

CONFIDENTIAL



## Code of Conduct Assessment Tool Report

Swayamshree Micro Credit Services

October 2012

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Conducted by:

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Swayamshree Micro Credit Services			
<b>Legal Form</b>	Section 25, Not for profit company under Companies Act 1956		
<b>Date Established</b> <b>Initiation of Operations</b>	May 9, 2003	<b>About Swayamshree Micro Credit Services</b>  Swayamshree Micro Credit Services (SMCS) is a not-for-profit Micro Financing Institution incorporated under Section 25 of the Indian Companies Act 1956 in the year 2003. SMCS was initially functioning as the micro-finance arm of CYSD (Centre for Youth and Social Development, Bhubaneswar), a leading NGO in Odisha.  SMCS started its activities independently in the year 2004 and is presently working in 24 districts and urban slums of Bhubaneswar.	
<b>Operational Area</b>	<ul style="list-style-type: none"> <li>Odisha</li> </ul>		
<b>Services and Products offered</b>	<ul style="list-style-type: none"> <li>Short term, Medium Term and Long Term</li> </ul>		
<b>Lending Model</b>	<ul style="list-style-type: none"> <li>Self Help Group (SHG)</li> </ul>		
<b>Average Score</b>	<b>Rating</b>	<b>Grade</b>	SMCS follows the Self Help Group (SHG) model and charged 26% interest on a reducing balance basis for a tenure ranging from 12 to 36 months. Loans are given for petty business, micro-enterprises, agriculture and allied activities. It had also introduced a housing loan product for the members with credible track record with SMCS.  Currently, SMCS has 14 branch offices and over 40000 borrowers with over Rs.240 million as outstanding. It works under the SHG model and has over 11000 groups. It has been able to leverage funds from various banks like SBI, SIDBI, IDBI etc. and is also currently working as BC from SBI. It has with nearly 150 experienced staffs in 14 branch offices. It offers three types of loan based on the tenure and purpose of the loan- short, medium and long term for agriculture, income generation and housing.
3.11	3.50-4.00	AA	
	<b>3.00-3.49</b>	<b>A</b>	
	2.50-2.99	BB	
	2.00-2.49	B	
	1.50-1.99	CC	
1.00-1.49	C		

<b>Key Performance Indicators (Institutional reporting)</b>			
	<b>2008-09</b>	<b>2009-10</b>	<b>2010-11</b>
<b>Active borrowers</b>	24,282	24,764	40,283
<b>Number of groups</b>	7,457	10,071	11,054
<b>Gross Portfolio Outstanding (millions)</b>	250	317.5	247.6
<b>Portfolio Yield (nominal)</b>	17.70	17.65	19.50
<b>Financial expense ratio</b>	10.10	10.25	13.13
<b>Operating cost ratio</b>	3.58	4.00	4.49
<b>Operational self-sufficiency</b>	113.07	113.05	113.21
<b>Return on Assets</b>	1.60	1.81	2.67
<b>Branch Offices</b>	8	12	14
<b>Staff</b>	88	114	149

<b>Loan Products</b>			
	<b>Short Term</b>	<b>Medium Term</b>	<b>Long Term</b>
<b>Clientele</b>	Women	Women	Women
<b>Utilization</b>	Income generation activities/consumption	Income generation activities/business	Housing
<b>Loan size</b>	Rs10,000 to 15,000	Rs15,000 to 50,000	Rs50,000 to 125,000
<b>Loan tenure</b>	12 months	24 months	36 months
<b>Guarantor</b>	SHG	SHG	SHG
<b>Collateral requirements</b>	Group	Group	Group
<b>Repayment</b>	Monthly	Monthly	Monthly
<b>Interest rate</b>	26% reducing	26% reducing	26% reducing
<b>Other charges (Insurance)</b>	Rs155 for LIC		
<b>Processing fee</b>	1%	1%	1%
<b>Security deposit / risk contribution</b>	Nil	Nil	Nil

## Highlights

### Strengths:

- Code of Conduct customized as per the SMCS mission, vision, values and displayed in all branches & HO.
- Robust Internal Audit mechanism.
- Pricing information verbally as well as written, communicated to clients.
- Clients were able to recall the pricing terms and conditions.
- Staffs have a good rapport with the clients
- Loan processes are easily acceptable by client with small group size (less time taken for meeting)
- Pricing data is transparent, information available publicly in branches.
- Dedicated Customer Care Helpline for client feedback, issues/ complaints addressed on priority basis.
- Training given to staff on good conduct and also indicate inappropriate conduct.
- Have a good rapport with the banks
- Employee friendly HR policy exists in SMCS.

### Areas to Strengthen:

- Credit Plus activity may be conducted regularly as there is demand from client side.
- Client targeting criteria exist but tools for poverty targeting are not used.
- Client drop-out survey / interview are conducted and analysed by interns / students. Corrective actions are taken as per the suggestions / recommendations of the study. However, this needs to be conducted for all drop-out clients.
- Though Board discusses on aspects relating to Code of Conduct, no compliance report is presented in Board meeting

## Code of Conduct Assessment Report for SMCS

### Summary of the study

The overall grade obtained by SMCS is **A**, with a composite score of **3.11**, which indicates that the organization has good appraisal systems, transparent pricing policies, employee friendly HR policies to ensure alignment and adherence to a developed Code of Conduct. The client comprehension across SMCS is excellent with defined Code of Conduct practices followed throughout the operations. More could be done to improve the diversity in products and services offered.

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 SMCS		
Assessment Area	Score (out of 4.00)	Key Elements to be evaluated
Code of Conduct	3.18	<ul style="list-style-type: none"> <li>• Design</li> <li>• Visibility/ Dissemination</li> <li>• Training (Staff)</li> <li>• Refresher</li> <li>• Awareness (Staff)</li> <li>• Awareness (Client)</li> </ul>
Market Entry	2.50	<ul style="list-style-type: none"> <li>• Criteria for identification</li> <li>• Procedure</li> <li>• Saturation</li> <li>• Due diligence</li> </ul>
Appraisal Process	3.54	<ul style="list-style-type: none"> <li>• Client data collection</li> <li>• Repayment capacity</li> <li>• Debt thresholds</li> <li>• Loan History</li> <li>• Processing time</li> <li>• Approval</li> <li>• Verification</li> </ul>
Client Comprehension	3.21	<ul style="list-style-type: none"> <li>• Client Review Time</li> <li>• Explanatory Channels</li> <li>• Awareness</li> <li>• Disclosure of prices &amp; terms</li> <li>• Rights and obligations</li> <li>• Training (Staff)</li> </ul>
Products and Services	3.00	<ul style="list-style-type: none"> <li>• Design &amp; appropriateness</li> <li>• Review</li> <li>• Diversity</li> <li>• Convenience</li> <li>• Linkages</li> </ul>
Pricing	2.86	<ul style="list-style-type: none"> <li>• Competition</li> <li>• Transparency</li> <li>• Fees</li> <li>• Security Deposits</li> <li>• Prepayment</li> <li>• Default</li> </ul>
Feedback Mechanisms	3.15	<ul style="list-style-type: none"> <li>• Existence</li> <li>• Training (Staff)</li> <li>• Client awareness</li> <li>• Usage</li> <li>• Checking</li> <li>• Staff Resources</li> <li>• Client Exit Interviews/ Drop-out surveys</li> </ul>

<b>Baseline Results for SMCS</b>		
<b>Assessment Area</b>	<b>Score (out of 4.00)</b>	<b>Key Elements to be evaluated</b>
<b>Staff Conduct</b>	<b>2.87</b>	<ul style="list-style-type: none"><li>• Rule Book</li><li>• General training</li><li>• Induction</li><li>• Evaluation</li><li>• Review of conduct</li><li>• Incentive/ Disincentive</li><li>• Recovery/ defaults</li></ul>
<b>Governance</b>	<b>3.50</b>	<ul style="list-style-type: none"><li>• Responsibility</li><li>• Member experience/ exposure/ reputation in MF</li><li>• Composition</li><li>• Role</li><li>• Code of Conduct Compliance Report</li><li>• Member attendance in meeting</li></ul>
<b>Human Resource</b>	<b>3.13</b>	<ul style="list-style-type: none"><li>• Field staff experience/ exposure in MF</li><li>• Recruitment</li><li>• Staff Exit</li><li>• Complaint Redressal</li></ul>

## Code of Conduct Assessment Tool Results

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

1. Code of Conduct	Score : 3.18
<b>Key Elements:</b> Design, Visibility, Training, Refreshment, Awareness	
<b>a. Design</b>	
<ul style="list-style-type: none"> <li>• The aspects mentioned in the Code of Conduct of Sadhan have been incorporated in the SMCS Code of Conduct which is also customized on the institutional values, mission, vision and expectations.</li> </ul>	
<b>b. Visibility</b>	
<ul style="list-style-type: none"> <li>• Code of Conduct is displayed in all field branches</li> </ul>	
<b>c. Training</b>	
<ul style="list-style-type: none"> <li>• Separate training on Code of Conduct to all the BM and Credit officer by HO staff have been provided and respective BM / CO imparts training to all the Field Facilitators.</li> </ul>	
<b>d. Refreshment</b>	
<ul style="list-style-type: none"> <li>• There is no refresher training on code of conduct though SMCS has made efforts to refresh staff in the Code of Conduct through its monthly staffs meetings.</li> </ul>	
<b>e. Awareness</b>	
<ul style="list-style-type: none"> <li>• More than 90% staff has very good 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.</li> <li>• More than 70% clients have very good understanding of overall code, details and expectations.</li> </ul>	

2. Market Entry	Score : 2.50
<b>Key Elements:</b> Identification, Procedure, Saturation, Due Diligence	
<b>a. Identification</b>	
<ul style="list-style-type: none"><li>• SMCS parent organisation CYSD conducted studies for identification of areas for carrying out its social interventions. These studies formed the base for SMCS to further look into possibility of market entry. It has specific rules that qualify the target population (income level, assets, opportunities, among others) to start their operations in new area.</li></ul>	
<b>b. Procedure</b>	
<ul style="list-style-type: none"><li>• SMCS 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, demographics.</li></ul>	
<b>c. Saturation</b>	
<ul style="list-style-type: none"><li>• During the market identification procedure, SMCS does not strictly identify the area based on the number of MFIs working in the new identified market. It mainly focuses on poorer clients who have not yet been served financially and accordingly takes a decision</li></ul>	
<b>d. Due Diligence</b>	
<ul style="list-style-type: none"><li>• Due diligence for new area is done by 3 departments of SMCS – Operations, Finance and Board. All Field Facilitators, Branch Managers and Credit Managers are involved in the field survey. This is finally approved by the SMCS board.</li></ul>	



3. Appraisal Process	Score : 3.54
<b>Key Elements:</b> Client Data Collection, Repayment Capacity, Debt Thresholds, Loan History, Processing Time, Approval, Verification	
<b>a. Client Data Collection</b>	
<ul style="list-style-type: none"> <li>• In SMCS, once the interested members' meeting is conducted by the FF, they fill the individual forms for evaluation followed by a 2-day Compulsory Group Training (CGT) by the FF. Group Recognition Test (GRT) is conducted on door-to-door basis by the BM. There is use of peer verification across groups, information collection from neighbours / household members. These information are mentioned in an intensive written document and cross-verification from group members is also done.</li> </ul>	
<b>b. Repayment Capacity</b>	
<ul style="list-style-type: none"> <li>• Repayment Capacity is assessed during the individual primary evaluation &amp; CGT by FF; critically evaluated during GRT by BM on door-to-door basis; information collection on household incomes, expenditures, assets and liabilities is also done.</li> </ul>	
<b>c. Debt Thresholds</b>	
<ul style="list-style-type: none"> <li>• Debt thresholds limits are calculated on the basis of the level of income or expenditure of the family, surplus and regular inflow-outflow of cash – captured in the individual form.</li> </ul>	
<b>d. Loan History</b>	
<ul style="list-style-type: none"> <li>• 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).</li> </ul>	
<b>e. Processing Time</b>	
<ul style="list-style-type: none"> <li>• It was observed through the interaction with the staff members and clients in the field that the loan processing time of SMCS is 7-10 days. But, the current loans have taken about a month time due the microfinance crisis and hence lack of funds.</li> </ul>	
<b>f. Approval</b>	
<ul style="list-style-type: none"> <li>• After all the due diligence in the field, all the loan applications are presented and discussed in the loan committee in the branch and gets approved accordingly.</li> </ul>	
<b>g. Verification</b>	
<ul style="list-style-type: none"> <li>• Separate Audit team exist in the organization who conducts internal audit of two days for all the branches 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 4-5 group meetings in one visit and also does the loan utilization check during their field visit. Audit team submits their compliance report to concerned branch office with copies to all concerned in the head office.</li> </ul>	

4. Client Comprehension	Score : 3.21
<b>Key Elements:</b> Client Review Time, Explanatory Channels, Disclosure of Price and Terms, Rights and Obligations, Staff Training	
<b>a. Client Review Time</b>	
<ul style="list-style-type: none"><li>• In SMCS, there are numerous channels and sessions used to educate and explain loan pricing information including processing charges, interest rates, among others. There is use of verbal explanation, written documentation along with other materials to inform the members.</li></ul>	
<b>b. Explanatory Channels</b>	
<ul style="list-style-type: none"><li>• During the field visit, it was found that 90% of the clients have a fair idea / knowledge of the rate of interest (flat as well as reducing rate of interest) and the upfront processing fee of 1% of the loan amount. Within literacy limits, maximum clients are aware of the cost of loan.</li></ul>	
<b>c. Disclosure of Price and Terms</b>	
<ul style="list-style-type: none"><li>• The price and terms of the loan are clearly disclosed to all the clients during their personal form filling, CGT, GRT, disbursement and group meetings (whenever there is a change / modification). Full and thorough, both verbal and written materials are supplied to the client.</li></ul>	
<b>d. Rights and Obligations</b>	
<ul style="list-style-type: none"><li>• Identification of group leader is done by the group members whereas SMCS staff act as a facilitator. The roles and responsibilities of the group leader and clients / members are discussed during the group meetings. 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.</li></ul>	
<b>e. Staff Training</b>	
<ul style="list-style-type: none"><li>• Separate modules are developed by SMCS and explained to all the staff with examples and guidance for interaction with the clients, roles and responsibilities of all staff levels and do's &amp; don'ts to be followed by the staff while interacting with the clients.</li></ul>	

5. Products and Services	Score : 3.00
<b>Key Elements:</b> Design and Appropriateness, Review, Diversity, Convenience, Linkages	
<b>a. Design and Appropriateness</b>	
<ul style="list-style-type: none"><li>• The products were designed on the basis of clients' needs and requirements. All SMCS products have now been modified as per guidelines issued by RBI. Hence, many features of the products are similar but the major differences are in terms of size, tenure and purpose.</li></ul>	
<b>b. Review</b>	
<ul style="list-style-type: none"><li>• Review of existing loan products and services are done on an annual basis and accordingly the product features has been modified. The products were last reviewed in May 2011 and changes done in their product accordingly.</li></ul>	
<b>c. Diversity</b>	
<ul style="list-style-type: none"><li>• Two of the loan products have diverse features in terms of purpose of loan, repayment tenure, loan size but are similar in features like target clientele (availed by female clients only), repayment mode, interest rate and SHG as the Guarantor.</li></ul>	
<b>d. Convenience</b>	
<ul style="list-style-type: none"><li>• SMCS loans are highly convenient which was also shared by clients during the client visits. Loan process and disbursement of the group members is done on monthly basis in group meeting. Collection is done in the group meeting.</li></ul>	
<b>e. Linkages</b>	
<ul style="list-style-type: none"><li>• There is only one linked products with the loan to client i.e., micro-insurance provided to the client in collaboration with LIC of India.</li></ul>	

6. Pricing	Score : 2.86
<b>Key Elements:</b> Competition, Transparency, Fees, Security Deposit, Prepayment, Default	
<b>a. Competition</b>	
<ul style="list-style-type: none"><li>• Pricing of the loan product of SMCS is very competitive, and the institution has occasionally reduced interest rates. The institution has kept the interest rates at 26%, reducing to adhere with the norms of RBI.</li></ul>	
<b>b. Transparency</b>	
<ul style="list-style-type: none"><li>• Pricing of SMCS product are transparent; information is available publicly in the branch offices, and is accurate when compared to institutional documents.</li></ul>	
<b>c. Fees</b>	
<ul style="list-style-type: none"><li>• Only one fee is collected by SMCS from their clients called as Loan Processing Fee. The processing fee is 1%, as per the RBI norms.</li></ul>	
<b>d. Security Deposit</b>	
<ul style="list-style-type: none"><li>• SMCS earlier used to charge security deposit from their client against their loan which they have discontinued after the RBI guidelines.</li></ul>	
<b>e. Prepayment</b>	
<ul style="list-style-type: none"><li>• There is no penalty on prepayment.</li></ul>	
<b>f. Default</b>	
<ul style="list-style-type: none"><li>• Very few cases of defaults have been observed in the field. No penalty for default collected against the unpaid day; only collecting the scheduled instalment. The group members arrange the instalment amount and repay to the staff in case an individual fails to repay.</li></ul>	

7. Feedback Mechanisms	Score : 3.15
<b>Key Elements:</b> Existence, Staff Training, Client Awareness, Usage, Checking, Staff Resources, Client Exit Interviews / Drop out Surveys	
<b>a. Existence</b>	
<ul style="list-style-type: none"> <li>• In SMCS, three different mechanism exist for the client feedback – one is customer care number (non toll free) and other is a client feedback / complaint box exist in the branch offices where clients are free to drop their feedback, while they register their complaints to the BM through the complaint register. The complaint box is opened by the BM and the issues resolved thereof after registering the complaint in the complaint register.</li> </ul>	
<b>b. Staff Training</b>	
<ul style="list-style-type: none"> <li>• Training is provided in client relations in different formats.</li> </ul>	
<b>c. Client Awareness</b>	
<ul style="list-style-type: none"> <li>• Clients are well-versed in critical feedback and know that it is their right and obligations to express a complaint; they can identify the branch manager and can locate the office. Urban clients were more aware with the customer care number.</li> </ul>	
<b>d. Usage</b>	
<ul style="list-style-type: none"> <li>• Clients have shared that there were no complaints and that they are aware of the contact numbers. Hence, there is limited usage.</li> </ul>	
<b>e. Checking</b>	
<ul style="list-style-type: none"> <li>• 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.</li> </ul>	
<b>f. Staff Resources</b>	
<ul style="list-style-type: none"> <li>• For client feedback mechanism, there is adjunct responsibility of head office staff.</li> </ul>	
<b>g. Client Exit Interviews/ Drop out Survey</b>	
<ul style="list-style-type: none"> <li>• In SMCS, Client Exit Survey / Interview are conducted and analysed by interns / students visiting SMCS. Corrective actions are taken as per the suggestions / recommendations of the study. However, this needs to be conducted for all drop-out clients.</li> </ul>	

8. Staff Conduct	Score : 2.87
<b>Key Elements:</b> Rule Book, General Training, Induction, Evaluation, Review of Conduct, Incentive / Disincentive, Recovery / Default	
<b>a. Rule Book</b>	
<ul style="list-style-type: none"> <li>• Rule book is available in the branch office and all the staff are aware of the rules mentioned in the book. The rule book of SMCS clearly mentions the staff conduct, written penalties associated with broad types of misbehaviour. Rule book clearly specifies to the field staff that how to behave in the field, how to interact with the client, among others.</li> </ul>	
<b>b. General Training</b>	
<ul style="list-style-type: none"> <li>• SMCS has been conducting separate training program for the field as well as branch office staff to orient them towards the conduct in the field, good and bad conduct with clients, among others. They have experienced certified trainers among their staffs to conduct the trainings.</li> </ul>	
<b>c. Induction</b>	
<ul style="list-style-type: none"> <li>• All the new staff joining SMCS underwent a 1 month induction program which consist of classroom as well as field level exposure.</li> </ul>	
<b>d. Evaluation</b>	
<ul style="list-style-type: none"> <li>• On the basis of the job performance, all staff are reviewed annually and promoted. In SMCS, annual performance review done with tangible outcomes (salary, promotion). Field Facilitators are un-salaried and are paid on incentive basis.</li> </ul>	
<b>e. Review of Conduct</b>	
<ul style="list-style-type: none"> <li>• Evaluation of the field staff as well as branch personnel is done by his / her superior and Chief Credit Manager.</li> </ul>	
<b>f. Incentive / Disincentive</b>	
<ul style="list-style-type: none"> <li>• Incentive are given to Field Facilitators. During the performance review for the field staff like credit officer, both the portfolio quality and outreach are measured to calculate the incentives and disincentives, penalties levied for any drop-out clients / group. Performance of FF is based on principal recovered.</li> </ul>	
<b>g. Recovery / Default</b>	
<ul style="list-style-type: none"> <li>• In operation manual of SMCS, 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 mentioned in the operation manual for collection of the defaults.</li> </ul>	

9. Governance	Score : 3.50
<b>Key Elements:</b> Responsibility, Experience/ exposure/reputation in MF, Composition, Role, Code of Compliance report, Members' attendance in meeting	
<b>a. Responsibility</b>	
<ul style="list-style-type: none"> <li>Functional responsibilities are broadly defined in bye-laws and business rules, individual board members assigned and undertake committee functions on a regular basis. Board of SMCS is very vibrant, each individual member are assigned their work through committees and are performed accordingly.</li> </ul>	
<b>b. Experience/ exposure/ reputation in MF</b>	
<ul style="list-style-type: none"> <li>The board of SMCS has diverse experience in banking &amp; insurance, microfinance, credit rating, poverty elimination program and HR. Almost all the board members of SMCS has good experience in the microfinance sector.</li> </ul>	
<b>c. Composition</b>	
<ul style="list-style-type: none"> <li>Seven members' board of SMCS consists of chairman Prof (Dr.) Anup Kumar Das, Mr. Prafulla Kumar Sahoo, Mr. Jagadish Pradhan, Mr. Prasanna Kumar Mishra, Mr. Birendra Kumar Mahunta, Ms. Bedabati Mohanty and Mr. Parashuram Nayak. Mr. Nayak is the wholetime Director of SMCS.</li> </ul>	
<b>d. Role</b>	
<ul style="list-style-type: none"> <li>Roles of individual members of Board are very clear on policy setting; all strategic decisions are taken by the board. Board takes the field related issues very seriously. The complaint/ suggestions received from the customer through customer care number / complaint box are sent to all the board members. Different committees (within the board) are responsible for different aspects. Regular operational decisions related to financial statements, cost transparency, disclosures, among others are the responsibility of Mr. Nayak.</li> </ul>	
<b>e. Code of conduct compliance report</b>	
<ul style="list-style-type: none"> <li>Code of Conduct compliance report is prepared and presented in the board. It may be noted that, SMCS board had discussed and adopted the Sadhan Code of Conduct in 51<sup>st</sup> Board of Directors meet in June 30, 2012.</li> </ul>	
<b>f. Members' attendance in meeting</b>	
<ul style="list-style-type: none"> <li>More than 86% of the members of the board were present in the Board meeting (last three).</li> </ul>	

10. Human Resources	Score : 3.13
<b>Key Elements:</b> Field staff experience/ exposure in MF, Recruitment, Staff Exit, Complaint Redressal	
<b>a. Field staff experience/ exposure in MF</b>	
<ul style="list-style-type: none"><li>• Field staffs of SMCS are well experienced in the field, recruiting experienced HR for the BM level. FFs too are experienced and having good exposure of MF. On an average more than 2.5 years of experience of the team involved in field level operations.</li></ul>	
<b>b. Recruitment</b>	
<ul style="list-style-type: none"><li>• SMCS has a separate HR department manned by HR Officer and controlled by CFO who looks after the recruitment process and other HR related aspects. They are governed by the well defined and comprehensive HR policy. Recruitments are done by publishing the requirements with the job profile in job websites, local newspaper and word to 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.</li></ul>	
<b>c. Staff Exit</b>	
<ul style="list-style-type: none"><li>• Staff exit interview informally conducted for all the staff and modifications in the systems and processes, taken thereof.</li></ul>	
<b>d. Complaint Redressal</b>	
<ul style="list-style-type: none"><li>• Complaint redressal mechanism exists in the organization, dedicated systems are in place, there is a clear process to ensure that complaints are processed, considered and resolved.</li></ul>	



## Compliance to RBI Guidelines

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

- a) Interest on loans: Since May 11, 2011, SMCS has reduced its interest rates on the products to 26% per annum on a reducing basis.
- 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): SMCS 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 Life Insurance Company of India.
- c) No penalties for delayed payments, security deposit or margin money to be taken upfront: SMCS have barred the prepayment charges post RBI guidelines and now collect prepayment without any charges. SMCS used to charge security deposit or upfront fees for the loans which has now being stopped.
- 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 a debatable since they do not have fixed monthly income. Their income is seasonal and dependant on several factors. The household income of the clients visited under the study was mixed. Around 10% of the client households had an income more than the amount stipulated by RBI.
- f) Total indebtedness of borrower not exceeding Rs50,000: SMCS strictly follows this guideline and does not lend to members who have a loans other MFIs and Rs50,000 as the total loan outstanding. This is mentioned in their Code of Conduct and followed across all levels.
- g) Tenure of loan not being less than 24 months: The products and services offered by SMCS have loan tenure of less than 24 months (52 weeks from May 11, 2011).

<i>Overall, SMCS is compliant on the RBI guidelines issued.</i>
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## Conclusion

Swayamshree Micro Credit Services has achieved a composite CoCAT score of **3.11** with an overall grade of **“A”**, indicating that the organisation is growing. 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:

- Code of Conduct customized as per the SMCS mission, vision, values and displayed in all branch offices & HO. Aspects of the Sa-Dhan Code of Conduct incorporated. This has been approved by the Board and implemented across all branch offices of SMCS.
- Pricing information communicated to the clients verbally as well as written. Pricing data is transparent, information available for public to view in branch offices.
- Clients were able to re-call the interest rates (they said 2.16%) and other charges associated with the loans. The behaviour of SMCS 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.

### Areas to Strengthen:

- There is a need to develop products and services which are based on the needs and requirements of clients / members.
- Financial Education need to be provided to the clients / members. Some of them have been provided with such literacy programmes. However, there is a need to expand across all the clients.
- Client targeting criteria implemented by SMCS. However, there is a need to use Poverty Tool for assessing the poverty levels of their clients.

Average Score	Rating	Grade
<b>3.11</b>	3.50-4.00	AA
	<b>3.00-3.49</b>	<b>A</b>
	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 10 broad assessment components which are further disaggregated into 53 elements. The 10 broad components are: *Code of Conduct, Market Entry, Appraisal Process, Client Comprehension, Products and Services, Pricing, Feedback Mechanisms, Staff Conduct, and Governance, Human Resource.*

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; 3<sup>rd</sup> 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.