

Swadhaar FinServe Private Limited (Swadhaar)

Mumbai, India

Legal form: NBFC
Code of Conduct (CoC) Assessment

April 2013

Achievement	Maximum	Score achieved
Integrity, Governance and HR Strategy	30%	26.4%
Compliance with guidelines pertaining to clients	60%	50.7%
Effectiveness of client education efforts, and awareness	10%	8.7%
Overall CoC	100%	85.8%

Visit dates: 01-05 April 2013

M-CRIL

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Structure

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Key for bullets:

- ✓ Positive
- Neutral
- Issue
- Description

Assessment tool and framework

Assessment Tool

- ▶ This assessment uses a scoring tool derived from the Unified Code of Conduct for member MFIs of Sa-Dhan and MFIN and the RBI guidelines and Fair Practices Code for NBFC MFIs.
- ▶ The tool not only covers the industry Code and the above-mentioned guidelines in letter but also delves deep into issues of adherence in spirit. The tool is arranged under three broad heads:
 - Integrity, Governance and HR Strategy
 - Compliance with guidelines pertaining to clients
 - Effectiveness of client education efforts and awareness

Methodology

- ▶ The assessment is based on a 5 day visit by an M-CRIL team of 2 analysts to the MFI's head office in Mumbai and to 7 branches across Mumbai and Gujarat. Multiple groups were visited in each branch. (Refer Slide No. 41 for detailed Methodology and Slide 42 for sampling plan details).

Perspective on the MFI

- ▶ Swadhaar's policies and operations indicate commitment to comply with the Code of Conduct and RBI guidelines at all levels of organizational hierarchy. An expanded Board with 2 additional independent directors is underway. Tightening of compliance on a few indicators such as repayment options, interest adjustment for advance payments and dissemination of grievance mechanism information will further improve the performance on Code of Conduct compliance. Despite creditable efforts on client education, results are not commensurate; it is hoped that new interventions such as the Client Education Program will boost client awareness.
- ▶ Level of cooperation with assessment team:

HO

HIGH

Branches

HIGH

Follow-up

HIGH

...Assessment tool and framework

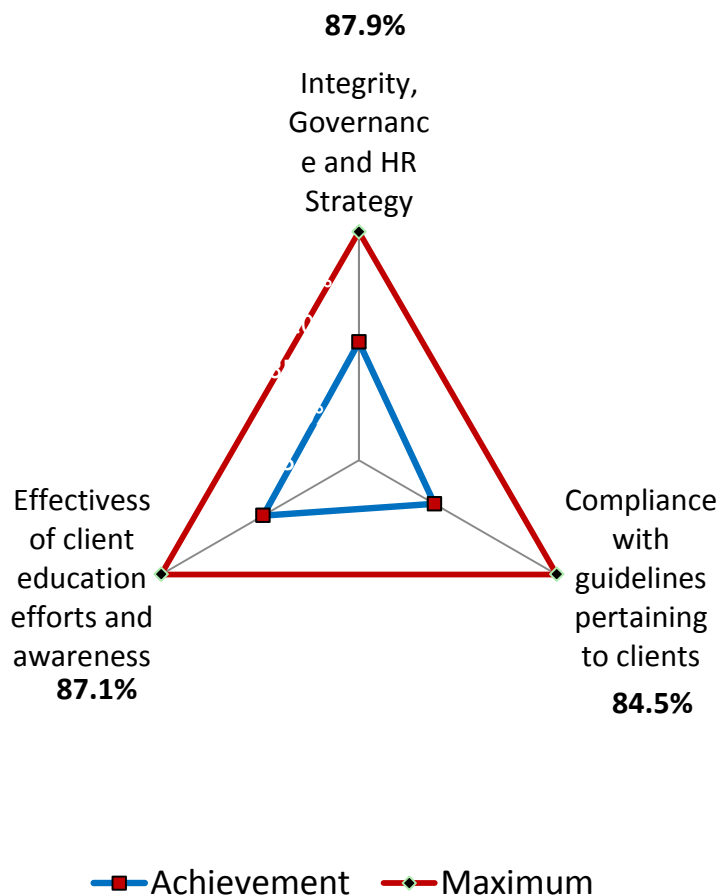
- ▶ The various aspects of the Unified Code of Conduct, RBI guidelines and the Fair Practices Code have been reclassified by M-CRIL under three broad heads (Integrity, Governance & HR Strategy, Effectiveness of Client Education Efforts and Awareness) and Compliance with Regulation Pertaining to Clients as per their logic and fit.
- ▶ Compliance with guidelines, being one of the most important aspects, has been given the maximum weight of 60%. Integrity, Governance and HR Strategy follows with 30% weight, and Efforts for Client Education, along with client awareness (as reflected through client interactions) is given a 10% overall weight.
- ▶ Level of internalisation of the codes of conduct by the MFI has been analysed for Approval, Documentation, Dissemination and Observance (ADDO) under each category, wherever applicable.
- ▶ Wherever relevant, more weight has been given to those policies adopted by the MFI and implemented in letter and spirit, compared to those which are well documented but not practiced.
- ▶ Field results have been included in each relevant section under the broad heads mentioned above. Field results have been given 40% weightage. Client Education section is assessed in terms of efforts as well as results i.e. levels of awareness about products, terms and conditions and policies of the MFI.

...Assessment tool and framework

The CoC Assessment tool was required to cover 8 points as per SIDBI's guidelines (shown on the right of the box below). This tool covers these by fitting them into broader parameters and capturing performance on them as well as other indicators in terms of Approval, Documentation, Dissemination and Observance.

Parameters and Indicators in M-CRIL tool		SIDBI requirements covered in this section
Integrity, Governance and HR Strategy	30%	
Integrity	10.0%	Integrating social values into operations
Governance	10.0%	
Human Resource Strategy	10.0%	
Compliance with regulations pertaining to clients	60%	Compliance status of MFI vis-à-vis latest RBI guidelines
Client Origination and targeting	9.0%	Client origination and targeting
Loan Appraisal Process	9.0%	Loan appraisal process
Loan product features and pricing	10.0%	Loan pricing and transparency
Transparency	10.0%	
Responsible lending	9.0%	Staff behaviour
Grievance mechanism	9.0%	Relationship management & grievance redressal mechanism
Privacy of client information	4.0%	Privacy of Client Information
Client Education Efforts and Field Results	10%	
Client Education (Efforts)	3%	
Client Awareness and other Results	7%	
Total	100%	

Code of Conduct performance



Rationale

- ✓ Swadhaar has achieved a good score in Integrity & Governance for implementing key aspects of the CoC. Overall score can be improved by incorporating independent Board members (process underway) and ensuring that staff from other MFIs are not posted in the same operational area for at least 1-2 years.
- ✓ Swadhaar has received a good score in regulatory compliance due to its adherence to RBI guidelines. The score can be further improved by tracking client loan utilization for each loan cycle, ensuring that clients know about their choice of repayment frequency, issuing printed receipts in vernacular language, including EIR including insurance premium in documentation, and disseminating norms to staff on when to report genuine cases for rescheduling.
- ✓ Swadhaar has made very creditable efforts to improve awareness levels through multiple trainings delivered to clients by own staff and Swadhaar FinAccess staff. Despite sincere efforts, clients' awareness levels plummet a few weeks after availing the loan, and low rates of awareness were recorded during client visits, especially on aspects such as insurance cover and charges, late payment penalty and choice of repayment frequency.

Strengths

- ✓ Strong on policies - assimilated UCoC and FPC into own comprehensive CoC.
- ✓ Involved Board – minutes cover discussions on CoC compliance.
- ✓ Regular monitoring of compliance by Risk Head, who reports to Board.
- ✓ CoC well disseminated across the MFI through informative displays in vernacular.
- ✓ Staff training covers all aspects of CoC and guidelines – high staff recall was observed.
- ✓ Multiple-point training to clients offered by Swadhaar and SFA staff, to ensure that clients take informed decisions.
- ✓ High transparency in sharing information with clients.
- ✓ Very positive feedback from clients, especially regarding staff behaviour and product features.
- ✓ Audit covers the CoC aspects reasonably well.
- ✓ Secure IT system with access rights defined for every level.

Issues

- ❑ Inadequate number of Independent members in Board – response is awaited from 2 highly qualified persons who have been invited to join.
- ❑ Same area could be assigned to staff recruited from other MFIs (HR policy).
- ❑ Check on over-indebtedness highly dependent on CB report. Application form records 'no loans' for most of the clients.
- ❑ Clients completely unaware of weekly, fortnightly repayment options at branch.
- ❑ Scope to improve client awareness on data usage and privacy issues.
- ❑ New grievance number has not been communicated to clients or branches.
- ❑ Staff are not aware of rescheduling of loans in case of genuine default (not even till RM level).

Introduction and background

- ▶ Swadhaar FinServe Pvt. Ltd. (Swadhaar) started operations as a Non-Banking Finance Company (NBFC) in Mumbai in 2008, and took over operational areas of Swadhaar FinAccess, which had been established in 2006 and had pioneered urban microfinance lending in Mumbai.
- ▶ As of March 2013, Swadhaar has its presence in 13 cities across two states in West India – Maharashtra and Gujarat. It has reached out to 96,600 borrowers through a network of 30 branches.
- ▶ Swadhaar caters to the credit needs of two segments – poor women in urban slums undertaking small economic activities (for whom the group loan product is designed), and urban micro-entrepreneurs (men or women who have been running steadily growing micro-enterprises for a few years) who are offered the individual business loan for working capital and business enhancement.
- ▶ The MFI's initial focus was on Individual loans to micro-entrepreneurs. However, in the last 2 years, Swadhaar has adapted itself to comply with the RBI guidelines. The share of portfolio of Individual loans came down from 27% in March 2011 to 3.8% in March 2013– well within the specified limit of 15%.
- ▶ Social investors including Accion Africa Asia Investment Company (38%) and Michael and Susan Dell Foundation (12%) have invested in Swadhaar. The MFI enjoys technical support from Accion through initiatives in lending methodology, product development, risk management and information technology. Accion has deputed four specialists at Swadhaar who have taken key responsibilities - as COO, CFO, Chief Risk and Strategy Officer, and Chief Manager of Credit and Risk.
- ▶ Swadhaar has a Board of seven members consisting of the Chair Person, Ms Lalita Gupte, MD, Ms Veena Mankar, one independent director and four nominee directors. The Board members are well qualified and have significant experience in microfinance, banking and development. Swadhaar has invited 2 additional independent directors to join the Board – both persons are highly qualified and experienced.

...Introduction and background

Vision

To be the preferred provider of micro-financial services.

Mission

To make available responsible and efficient financial services to economically vulnerable and underserved urban households, enabling them to attain financial security and meet their aspirations.

Main Performance Indicators*

	Mar-11	Mar-12	Mar-13
Active borrowers	56,727	80,201	96,600
Portfolio Outstanding (Rs cr)	50.41	78.60	115.18
Of which, Off-Balance sheet portfolio (Rs cr)	-	7.4	34.3
Number of states	2	2	2
Number of cities	12	13	13
Number of branches	38	39	30
Number of groups	10450	15,522	18,393
Staff strength	425	425	369
PAR 60	0.83%	1.66%	1.09%
Total PAR inc write-off (Rs cr)	1.34	2.76	2.41
Yield on Portfolio	31.96%	29.47%	27.9%
Operating Self-Sufficiency	81.37%	104%	100.8%

*Note: As per the data provided by SFPL.

Microfinance policies

Branch Structure

- ▶ A branch typically has 5-6 Loan Officers (LOs) and 2 Branch Operations Executives (BOEs) who report to a Team Leader, also known as Branch Manger.
- ▶ LOs are involved in group formation, disbursement and recovery of loans. BMs supervise the activities of LOs and are also involved in approving loans and verifying the field level information reported by the LOs. They are responsible for overall achievement of branch targets.
- ▶ The BOEs are responsible for cash management and information flow to the Head Office. They disburse loans to the clients and maintain all required documentation at the branches.

Group Formation (for Swadhaar's group loan, "Swahit")

- ▶ Swadhaar targets low-income households in urban areas. Branch staff identify potential areas based on the presence of adequate numbers of eligible clients, defined as :
 - ▶ Salaried: Those who earn a fixed monthly income (eg. housemaids, cooks, factory workers, etc).
 - ▶ Commission based workers: Those who earn a commission-based income for a manufacturing activity.
 - ▶ Small micro-business owners: Those who engage in service/manufacturing/trading business
- ▶ Swadhaar tries to avoid areas where there MFIs are already saturated.
- ▶ The LOs are trained to give an interactive sales speech and also distribute pamphlets in slums and high-potential areas. Interested women are informed about the loan terms and conditions and the KYC documents required to avail loans from Swadhaar.
- ▶ Those interested are invited to form groups of 5 persons, through self selection, and to elect a Leader.
- ▶ Client Information Form is filled for eligible applicants at the first formal meeting. In compliance with the RBI guidelines, women from households with monthly income less than Rs10,000 (by self declaration) are eligible. Once the group is formed the LO schedules the first group meeting. He/she uses a flipchart to explain about the company, products, processes and responsibilities of the group.

Microfinance policies contd....

Documentation

- ▶ The Client Information Form (CIF) contains KYC details, socio-economic profiling (household access to financial services, asset ownership and education levels), business experience and employment details for all family members.) It also captures the business income flows and frequency in detail, as well each family member's contribution to household income. These details are used to arrive at a Capacity to Pay figure, which should exceed the instalment amount, for the loan to be approved.
- ▶ KYC documents are collected from the clients in the second meeting. The LO checks the eligibility of the group and fills out the insurance and Declaration forms (stating income, willingness to submit to credit checks and willingness to undertake joint liability with fellow group members).

Loan Process

- ▶ In the second group meeting, the LO cross-checks client information like income and capacity to repay, and fills the Client Appraisal Form (CAF).
- ▶ The LO thereafter schedules visits to the clients' homes where s/he verifies details mentioned in the CIF and CAF, speaks to household members and completes the section in the CIF on household assets.
- ▶ Members are classified into income categories and loan limits are defined for each category (Slide 39).
- ▶ The Branch Manager visits the group and verifies that clients have understood their roles and responsibilities and if the elected Group Leader is ready to take the responsibility. BM also conducts a familiarity crosscheck, cross-questioning each of the group members about other members' family, business and character, as per a standardized format. The BM also visits the clients' homes to verify the information reported by the LO and if necessary, triangulates with neighbours as well.
- ▶ At the branch, the BOE verifies that the forms are completely filled and the required documents are in place. S/he often calls the clients to verify the details, on a sample basis.

Microfinance policies contd....

Loan Process...contd

- ▶ A copy of the scanned documents is sent to Swadhaar's regional hub-office and another to Vindhya (an independent entity which undertakes data entry) for incorporation in the MIS.
- ▶ The BM approves the loans after considering the loan amount, purpose, business and household information, and the client's estimated capacity to pay. The maximum loan amount of any member is ensured to be equal to or less than 1.5 times the lowest amount given to another member in the group.
- ▶ The Hub verifies the clients' credit history with the Credit Bureau and gives the final approval for disbursement.
- ▶ Loans are disbursed in cash at the branch office in front of all the group members after the BOE informs clients once again about the loan terms and conditions and is satisfied that they are taking an informed decision.
- ▶ Recently a Client Education Program has also been initiated (covered in detail later in the report).
- ▶ The insurance premium amount and processing fee are deducted from the loan amount.
- ▶ A disbursement kit with details of the loan, upfront charges, insurance details, declining and nominal rates of interest, amortization schedule and a copy of the Terms and Conditions is given to the clients. This document doubles as a receipt for initial payments (processing fee and insurance premium). A Demand Promissory note is also signed by all group members, stating the loan amount for each individual as well as the group.
- ▶ A group photo of all the members is taken during disbursement to prove their identity as borrowers
- ▶ A Verification Officer (member of an independent team exclusively for this purpose) visits all the clients after the disbursement and verifies utilization (whether for income generation or for unauthorized purposes)
- ▶ Swadhaar does not insist on group meetings. The Group Leader collects the instalment from all the members and the LO collects it from the leader every month at a fixed time. The LOs remind the leaders in advance
Clients have the option to enrol for the voluntary financial literacy programme of Swadhaar FinAccess (Sec.25 Company). The five-day course imparts basic financial literacy messages including budgeting and debt management to the clients at a nominal cost (Rs 35/client)

Loan products

Product Name	Group loan (Swahit)	Top Up Loan	Individual Loan (Swayog)
Target Clients	Urban, low income women		Urban micro entrepreneurs
Loan size (Min-Max) in Rs	Rs. 8,000- 34,000	Rs. 2,000-5,000	Rs. 15,000-75,000
Term	24 months	12 months	3-12 months
Repayment frequency	Monthly	Monthly	Monthly
Moratorium period	At least 1 month		1 month
Processing fee(excluding Service Tax)	1%		1 st cycle- 3%, 2 nd cycle onwards- 2%
Diminishing rate of interest rate % (p.a.)	26%	26%	30%
Guarantee/collateral	Joint liability	Joint liability	No collateral (Post-dated cheques)
Penalty on overdues	None		Flat Rs 50 from day 1. After 3 days, additional daily penalty of 5% / month on the overdue amount. (capped at 90 days)
Prepayment & foreclosure charge	None	None	None
Share in portfolio on 31 March 2013	94.23%	1.95%	3.8%

Insurance

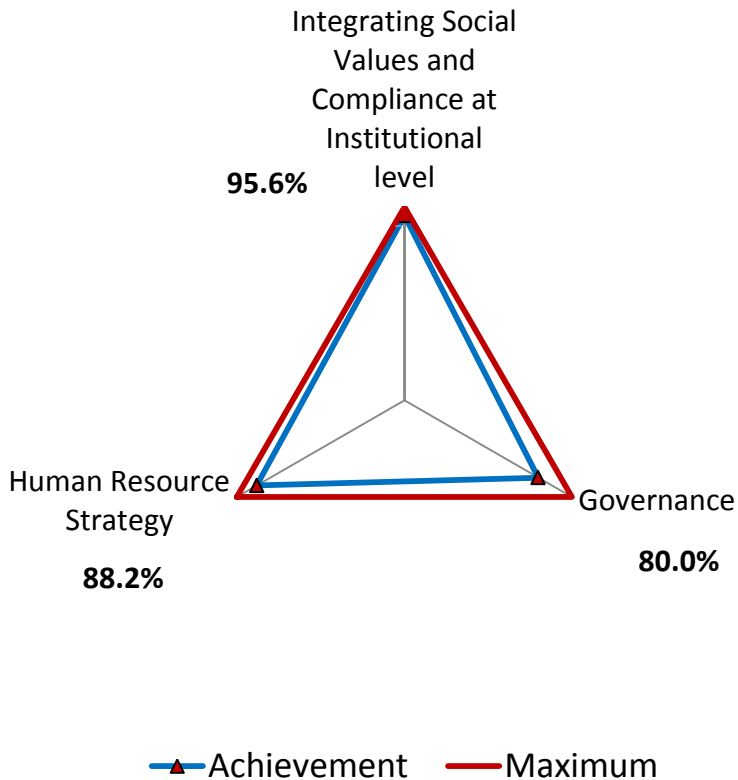
- ▶ Swadhaar has a tie-up with a third party insurance company for compulsory credit life insurance for each group borrower and their spouse.
- ▶ Swadhaar settles the outstanding loan amount and passes the remaining amount to the client's nominee. In case of death of spouse, clients are given a flat payout of Rs10,000.
- ▶ All the claims received in 2012-13 were settled. The clients/nominees have to produce death certificate and age proof document for the claim. In case of accidental death, postmortem report/ FIR is compulsory.

Insurance details:	
Date introduced	01 October 2011
Insurance company	Bajaj Allianz Life Insurance Company Limited
Coverage - who?	Clients and Spouse
Coverage - what?	Death of clients or spouse
Premium amount	Rs4.67/ Rs1,000 sum assured, including service tax
Tenure	The loan term
Claim amount	For clients – disbursed loan amount For spouse - fixed Rs10,000

Insurance Processing details (FY 2012-13)	
Total insurance accounts	109,602
Number of claims in previous year	348
Number of payouts in previous year	348
Number of rejected claims	0
% claims/accounts	0.3%
% payouts/claims	100%
Average time between claim & settlement	10 -15 days

Integrity, governance and strategy

Performance



Score obtained	Maximum
26.4%	30%

Levels of internalization

Levels of internalization	Approval	Document ation	Dissemina tion	Observa nce
Integrating Social Values and Compliance at Institutional level	Good	Good	Good	Good
Governance	Good	Good	N.A	Good
Human Resource Strategy	Good	Good	Good	Good

...Integrity, governance and HR strategy

Integrating Social Values and Compliance at Institutional level	Compliance by Swadhaar
Not less than 85% of total assets of MFI	Swadhaar is compliant with the 85% qualifying assets criteria as per CA certificate issued every quarter. As on March 31, 2013, 88.04% of its assets were under the category of qualifying assets.
Aggregate amount of loan extended for income generating activity is >70% of the total loans given	As per CA certificate issued in March 31, 2013, 99.5% of Swadhaar's loans had been extended for income generating activities.

Integrating Social Values at Institutional Level

- ✓ Swadhaar has incorporated the key principles of the Unified Code of Conduct (U-CoC), Fair Practices Code and RBI guidelines into its own Code of Conduct which is emphasized during 4-day staff orientation, and refresher trainings. This CoC is strictly endorsed throughout the organizational hierarchy.
- ✓ Both HO and branches have prominent displays of Swadhaar's CoC, product details, grievance mechanism and avoidance of corrupt practices by staff and third parties in the vernacular language.
- ✓ Major initiatives have been taken to lower turnaround time on loans, get better data quality from the Credit Bureau, ensure grievance redressal to customers, reduce costs and ensure transparency.
- ✓ HR manual details guidelines pertaining to employee interactions with clients, including during default. Staff were well aware of the dos and don'ts detailed therein.
- It was observed during staff meetings that staff had limited awareness about existence of the Unified CoC; however they were aware about Swadhaar's CoC and knew most of the key principles therein as the latter incorporates almost the entire UCoC and FPC.

...Integrity, governance and strategy

Integrating Social Values at Institutional Level

- ✓ Swadhaar has developed an internal control and monitoring structure which includes multiple pre-disbursement checks at client level and physical and phone verification checks by an independent Verification Team after loan disbursement to ensure adherence to RBI guidelines and Swadhaar's own operational policies.
- Before the final quarter of 2012-13, Swadhaar kept its portfolio within Rs. 100 crores by entering securitization transactions with interested banks. However, it instituted an efficiency drive to ensure that margin cap would be met when portfolio crossed Rs 100 crores in the final quarter.
- ✓ As planned, Swadhaar achieved a margin within the 10% margin cap stipulated under RBI guidelines for those MFIs with Loan Portfolio over Rs100 crores. As per the CA certificate for March 2013, Swadhaar had a margin of 9.61% for the quarter ending March 31, 2013.
- ✓ Swadhaar's accounts are audited on a half-yearly basis by qualified auditors (as per the standards issued by ICAI). Swadhaar displays its audited financial statements with full disclosures in public domain through its website and annual reports.

...Integrity, governance and strategy

Governance

- ✓ Swadhaar has seven professionally qualified persons who have expertise in banking, financial inclusion, human resources and nurturing of start-up ventures, on its Board.
- ✓ The Board is chaired by Ms. Lalita Gupte, former Joint MD of ICICI Bank Ltd. Apart from the Chairperson and Ms. Veena Mankar, MD of Swadhaar; the Board had 4 Nominee directors and 1 Independent Director at the time of M-CRIL's visit.
- Although there are fewer independent directors than desirable as per the RBI's Corporate Governance circular, Swadhaar is in the process of expanding the Board to include two qualified persons in this capacity, one of whom is a respected microfinance consultant and the other a former government servant.
- ✓ The Board is actively involved in approval of all policies and operational strategies, including aspects relating to the adoption of RBI Guidelines, Fair Practices Code and U-CoC. Board has been proactive especially on customer service - minutes indicate high involvement in the discussions. Board members also go to Swadhaar's field areas and meet clients informally.
- A Board Audit Committee is in place, but currently not headed by independent director.
- ✓ Swadhaar constantly assesses best practices of other MFIs' to implement. Board follows up all changes in documentation, process and results for each aspect of FPC and U-CoC through a detailed report submitted to it quarterly by the Head of Risk, stating reasons for non compliance and recommended follow-up action.
- ✓ Swadhaar also places a quarterly report to the Board on grievance redressal mechanism. Issues are classified by type and turnaround time is also reported.



...Integrity, governance and strategy

Human Resource Strategy

- ✓ Swadhaar recruits its field staff based on responses to notices in job portals, print media and notices at the branch which elicit references from its employees. For senior posts, Swadhaar also uses services of consultants to recommend appropriate people.
- ✓ Swadhaar makes a formal reference check (within a time frame of 15 days) from the candidate's previous employer at the time of selection. Swadhaar also provides a similar reference in a timely manner for its outgoing employees within 14 days.
- ✓ No new employee is allowed to join Swadhaar without a relieving letter from their previous organization, more so if it is an MFI. Similarly all outgoing employees are issued a relieving letter.
- ✓ Swadhaar honours a month's notice period from its outgoing employees. However in case of disciplinary issues, the employee may be asked to leave immediately
- ✓ CoC is well integrated in training – there are detailed modules on customer service, client protection, especially expected conduct during client interaction and the MD attends at least one of the sessions during field staff orientation to reiterate Swadhaar's mission, vision, values and customer service ethos.
- ✓ Strong and well defined guidelines are included in Operations Manual as well as separate Swadhaar CoC
- ✓ Customer service has weightage of 20% in the goal-sheet of field employees (10% for process adherence including to CoC and 10% for building brand value through alignment with company values) – this is considered during the annual appraisal of employees
- ❑ Borrower mobilization and recovery rate take precedence in the incentive structure and behavioural aspects and CoC/ process adherence are not incentivized.
- ❑ Swadhaar may or may not assign the same operational area to new recruits(up to BM) as nothing against this is specifically mentioned in its HR manual. However, no such cases were observed in the branches visited.

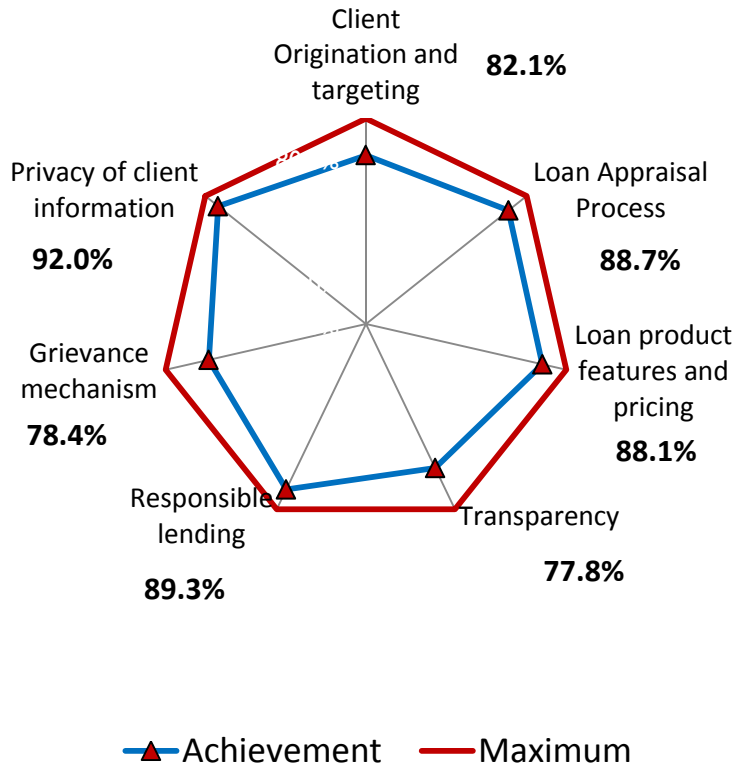
...Integrity, governance and strategy

Human Resource Strategy

- Swadhaar has not defined a penalty yet for non compliance with CoC, but its inclusion in appraisal format, as well as audit checks ensures that non compliance would be noticed and would affect the staff's performance. In severe cases disciplinary action would be taken against the staff, especially in the case of financial misappropriation or undesirable behaviour with clients.
- ✓ Staff are trained to impart training to prospective borrowers during CGT/GRT. They undergo additional on-the-job training during their probation.
- ✓ The training that staff are taught to give borrowers focuses on loan terms and conditions and not so much on rights and responsibilities, which are emphasized during the pre-disbursement training called Client Education Program (CEP), recently started and conducted by Swadhaar FinAccess trainers. (Slide 34 & 40)
- ✓ Staff were well aware of the CoC especially guidelines for interactions with clients. They were observed to be following these practices and were well aware about steps to be taken in overdue situations.
- ✓ The MFI does not have a practice of making good the shortfalls in collection from its employees and its employee Code of Conduct clearly specifies that this practice is unacceptable.
- ✓ Swadhaar uses only its own employees for recovery of loans. No outsourced agents are engaged.
- Supervision and monitoring of compliance to CoC is not done separately at the field level, but forms a part of Process adherence checks by supervisors such as Branch Manager (BM), Area Manager (AM) and Regional Manager (RM).
- ✓ Internal audit covers a few aspects of CoC including client awareness , staff behaviour, any pending issues under grievance redressal and overall customer satisfaction. At least a few delinquent clients are contacted per branch and they are asked in particular about staff behaviour, use of coercive tactics and collection of overdue penalty.

Compliance on Guidelines pertaining to Clients

Performance



Score obtained	Maximum
50.7%	60%

Levels of internalization

Levels of internalization	Approval	Documentation	Dissemination	Observance
Client Origination and targeting	Good	Good	Good	Moderate
Loan Appraisal Process	Good	Moderate	Good	Good
Loan product features and pricing	Good	Good	Moderate	Good
Transparency	Good	Good	Good	Good
Responsible lending	Good	Good	Good	Good
Grievance mechanism	Good	Good	Moderate	Good
Privacy of client information	Good	Good	Moderate	Good

Compliance with guidelines pertaining to clients

Client Origination and Targeting	Compliance by Swadhaar
Borrower's household income (HHI) does not exceed Rs 60,000 in rural areas and Rs 120,000 in non- rural areas	Swadhaar takes a self declaration from borrowers regarding their Household Income. Field staff also assesses client's household income and repayment capacity

Client Origination and targeting

- Swadhaar has chosen its operational areas based on surveys on occupational types, cash flows and unmet credit needs, which were performed during the early stages of operations. Currently existing operational areas are being consolidated, and new branches may be opened in MP and Rajasthan in the current Fin. Year.
- Although Rs 10,000 per month household income is unrealistically low for Swadhaar's operational area, clients are self-declaring incomes within this level, which renders them compliant with guidelines but reduces the veracity and value of the repayment capacity calculation exercise.
- The quality of data documented in the client forms could be improved. The assessment team observed that many application forms had routine entries – same income for all the members of the group. The data on other loans were also not captured in detail in many of the forms.
- ✓ Swadhaar does not discriminate between clients based on caste, religion or demographic attributes.
- ✓ Requisite KYC documents with proper photo identification are taken from clients during appraisal. These are checked for authenticity by the LO and the Branch Operations Executive (BOE).
- ✓ Clients are educated at various stages– during the introductory meeting, filling of CIF, during cross-verification check and again prior to disbursement. Swadhaar has introduced a Client Education Programme by SFA staff to educate clients about rights and responsibilities. Use of flipcharts helps to standardize inputs to clients

Compliance with guidelines pertaining to clients

Loan Appraisal Process	Compliance by Swadhaar
<p>Total indebtedness of the borrower does not exceed Rs 50,000</p>	<ul style="list-style-type: none"> ✓ For indebtedness check of group loans, Swadhaar relies on compulsory client declaration and cross verification from group members during the LO's house checks and further cross-checks from the BM during his visit to verify the group. ✓ Finally a Credit Bureau check is performed compulsorily for all clients to establish level of borrowing from other MFIs.
<p>The MFI ensures</p> <ul style="list-style-type: none"> ○ borrower does not have more than two NBFC-MFIs loans ○ borrower cannot be a member of more than one of its SHGs/JLGs ○ not lend to a single person as an individual & group borrower, simultaneously. ○ Involvement of more than one staff in loan sanctioning & disbursement 	<ul style="list-style-type: none"> ✓ A compulsory credit bureau check (in case of group loans) ensures that Swadhaar does not become the third lender to any individual. ✓ In case of wrong rejection, the CB report can be over-ruled only after approval from Swadhaar's GM and risk team after checking documentary evidence of loan closure from the other lenders. ✓ The Individual and Group loan segments are entirely different and to ensure that clients do not borrow from different groups or branches, a de-dupe is done in the MIS using the ration card number (most commonly used address verification document among clients of Swadhaar). ✓ All sanctioning and disbursement is done only at a branch office in the presence of the LO, BOE and BM.

Compliance with guidelines pertaining to clients

Loan Appraisal Process	Compliance by Swadhaar
<p>Credit Bureau (CB)</p> <ul style="list-style-type: none">○ MFI is a member of at least one CB○ submits data regularly to the CB○ Checks with CB before sanctioning of loan○ In addition to CB checks, takes self certification from the borrowers	<ul style="list-style-type: none">○ Data pertaining to group loans is submitted to both the Credit Bureaus – High Mark and Equifax.○ Credit bureau check is performed for all group loans and disbursements are made only to approved clients.✓ Swadhaar recently shifted its checks from High Mark to Equifax because of cost-benefit advantages as well as a higher rate of rejection and better accuracy from the latter.✓ Indebtedness information is captured in the loan application form which is duly signed by the borrower and cross-verified by the borrower’s family members during house visit by the LO and by group members during the BM’s verification checks.✓ Staff are trained to capture indebtedness information from all sources during client interactions and also through cross verification from other members – the form provides for recording loans from all sources.□ However it was observed during the visit that the field staff do not record other loans, partly because clients do not usually reveal these details easily.□ Staff have become more reliant on the CB check for establishing indebtedness rather than identifying over-indebtedness at an early stage.

Compliance with guidelines pertaining to clients

Product features	Compliance by Swadhaar
Loan size: does not exceed Rs 35,000 in 1st cycle and Rs 50,000 in subsequent cycles .	<ul style="list-style-type: none"> ✓ The loan size range for group loans in the first cycle is Rs8,000 -16,000 and in the subsequent cycles is Rs11,000-24,000; Rs 13,000-28,000 and Rs 15,000 – 34,000 respectively, which is compliant with guidelines. ✓ Loan size is based on an income matrix, which categorizes clients based on their own income and household income, and determines the loan size accordingly, to reduce risk of indebtedness. (See Slide 39)
Tenure: not less than 24 months when loan amount >Rs 15,000	<ul style="list-style-type: none"> ✓ Tenure of all loans irrespective of cycle or size is 24 months therefore Swadhaar is fully compliant on this indicator.
Repayment frequency: weekly/ fortnightly/ monthly at the choice of the borrower	<ul style="list-style-type: none"> ○ Swadhaar only offers the monthly repayment option to clients (at the doorstep). However it also offers clients the option of making part-payments on a weekly or fortnightly basis at branches. □ Client preference for monthly repayment is recorded in the Loan Application, though it appears to be more of a formality as client awareness about the option for making weekly and fortnightly payments at the branch, was negligible.
Moratorium: is not less than the frequency of repayment (or min. one installment)	<ul style="list-style-type: none"> ✓ The moratorium period is always minimum of one month, if the loan is disbursed in the latter half of the month it extends up to 40 days.

Compliance with guidelines pertaining to clients

Pricing	Compliance by Swadhaar
Interest rate/pricing cap: <ul style="list-style-type: none"> Margin cap of 10% for large MFIs (with portfolio > Rs 100 crore), 12% for others Max. variance between the min. & max. interest rate does not exceed 4% 	<ul style="list-style-type: none"> ✓ Swadhaar is stipulated to maintain 10% margin cap as per RBI guidelines (for MFIs having loan portfolio > Rs100 cr). It has maintained a margin cap of 9.61% as on March 31, 2013. ✓ Swadhaar continues to charge 26% p.a. declining interest, despite the removal of the interest rate ceiling on loans and maintains a variance of 4% between products (group and individual loans) ❑ As Swadhaar LOs encourage clients to pay 1-2 days in advance of their actual repayment date, there are small differences between the interest rate quoted and the effective rate paid over the 24 month term.
Pricing: only 3 components: (i) proc. fee (ii) interest (iii) insurance premium	<ul style="list-style-type: none"> ✓ Swadhaar does not take any fees other than the three components specified in RBI guidelines, therefore is fully compliant.
Processing fee: max 1% of loan Insurance commission: as per IRDA norms	<ul style="list-style-type: none"> ✓ Compliant - Charges 1% of loan amount plus service tax. ○ Swadhaar has a tie-up with Bajaj Allianz for a compulsory term credit-linked life insurance for its borrowers. Details of the product are on Slide 14. Only the premium amount is collected from customers.
Other: <ul style="list-style-type: none"> No penalty for prepayment & delayed payments No collateral & security deposit 	<ul style="list-style-type: none"> ✓ Swadhaar does not charge penalty on prepayment & delayed payment for group/individual loans. ❑ Interest does not get reduced despite advance instalment payment, because the software does not make the adjustment for reduction of a few rupees interest for the difference between the prepayment / foreclosure date and the next instalment due date. Swadhaar is internally discussing the possibility of manually refunding this amount but this poses several challenges. ✓ Group loans are extended without collateral.

Compliance on Guidelines pertaining to Clients

Transparency	Compliance by Swadhaar
<p>Standard form of loan agreement: preferably in vernacular language</p>	<ul style="list-style-type: none"> ✓ Sanction cum disbursement receipt (ScDR) is issued to each member as acknowledgement of receiving the loan processing fee and insurance premium. It contains details of the amount sanctioned, loan tenure, interest rate, processing fee, insurance premium and several all rights and responsibilities as part of the loan contract It is signed by all group members, and a copy of this and Terms and Conditions (both in vernacular) are given to each member. On the reverse of the ScDR is the amortization schedule. ✓ Terms and conditions are read aloud and explained by the BOE before clients sign ✓ A Demand Promissory Note is issued to each client at the time of disbursement mentioning the amount disbursed to them as well as to the group
<p>Loan card: reflecting of (i) EIR (ii) terms & conditions (iii) record all transactions;(iv) all entries in vernacular</p>	<ul style="list-style-type: none"> ✓ There is no loan card. All the terms and conditions are mentioned in a separate attachment to the repayment schedule. ○ The EIR (including insurance premium) is not shown, but APR (including interest and processing fee), declining and monthly interest are shown in loan documents. □ All receipts are in English as they are pre-printed and only amount and LO signature are entered during collection.
<p>Display of the EIR in its offices & website</p>	<ul style="list-style-type: none"> ○ Swadhaar displays reducing interest rate , APR (including loan processing fee) and loan processing fee (including service tax) in its branch offices. No EIR is displayed.
<p>Member education: professional inputs to members in the formation groups</p>	<ul style="list-style-type: none"> ✓ Clients are educated on group responsibilities, loan terms and conditions and Swadhaar’s eligibility criteria during group promotion meetings and subsequent interactions with LOs – home verification, CIF filling, BM verification, CAF filling and finally by SFA staff and BOE before disbursement at the branch.

Compliance on Guidelines pertaining to Clients

Transparency

- ✓ Loan terms and conditions are verbally communicated several times to the client during the initial meetings
- ✓ Swadhaar communicates in writing to the clients that their personal information would be kept confidential, and takes their signature on the loan application as permission for sharing their personal information with credit bureaus.
- Group loan clients are given individual, pre-printed receipts for deposit of instalment amount, at the time that the LO collects the amount from the group leader.
- The Group leader is supposed to ensure that all individual group members are given their receipts for safekeeping, though a few clients were observed maintaining their receipts with the group leader.
- Receipts are issued by the BOE to those clients who deposit advance payments, part payments or foreclosure amounts in cash by visiting the branch office.
- Swadhaar does not charge any fee for non-credit services like pre-loan training (distinct from the financial education program which is module-based, voluntary and run by Swadhaar FinAccess)



...Compliance with regulations

Responsible Lending	Compliance by Swadhaar
<p>Location for transactions and overdue recovery</p> <ul style="list-style-type: none">○ all transactions at a central location○ staff are allowed to make recovery at the place of residence or work if borrower fails to appear at central place on 2 or more successive occasions	<ul style="list-style-type: none">✓ Loans are disbursed at the branch office in the presence of BM as well as the BOE.✓ Repayment is collected by the LO from respective group leaders – all members are not required to attend the collection meetings.□ Usually payments are received one or two days prior to the group meeting date by mutual agreement with the group leaders*✓ Recovery is never made by visiting clients' house at odd hours or on inappropriate occasions – staff were well aware of this during branch discussions, mostly due to the multiple trainings received on this topic.✓ In cases of overdue follow-up/recovery, staff are always accompanied by the group leader or fellow group members when visiting a client's house.

- *As Swadhaar's repayment window is quite limited (just one week), the LOs often encourage groups to pay a little earlier than their due date and fix a suitable collection time with group leaders on the phone. This results in a few days prepayment of installments, usually 1-2 days advance. However, Swadhaar's MIS does not make an adjustment for this excess interest, which over a 24 month term can make a small but significant difference to the Effective Rate of Interest paid.

Compliance with guidelines pertaining to clients

Responsible lending

- ✓ Swadhaar offers both group loans (Swahit) and individual loans (Swayog). As Swayog loans were non compliant with RBI guidelines, Swadhaar has run down the portfolio in this product and restructured its entire individual lending product, which is now being offered on a pilot basis in 2 branches in Mumbai.
- ✓ The new product is compliant with RBI guidelines and FPC in terms of pricing variance from group loans as well as in terms of indebtedness checks (via credit bureau), collateral and customer education. However, since the product is still in its pilot phase, it has not been covered extensively in this report.
- Every borrower is assigned a unique client ID which ensures that a borrower cannot be a member of more than one of Swadhaar's groups at the same time. Swadhaar's de-dupe using ration card numbers helps eliminate most cases of attempted multiple group memberships.
- ✓ Swadhaar's Operations manual lays down a Board-approved procedure to deal with clients at each stage of default and also specifies circumstances in which loans can be rescheduled in genuine cases, or written off. (In April 2011, portfolio of Rs 4 lakhs (of 36 clients in Kherwadi branch who had lost their homes in a fire) was rescheduled to include a 3 month holiday after which loan instalments would recommence.
- ✓ Staff displayed very good knowledge about the overdue recovery policies up till legal action.
- ❑ However, they were not aware of any options for rescheduling. This could result in genuine cases being overlooked and not referred for rescheduling,
- ✓ Each shortfall from a group or a client affects the incentive of the LO concerned. Collection of shortfalls are not made good from employees and if attempted, would invite disciplinary action.
- ✓ No cases were reported by customers of any kind of misbehaviour or violation of ethics
- ❑ Loan utilization check is conducted over the phone by Verification Officers - LUC is not recorded or analysed. For repeat loans, if the loan purpose is the same as that for the previous loan, it is just listed as "business" in the MIS and no details are maintained for the nature of the business.

Compliance on Guidelines pertaining to Clients

Grievance Mechanism

- ✓ Swadhaar has a dedicated helpline number for clients. The number is prominently displayed in the branch offices and also on the client's loan documents, and on every receipt.
- ✓ Swadhaar also educates the clients about the helpline during multiple pre-disbursement interactions
- ✓ Swadhaar's staff at each Regional Hub (who speaks both Marathi and Hindi, but not Gujarati), maintains the log of borrowers' complaints and directs them to the concerned staff (area head, branch head etc.) for resolution.
- ✓ The branch usually calls the client with the response, action taken or for further details. Once the complaint has been suitably addressed, the branch logs its response with the Hub and this is entered in a consolidated Excel sheet which is submitted to the Head Office every month.
- ❑ The number is not toll free and at the time of the M-CRIL visit it had not been working for about a week, and there was no alternative system other than to repair it. Corrective action has subsequently been taken and a new toll free number will be available shortly.
- ✓ Usually the turnaround time for grievances is 15 days, in very serious or complicated cases it has been longer.
- ✓ Swadhaar prepares a quarterly report on grievance redressal process and submits it to the Board. The report includes the total calls, types of issues, resolution status, action taken and turnaround time. The Board has been monitoring addressal of grievances and has expressed concern that the number of calls has been lower than expected. (Average calls have been around 100 per month).
- ❑ It was observed that only 56% clients could rightly point out the helpline number in the receipt or loan documents, indicating that client awareness about the facility needs to be improved.

Compliance with guidelines pertaining to clients

Privacy of client data

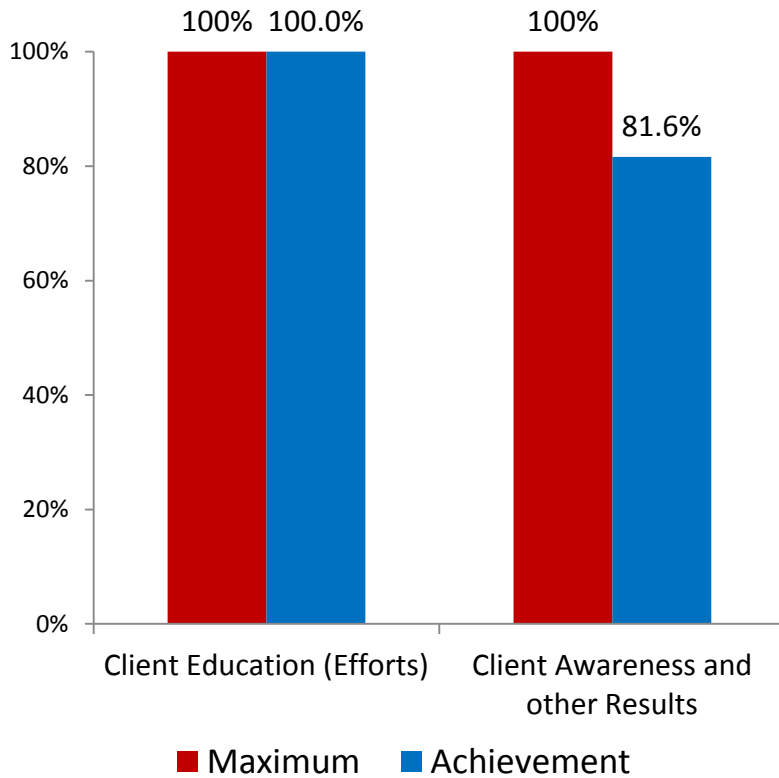
- ✓ Swadhaar has a centralized MIS department which ensures privacy and security of client data.
- ✓ All backend processes take place through outsourced vendors (Vindhya) or at the Hub.
- ✓ Adequate internal control has been built to access/enter the data at HO/branch level, using password protection and hierarchy-based data access levels.
- ✓ Only the data which has to be entered in relevant fields is scanned and sent to Vindhya for processing. This data cannot be misused as there are strict confidentiality agreements between the two entities.
- ✓ Branches can only view client information which is pertinent to their own operational area.
- ✓ Information is shared with the High Mark and Equifax as per RBI guidelines.
- ❑ Customers' written permission is taken on the loan application for sharing their personal data with the credit bureau (s), and they are verbally informed about such data sharing during initial interactions.
- ❑ Around 70% clients interviewed were aware about Swadhaar's privacy policy and such data sharing with Credit Bureau although many could not remember signing the privacy clause in their loan application.

Monitoring & audit of compliance on guidelines pertaining to clients

- ✓ Internal audit adequately covers aspects of multiple lending and over-indebtedness, client awareness, satisfaction and staff behaviour
- ❑ There is no regular pattern of supervisory checks performed by BM and AM. Most of the attention to groups is given before disbursement through rigorous checks. BM or higher supervisors visit the groups only at the time of default or other problems.
- ✓ Post-disbursement checks are conducted over the phone by Verification Officers who call 1-2 members per group from the Hub office. VOs question members about the loan amount received, loan purpose, whether clients were given the correct amount, and whether any excess amount was demanded from them by way of commissions or bribes. Despite hesitance of some clients to answer these questions on the phone, pipelining is identified when customers insist that they have received a lower amount or no disbursement.

Client education efforts & field results

Performance



Score obtained	Maximum
8.7%	10%

Levels of internalization

Parameter	Approval	Documentation	Dissemination	Observance
Client Education Efforts	Good	Good	Good	Good
Client Awareness	NA	NA	NA	Moderate



...Client education efforts & field results

Client Education

- ✓ Swadhaar educates the clients about loan products and loan terms and conditions at multiple stages (group mobilization, before filling the Client Information Form) to ensure that the borrowers make an informed decision before availing loans.
- ✓ Client education starts with the introductory meeting wherein potential clients are briefed about Swadhaar, its policies and products, lending methodology including group formation and joint liability, KYC document requirements, etc.
- ✓ Clients are educated on all terms and conditions including eligibility criteria, group cohesion, appraisal process and regulatory guidelines (including Credit bureau check, household income criteria and indebtedness criteria), product pricing, grievance redressal mechanism, during 2 interactions during which the CIF is filled and a house check is performed by the LO.
- ✓ Understanding of terms and conditions and awareness is reiterated by the BM during the group cross-verification check in the field (this is done before every subsequent loan) and the loan application form is only filled after satisfactory awareness level of the group is established.
- ✓ Client awareness is checked during the pre-disbursement branch processes by the BOE.
- ✓ Additional inputs are given by the Swadhaar FinAccess (SFA) staff under the recently introduced Client Education Program. This 1.5 hour module delivered at the branch, comprises a condensed version of a series of trainings given by SFA under its financial literacy program. It also includes inputs on clients responsibilities including not paying bribes and commissions to agents or staff of Swadhaar and informing MFI officials if any amount is sought from them in this manner.
- ✓ Audit team also checks client awareness and familiarity with each other during their field visits.
- ✓ Use of flipcharts helps to ensure that all points are covered uniformly with standardized messages and language to avoid any misunderstanding, mis-selling or carelessness on the part of staff.

...Client education efforts & field results contd....

Client awareness and other results

- ✓ Awareness and recall of training received was high on all aspects - clients could recall multiple sessions on terms and conditions, and rights and responsibilities.
- ❑ Unfortunately, despite the multiple-point trainings and good delivery approach, client awareness levels were surprisingly low— many admitted to having received training on topics which they were asked about, but could not recall what exactly had been taught.
- ❑ Those who were literate could understand where clauses appeared in their documents, but a large number of those who were illiterate could not point to information such as the processing charge, insurance terms and conditions, or the grievance number on their loan documentation/ receipts.
- ✓ Only 61.3% clients were fully aware about the MFI details – name and HO Location, 38% knew just the name “Swadhaar”. All clients were aware of the location of their branch office. 95% knew about joint liability norms and rationale for group formation.
- ✓ 100% clients knew their loan amount and tenure. 96% knew instalment amount, while 99% clients knew how many instalments they had paid.
- ❑ Awareness on product details like interest rate, processing fee, insurance premium amount was comparatively low – 43%, 7.2% and 9.6% could give completely correct answers respectively. Surprisingly, full knowledge on insurance coverage was high at 45.3% - indicating that clients remember benefits over costs
- ❑ Only one client among 126 interviewed was aware that partial payments could be made at the branch in case weekly or fortnightly repayment frequency was preferred. No other clients seemed to know of it.
- ❑ A point of concern was that several clients especially in Mumbai field areas mentioned a penalty of Rs. 50 on late payments, though this is not in force. Only 41.3% were aware of prepayment terms and conditions
- ❑ Only 47.3% clients knew about the grievance redressal system of which 38.8% could locate the grievance redressal number on their receipts or loan documentation.
- ✓ Clients were happy with the product design and gave very good feedback about staff behaviour, citing zero instances of misbehaviour or seeking commissions and bribes.



Annexes

Profile of the Board

Board member	Designation in the Board	Experience	Since
Ms. Lalita D Gupte	Chair person	<ul style="list-style-type: none"> Former Joint MD and Board member of ICICI Bank Ltd, she held various leadership positions across many divisions, including Corporate and Retail Banking, Strategy, Planning and Resources and International Banking. Chairperson of ICICI Venture Funds Management Company Limited. 	11-05-2008
Ms. Veena Mankar	Managing Director	<ul style="list-style-type: none"> One of Swadhaar's two founders; has over 30 years of experience in development and commercial banking with ICICI Ltd. Has served as an independent consultant to a number of international banks and was the India country representative of WestLB Group. Was MD of an NBFC offering factoring, which became India's largest independent factoring company in 3 years. 	Since Inception
Ms. Anita Ramchandran	Independent Director	<ul style="list-style-type: none"> 30 years of experience in consulting and human resources. MD of Cerebrus Consultants, which specialises in organisation restructuring, HR strategy and performance management. 	17/09/2008
Ms. Geeta Dutta Goel	Nominee Director	<ul style="list-style-type: none"> Manages the Michael & Susan Dell Foundation's (MSDF) microfinance initiative in India. Spent over 12 years with the Corporate Finance Group of PricewaterhouseCoopers in India, and has advised several leading companies on capital structuring and raising private equity. 	17/09/2008
Ms. Valerie Kindt	Nominee Director	<ul style="list-style-type: none"> Worked in the Global Programs department of ACCION International (ACCION) since 2000. Currently a Board member of United Villages, a Bottom of the Pyramid goods distributor, and manages the India Global Training Center and Swadhaar technical assistance contract. Previously provided technical assistance to ACCION's partners in Haiti, Africa and the Middle East. 	19/11/2010
Mr. Srinivas Bhaskar Rao	Nominee Director	<ul style="list-style-type: none"> Worked for over 22 years in promoting and funding small and medium enterprises in under-developed areas of Maharashtra. Been involved in nurturing and supporting start-up ventures of entrepreneurs in various sectors. 	17/09/2008
Mr. Siddhartha Chowdri	Nominee Director	<ul style="list-style-type: none"> India Country Manager for ACCION International (ACCION), Bangalore. Since 2005, he has led ACCION's efforts in India, working as a microfinance consultant on several of ACCION's projects. Worked in San Jose, Costa Rica as an intern at ProFund International/CALMEADOW, a microfinance investment fund managing company. 	17/09/2008

Shareholding Pattern

Sl. No.	Shareholder	Class of Equity	No. of Shares	Amount (Rs.)	% shareholding
1	Promoters, Family & Friends	Equity Shares	3,060,424	30,604,240	5.9%
2	Padmini Benefit Trust	Equity Shares	6,960,000	69,600,000	13.5%
3	Accion Africa Asia Investment Company	Equity Shares	19,650,000	196,500,000	38.0%
4	Mauritius Unitus Corporation	Equity Shares	2,312,500	23,125,000	4.5%
5	Michael & Susan Dell Foundation	Equity Shares	6,452,250	64,522,500	12.5%
6	Swadhaar EWT	Equity Shares	4,919,625	49,196,250	9.5%
7	M V Mauritius Limited	Equity Shares	8,325,114	83,251,140	16.1%
	TOTAL		51,679,913	516,799,130	

Income-loan size matrix

Defining Income Categories

Category	Client Income		Household Income	
	Minimum	Maximum	Minimum	Maximum
A	1,500	2,000	2,000	3,500
B	2,001	3,000	3,501	5,000
C	3,001	4,000	5,001	6,500
D	4,001	8,000	6,501	10,000

Loan limits according to Income Category

Cycle	1st		2nd		3rd		4th	
	Client Income		Client Income		Household Income		Household Income	
Income Category	Minimum		Maximum		Minimum		Maximum	
A	8,000		11,000		13,000		15,000	
B	12,000		18,000		15,000		25,000	
C	14,000		22,000		22,000		32,000	
D	16,000		24,000		25,000		34,000	

Client Education Program

- ▶ This has been introduced in 13 branches of Swadhaar FinServe, through a collaboration with Swadhaar FinAccess. No fees are charged for this training and it is compulsory for all groups in the 13 branches where it is operational.
- ▶ There was a lot of multiple lending and presence of agents in group formation, so the idea came up from the field about including a training module on how to avoid over-indebtedness.
- ▶ A team brainstormed on how to integrate training into the business process and make the training results fairly rigorous so that immediate results could be identified
- ▶ It was decided to use SFA trainers for the process as their independence from the operational hierarchy adds rigour and transparency
- ▶ The CEP session is a 1.5 hour compact module on how and why to avoid multiple lending; case studies of multiple borrowers; dos and don'ts recommended for Swadhaar clients; credit bureau and its utility; prepayment and Swadhaar's rules on where to make advance payments; benefit of savings and how to open a bank account; grievance redressal; SFA services (5-module Financial Education Program) and inputs on insurance in general and tips for budgeting and planning finances.
- ▶ The SFA trainer also checks the group homogeneity using a special tool which has a coding system of green, yellow or red to indicate that the group is well formed, problematic or completely lacking in mutual awareness. (A total of 123 groups were coded yellow and most were trained and re-evaluated after some intervention, but some were rejected after doubts of the SFA staff were confirmed.
- ▶ 40% customers sign up for SFA's Financial Education Program because they find the CEP training useful.

Methodology

- ▶ **Preliminary analysis of MFI's information, review of available reports and financial statements**
- ▶ **Visit to Head Office of MFI**
 - ❑ Discussions with the senior management (Operations, Human Resources & Training, Internal Audit) to understand MFI's objectives, governance, market strategies, operations, products and services, integration of CoC in policies and procedures etc.
 - ❑ Collection and review of documents, manuals, Board minutes and associated documents to Code of Conduct.
- ▶ **Visit to branches – 7 branches – 4 in Mumbai, 2 in Baroda and 1 in Nadiad**
 - ❑ Discussion with Branch Manager and all branch staff on different aspects of CoC, MFI's policies and procedures (all branches except Gothri branch, Baroda)
 - ❑ Documentation review – client basic profile forms, loan application forms, internal audit reports, complaints register if any and CoC displays
- ▶ **Visit to centre meetings – FGD with minimum 2 groups per branch; due to mixed-group interaction, 27 FGDs were conducted with 126 clients from 33 groups**
 - ❑ Assess relationship between MFI staff and clients
 - ❑ Check for implementation of client protection principles
 - ❑ Spot check of passbooks, receipts, repayment cards, maintenance of documents
 - ❑ Feedback on products – suitability to client needs, application of terms & conditions
- ▶ **Data Analysis and Report writing**
- ▶ **Internal Review at M-CRIL**
- ▶ **Report draft sent to Swadhaar Financial Services Private Limited**

Sampling Plan

			Loan Cycle				
	Branch	Region	L1	L2	L3	Borrowers	Total Centres
1	Chembur	Mumbai	9	8	4	21	2
2	Malad	Mumbai	9	7	1	17	2
3	Bhandup	Mumbai	7	15	0	22	2
4	Kalyan	Mumbai	5	11	3	19	2
5	Fatehganj	Gujarat	3	4	0	7	2
6	Gothri	Gujarat	0	3	16	19	2
7	Nadiad2	Gujarat	2	6	13	21	2
	Grand total		137	23	15	126	16

Assessment tool: weight, scores and performance

Sections	No. of Indicators	Max Score	Weights	Performance
Integrity, Governance and HR Strategy	35	175	30%	26.4%
Integrating Social Values and Compliance at Institutional level	9	45	10%	9.6%
Governance	7	35	10%	8.0%
Human Resources Strategy	19	95	10%	8.8%
Compliance with regulations pertaining to clients	102	510	60%	50.7%
Client Origination and targeting	11	55	9%	7.4%
Loan Appraisal Process	7	35	9%	8.0%
Loan product features and pricing	24	120	10%	8.8%
Transparency	25	125	10%	7.8%
Responsible lending	19	95	9%	8.0%
Grievance mechanism	10	50	9%	7.1%
Privacy of client information	6	30	4%	3.7%
Client education and financial literacy	27	135	10%	8.7%
Client Education	4	20	3%	3.0%
Client Awareness	25	125	7%	5.7%
Overall	164	820	100%	85.8%

Abbreviations

APR	Annualized Percentage Rate	ICAI	Institute of Chartered Accountants of India
ADDO	Approval Documentation Dissemination Observation	JLG	Joint Liability Group
AM	Area Manager	KYC	Know Your Customer
BM	Branch Manager	LO	Loan Officer
BoE	Branch Operations Executive	MP	Madhya Pradesh
CEO	Chief Executive Officer	MIS	Management Information System
CFO	Chief Finance Officer	MD	Managing Director
CAF	Client Application Form	MSDF	Michael and Susan Dell Foundation
CEP	Client Education Program	MFI	Micro Finance Institution
CIF	Client Information Form	M-CRIL	Micro-Credit Ratings International Ltd
CoC/ U-CoC	Code of Conduct/ Unified Code of Conduct	MIX	Microfinance Information eXchange
CB	Credit Bureau	MFIN	Microfinance Institutions Network
EIR	Effective Interest Rate	NBFC	Non Banking Finance Company
EMI	Equated Monthly Installment	OSS	Operational Self Sufficiency
FPC	Fair Practices Code	PAR	Portfolio at Risk
HO	Head Office	PSL	Priority Sector Lending
HHI	Household Income	RM	Regional Manager
HR	Human Resources	RBI	Reserve Bank of India
HR	Human Resources	SCDR	Sanction cum Disbursement Receipt
ICICI	Industrial Credit and Investment Corporation of India	SIDBI	Small Industries Development Bank of India
IT	Information Technology	SFA	Swadhaar FinAccess
		SFPL	Swadhaar FinServe Private Limited
		VO	Verification Officer