper recruitment process followed for each level of staff – written, public speaking test and personal interview. Recruitment is conducted with reference checks. Spandana does not recruit candidates from other MFIs, especially at the field level. However, it does recruit senior level staff at HO who has experience with other MFIs, but with proper reference checks. Employee Behaviour Verifier is a unique system of Spandana wherein the behaviour of the staff is verified from their family members, neighbours and other acquaintances. 	
c. Staff Exit	
<ul style="list-style-type: none"> There are no exit interviews conducted for field staff. However, for HO staff, exit interviews were conducted. 	
d. Complaint Redressal	
<ul style="list-style-type: none"> A Formal Complaint Redressal mechanism exists in the organization. There is also a separate email id created wherein staff could send the complaints directly to that mail and it is being monitored by the Executive Committee which also comprises of MD and ED. There is a whistle blower policy which protects staff who complains. 	

Compliance to RBI Guidelines

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

- a) Interest cap on loans at 26 percent per annum: Interest rate charged by Spandana for its main product Abhilasha is 12.5% flat for a tenure of 50 weeks which translates into 24.6% on declining balance basis. For the remaining products, Pragathi, Karshak and Keertana, the rate of interest on declining balance is 26%, 19-25% and 12-26% respectively.
- b) Loan pricing to include processing fee (not exceeding 1 percent of the gross loan) interest charge and insurance premium (to be paid directly to the insurance provider): Spandana is currently charging 1% loan processing fees as per the RBI guidelines issued. Moreover, the insurance charges recovered from the clients are paid directly to Insurance companies.
- c) No penalties for delayed payments, security deposit or margin money to be taken upfront: Spandana is not collecting any prepayment charges. They collect interest for that week during which prepayment is being made. Spandana is not collecting any security deposit for the loans.
- d) 85 percent of MFI assets being under agriculture, micro and small enterprises: 100% of their portfolio is under micro, small and medium enterprises.
- e) Lending to borrowers whose household income does not exceed Rs60,000 (in rural areas) and Rs120,000 (in urban areas): Calculating the household income in rural and urban areas is debatable since they do not have fixed monthly income. Their income is seasonal and is dependant on several factors. However, Spandana collects a declaration from the applicants on their income levels. The household income of the clients visited under the study was mixed. Around 10-15% of the client households had an income more than the amount stipulated by RBI.
- f) Total indebtedness of borrower not exceeding Rs50,000: Spandana strictly follows this guideline and does not lend to members who have a loans from 2 or more MFIs and Rs50,000 as the total loan outstanding. This is evident from their inclusion of Credit Bureau checks in their appraisal process. This is also mentioned in their Code of Conduct and followed across all levels.
- g) Tenure of loan not being less than 24 months: It was observed that the tenure of the main loan product, Abhilasha is 50 weeks for a loan size upto Rs15,000. For loans of Rs20,000 and above, the tenure has been changed to 104 weeks post RBI guidelines. However, many of the clients were found to be asking for roll back of the tenure to 50 weeks.

Overall, Spandana is compliant on the RBI guidelines issued. However, there is a need to review their lending policies based on the household income of the clients.

Conclusion

Spandana Sphoorty Financial Ltd has achieved a composite CoCAT score of 2.76 with an overall grade of “BB”, indicating that the organisation requires improvements in several areas. Although there is strong institutional performance in some areas, there is room to provide technical assistance with a view of strengthening systems.

Highlights and best practices:

- Unified Code of Conduct and recovery practices displayed in all branch offices & HO.
- The loan processing time is within a week and this was appreciated by the clients. Moreover, the time taken for meetings is also less and liked by the clients.
- Pricing information communicated to the clients verbally as well as written. Pricing data is transparent, information available publicly, shared with MFT, Mix, MFIN and other networks.
- Clients were able to re-call the interest rates and other charges associated with the loans. The behaviour and punctuality of Spandana staff was appreciated by the clients and they seldom coerced or put pressure on the clients.
- Dedicated Customer Care Helpline for client feedback, issues/ complaints addressed on priority basis. In addition, multi level feedback mechanism exists.

Areas to Strengthen:

- There is a need to develop products and services which are based on the needs and requirements of clients / members.
- Standardized training modules along with pictorials to be developed and frontline staff trained so that significant value addition is done during the CGT process.
- Financial Education need to be provided to the clients / members.
- Mechanisms to understand the client awareness and also mechanisms to review the CGT provided by CAs need to be developed and implemented.
- Internal Audit checklist need to incorporate the aspects of code of conduct compliance. This needs to be monitored and tracked during the internal audit exercise. Based on the findings of this, a report on Code of Conduct compliances need to be presented and discussed during the Board meeting.

Average Score	Rating	Grade
2.76	3.50-4.00	AA
	3.00-3.49	A
	2.50-2.99	BB
	2.00-2.49	B
	1.50-1.99	CC
	1.00-1.49	C

Annexure 1: Code of Conduct Assessment Tool (CoCAT)

Introduction

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

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

CoCAT has 9 broad assessment components which are further disaggregated into 53 elements. The 9 broad components are: *Code of Conduct, Market Entry, Appraisal Process, Client Comprehension, Products and Services, Pricing, Feedback Mechanisms, Staff Conduct, and Governance.*

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

CoCAT helps to:

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

Methodology

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

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

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