



SMERA RATINGS LIMITED

CODE OF CONDUCT ASSESSMENT FOR VEDIKA CREDIT CAPITAL LIMITED (VCCL)

Date of Report	20th February, 2015
Valid Till	19th February, 2016

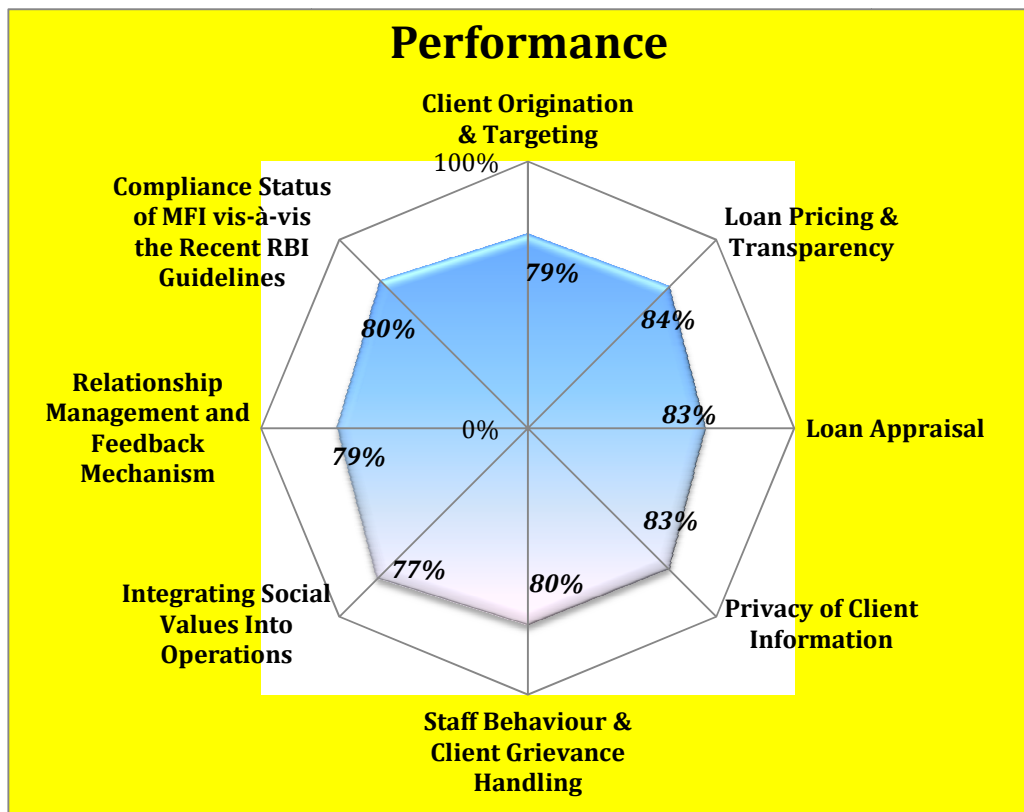
RATING

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

RATING SCALE

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

MATRIX





EXECUTIVE SUMMARY

The Code of Conduct report for VEDIKA CREDIT CAPITAL LIMITED (VCCL) evaluates the company's adherence to various code of conduct parameters. The study examines and comments upon the common minimum indicators such as:

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

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

**SNAPSHOT**

D&B D-U-N-S® Number	65-036-3943
MFI Name	VEDIKA CREDIT CAPITAL LIMITED
Trade Style	VCCL
Registered Office & Corporate Office Address	406, Shrilok Complex, H B Road, Ranchi - 834 001 Jharkhand India
Telefax	(91) (651) (2208249)
Email	abhi85.sj@gmail.com gautam_kala@hotmail.com
Line of Business	Microfinance services using Joint Liability Group (JLG) and Individual
Chief Executive	Mr. Gautam Jain, Managing Director
Legal Form	Non-Deposit Taking Non-Banking Finance Company (NBFC) Microfinance Institution (MFI)
Incorporation Date	15/Mar/1995
Date of Commencement of Microfinance Operations	July, 2007
Company Registration Number	U67120WB1995PLC069424
RBI Registration Number	05.00844
Total Employees	170
No. of Active Branches	25
Geographical Reach	17 districts (in Jharkhand, Bihar and West Bengal)
Visit of the Assessment Team	17 th to 19 th February, 2015



BACKGROUND

VEDIKA CREDIT CAPITAL LIMITED (VCCL) was incorporated in the year 1995 as a private limited company and converted into a public limited company in the same year. It was registered to carry out the business of Non Banking Finance Company with approval from Reserve Bank of India in March 1998. Till February 2004, VCCL was involved in the business of stock broking. In February 2004, Jain family (present owners) took over the company and terminated the business of stock broking. The Jain Family was engaged in carrying out financing activity through its proprietorship entities namely Sidvik Finance, Sidvik Enterprises and New Age Services. VCCL started its microfinance operations in July 2007, by taking over a portfolio of micro loans from its related entities i.e. Sidvik Finance, Sidvik Enterprises and New Age Services. VCCL provides microfinance services to micro and small entrepreneur in the urban and semi-urban area which also consist the underserved geographies of Jharkhand, Bihar and West Bengal.

VCCL started its microfinance programme through individual lending under the scheme shop keeper loans. Later VCCL also started lending through Joint Liability Group (JLG) model. In order to reduce its reliance on funding to individuals, the management is currently focusing more on JLG Funding and planning to completely close down the shop keeper loans. Though focus is to reduce its exposure to individual loans, VCCL is still providing loans to its existing customers who can't fulfill Group Loan criteria.

As on March 31st, 2014, VCCL has 55,416 active borrowers (both Individuals and JLG) with a net portfolio outstanding of ₹ 548,766 (in thousands). VCCL is currently operating in urban and semi urban areas of 17 districts spread across Jharkhand, Bihar and West Bengal with the mission to providing financial services to a range of clients, who find it difficult to avail credit facility from formal financial institutions. Management has a plan to open new branches and expand its operation in Bihar and West Bengal states in near future.

Promoters' Background

Mr. Gautam Jain, Managing director of VCCL has done Masters of Business Administration and has more than fifteen years of experience in financing business through its sole proprietorship entity.

Mr. Vikram Jain and Mr. Ummedmal Jain, Directors of VCCL, are also having experience in financing business.

**BOARD OF DIRECTORS**

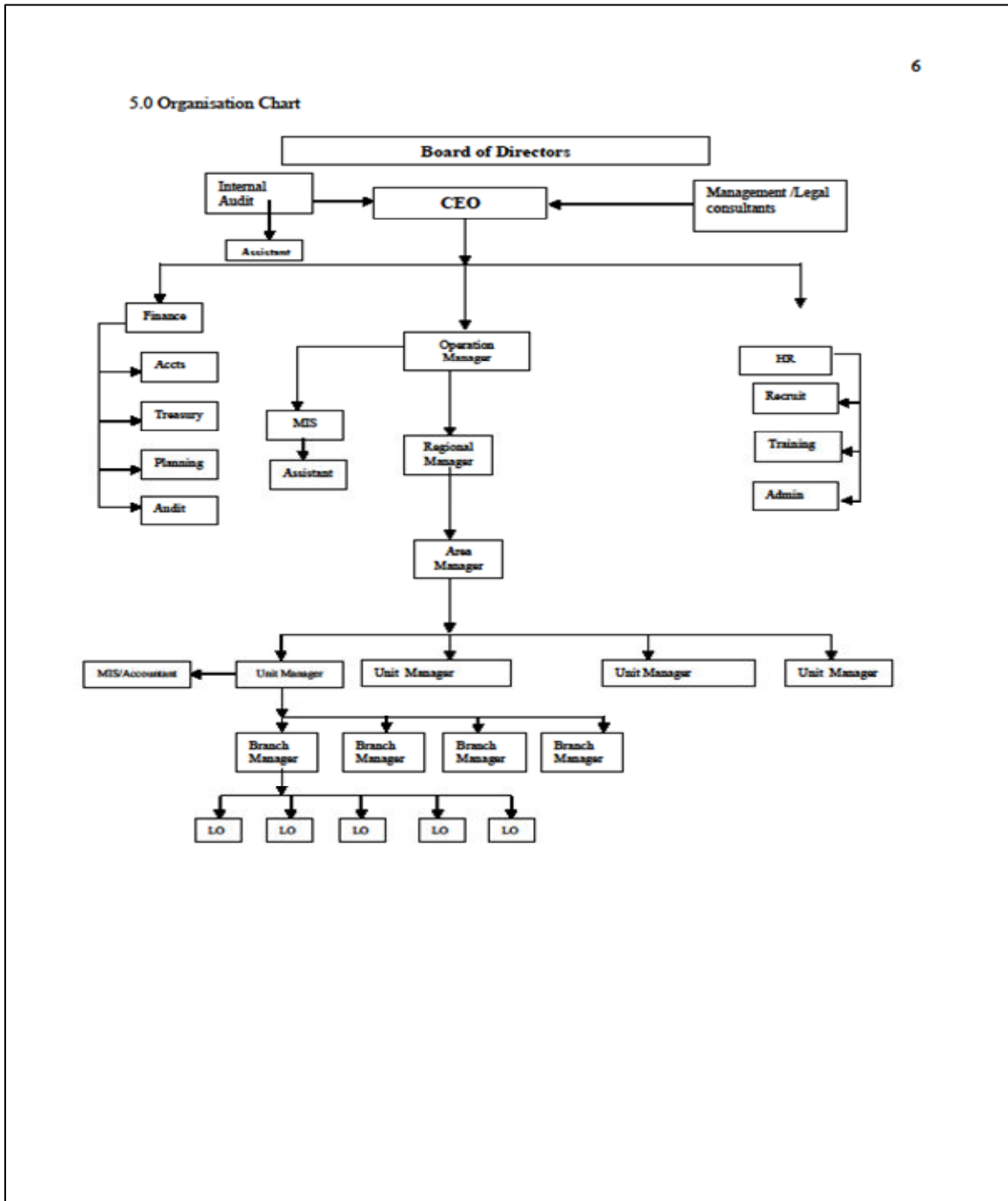
List of Board of Directors		Board Appointment date
Mr. Gautam Jain	Managing Director	25/02/2004
Mr. Vikram Jain	Director	25/02/2004
Mr. Ummedmal Jain	Chairman cum Director	25/02/2004
Mr. P K Chaturvedi	Additional Director	16/12/2014

HIGHLIGHTS OF VCCL OPERATIONS

Particulars	31/Mar/2012	31/Mar/2013	31/Mar/2014	31/Mar/2015#
No. of states	02	02	02	03
No. of districts Covered	10	10	14	17
No. of branches	10	10	19	22
No. of Towns/Cities/Villages Covered	45	28	27	30
No. of JLGs formed	2,715	1,140	1,691	2,407
No. of active borrowers (both Individual and JLG)	64,703	52,750	55,416	66,195
No. of Loan Officers (LO)	112	114	136	170
No. of employees	193	197	136	170
Total loan disbursements during the period (₹ in thousands)	203,093	176,702	333,036	318,831
Net Portfolio outstanding (₹ in thousands)	444,988	507,283	548,766	621,835

likely, as provided by management

ORGANOGRAM



Business Model

Loan Products

VCCL follows group based lending approach with a joint liability within the centre. The group consists of minimum four to five members. Loans from VCCL are given mostly for the income generation activities.

Type of loan	Agricultural Activities	Income Generating Activities	Dairy & Animal Husbandry
Loan term	12-24 months	12-24 months	12-24 months
Repayment Frequency	Monthly	Monthly	Monthly
Loan size (Amount in ₹)	₹ 14,500 to ₹ 21,500	₹ 14,500 to ₹ 21,500	₹ 14,500 to ₹ 21,500
Interest rate per annum	27.25% p. a. on reducing balance basis		
Loan processing fees	1% of loan amount		
PDC Clearance Charges	₹ 279		
Penalty	Only if Cheque bounced then charges are collected from the borrowers		



FRAMEWORK AND SCOPE

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

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

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

As part of the assessment, SMERA visited 8 branches and head office of VCCL based at various locations. The assessment was conducted as per a specific methodology and questionnaire.

Corporate Governance

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

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

For a MFI, Corporate governance should cover,

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

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

OBJECTIVE OF THE STUDY

The objective is to evaluate VCCL adherence to the code of conduct laid down by Sa-dhan, MFIN, best practice guide by multilateral agencies and Reserve Bank of India.

The broad parameters for assessing the Code of Conduct are as follows. Also the respective scores are mentioned in the adjacent column.

Code of Conduct Parameters	% Performance
Client Origination & Targeting	79
Loan Pricing & Transparency	84
Loan Appraisal	83
Privacy of Client Information	83
Staff Behavior and Client Grievance Handling	82
Integrating Social Values Into Operations	78
Relationship Management and Feedback Mechanism	82
Compliance Status of MFI vis-à-vis the Recent RBI Guidelines	74

**CLIENT ORIGINATION & TARGETING****79%**

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

Loan Officer (LO) is responsible for client origination in VCCL. VCCL conducts study of the potential new area and conducts survey on the basis of primary and secondary data of area to be entered. The criteria for selecting a new area for lending are: type of area (rural/semi-urban/urban), residential area for low-income groups, population density, proximity to existing operational areas, sources of income, socio-economic and political features, occupational activities, other loan sources, other MFI's in the area, etc.

Eligibility criteria for membership and group formation are: age, household income, availability of know your customer (KYC) documents, no family members in the same group, members belonging to same locality, willing to take group responsibility, majorly lending for income generation purposes only.

Once the area is selected, Loan Officer (LO) organizes orientation meeting to inform the members about VCCL, objective, product & services, lending methodology and group & centre formation, etc. Four to Five members are required to form one group. Once the group is formed a introductory meeting is being held, the objective of meeting is to educate the members on financial and non-financial aspects such as product & services, interest rate structure, repayment schedule, group responsibilities, proper utilization of loan, prompt repayment, attendance, KYC documents etc.

Once the group is formed, LO provides Compulsory Group Training (CGT) to members, duration of this training is 02 days. LO also conducts the evaluation of the members to ascertain the eligibility of customers for taking loan and to obtain complete required information of each member. Members are made aware about the products and its benefits. Lending process and policies are informed in details and members are trained with regards to credit discipline.

Every client shall undergo CGT, and shall have mandatory orientation on the following fundamental aspects of VCCL business relationship with its groups / clients.

1. Financial obligation and duties under group guarantee lending
2. Group leadership & management
3. Group constitution and its cohesiveness
4. Loan products and its disbursement pattern
5. The agenda focus on group lending policies and procedures and the loan approval procedures.

For a Know Your Customer (KYC) purpose VCCL is collecting photocopy of two documents issued by the government institutions containing photograph and date of birth of the member. The identification of right target client, household income, and individual income is a challenge for VCCL. Targeting poor is the approach which VCCL follows. However, VCCL depends on self-declaration given by the clients rather than capturing an alternative source such as housing index or asset classification.

VCCL has tie-up with "Highmark" RBI approved credit bureaus for sharing clients' data to check the indebtedness of the members; hence indebtedness is promptly captured in the MIS system.

Staffs have been trained on how to apply this aspect of client origination and VCCL also provides an incentive to the LO on the basis of group formation.

Approval	Documentation	Dissemination	Observance
<ul style="list-style-type: none"> • VCCL has approved principles of ethically originating clients. This includes ensuring identity of clients before application of loans through appropriate documentary evidences and non-involvement of unauthorized agents in the client origination process. • For capturing annual household income VCCL depends on information provided by the borrowers which are provided to LO during the time of filed investigation. 	<ul style="list-style-type: none"> • Policy document clearly specify the directions for obtaining KYC documents from client. The procedure for conducting centre meeting and client origination is clearly laid out. • As per policy notes, VCCL captures annual household income as well as detailed annual household expenses. 	<ul style="list-style-type: none"> • VCCL has adequate system of dissemination of its approved policies through CGT. 	<ul style="list-style-type: none"> • Interviewed Staff members were aware of the client origination process and products. • Annual household income declared by few of the borrowers in application form was less as compare to their standard of living observed.

LOAN PRICING & TRANSPARENCY**84%**

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

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

Currently VCCL charges interest of 27.25% per annum on diminishing balance method with monthly rest (rounded to nearest rupee) for all the loan products with processing fee of 1.00% on the disbursed loan amount plus applicable service tax.

VCCL maintains high transparency in the interest rates charged to its clients. The organization discloses all terms & conditions of all financial products to the borrowers including interest rate on the loan and processing fees in written as well as verbal communication at the time of training. The details are printed on the loan passbook which is available with the borrowers. *The assessment team of SMERA has observed in few cases that the borrowers were not aware of interest rate and other fees charged; however they were familiar with the installment amount.*

VCCL loan ranges from ₹ 10,000 to ₹ 50,000. The loan amount is depends on the loan cycle, repayment track record of previous loan and attendance of centre meeting. Currently VCCL is giving loan sizes of Rs. 14,500 and Rs. 21, 500 to the borrowers depending on their repayment ability. However as informed by the management in order for better control and ease of transaction VCCL will be lending loan amount of Rs. 21,500 to all borrowers.



Approval	Documentation	Dissemination	Observance
<ul style="list-style-type: none"> • VCCL board has approved principles of pricing loans and transparency in a responsible manner. 	<ul style="list-style-type: none"> • The loan pricing criteria and method of charging have been clearly documented in the loan policy document of the organization. 	<ul style="list-style-type: none"> • Interest rate and loan processing fee on the loans are mentioned clearly on the loan passbook provided to the borrower at the time of disbursement. • Members are also given the loan repayment schedule on loan pass books which clearly shows the installment amount. 	<ul style="list-style-type: none"> • Awareness level of the borrowers about the interest rates and method of application and other charges was observed to be moderate. However, almost all the clients are aware of the installments size & duration. • Few of the borrowers were not aware of interest rate; however they were familiar with the installment amount. • SMERA suggest VCCL should incorporate method of mentioning loan outstanding amount on pass book along with repayment column.

LOAN APPRAISAL**83%**

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

Loan appraisal is primarily the responsibility of the Branch Manager who conducts Group Recognition Test (GRT) to check whether members have understood the VCCL's loan product and loans are provided only after successful completion of GRT.

After approval of GRT authority, the documents are forwarded to the Head Office (HO) for sanctioning of loans. The loan amount to be disbursed as recommended by Branch Head (Branch Head) is authenticated by GRT authority. Loan applications received from the members have been sent to Highmark (Credit Bureaus), after receiving verification report from Credit Bureaus eligible applications have been considered for loan disbursement.

VCCL has a policy of recording the annual household income of the borrower in the application form and the value of loan taken from VCCL and value of loan outstanding from other MFIs based on the information provided by the client. However, VCCL has captured annual household expense of the borrower. Once the loans are approved, the initial centre meeting is held, here the concerned LO intimates members about the sanction of loan, charges to be paid, etc.

VCCL conducts Loan Utilization Check (LUC) for all the loans by its LUC team. A visit is planned of at least two borrower's in a particular group at their place of business between 07 to 10 days from disbursement to ascertain the utilization of loan. During the visit, it has been determined the money has been put to use for the purpose indicated by the borrower at the time of applying the loan. If the money has been put to use for the specified purpose it is recorded Branch Manager Monitoring Report.

Loan disbursement takes place by way of Cheques at Branches. Further 100% attendance is compulsory during time of disbursement. VCCL collects the processing & insurance fees at the time of disbursement and also issues the receipt to the group for the same.

As per the policy; group meeting and loan repayment should be conducted at a designated place decided by the centre members and loan disbursement is conducted only at branches. VCCL issues 'loan passbooks' to each borrower and informs them to keep the respective passbook with themselves at the time of group formation.

Approval	Documentation	Dissemination	Observance
<ul style="list-style-type: none"> • VCCL policy requires that adequate loan appraisal could be performed before disbursing a loan and proper examine of the repayment capacity of the borrowers. • VCCL have a policy to check multiple lending / indebtedness of the borrower through credit bureau check. • VCCL does not have any policy to maintain records regarding loan utilization check in documented form. 	<ul style="list-style-type: none"> • The guidelines for appraising a loan application are clearly documented in the loan policy document. Information pertaining to income, purpose of loan and loan taken from other source is obtained at the time of membership form / loan application and also during CGT. 	<ul style="list-style-type: none"> • The branch staffs were found to be aware of how to conduct the loan appraisal and LUC as per the guidelines. 	<ul style="list-style-type: none"> • All the loan applications verified contained details of annual household income. • BH conducts compulsory LUC along with the Area Manager for random borrowers. • Annual household incomes of some of the borrowers have mentioned quite low in the application forms.

PRIVACY OF CLIENT INFORMATION

83%

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

VCCL has an adequate system of storage and retrieval of documents and information collected from the clients. The files containing documents and members profile are kept at the respective branches. The relevant data is entered into the MIS software “**BIJLEE**” at Head Office level.

Approval	Documentation	Dissemination	Observance
<ul style="list-style-type: none"> • VCCL’s policy requires that the information received from the clients is stored properly and unauthorized access is prohibited. • The software has well-defined security features. 	<ul style="list-style-type: none"> • VCCL provided adequate guidelines on how the client documents and information has to be recorded and files have to be stored. 	<ul style="list-style-type: none"> • Branch staff is well informed about how to handle important documents provided by clients. 	<ul style="list-style-type: none"> • All the files are kept properly in all the branches. Branch staffs have access to entire data of client. • The clients’ personal information and important details are recorded in BIJLEE.

STAFF BEHAVIOUR & CLIENT GRIEVANCE HANDLING**80%**

This section evaluates the process of the MFI with respect to staff selection, appraisal and incentive mechanism, staff behavior with clients, effectiveness of the client grievance mechanism.

Staff Behavior -

VCCL has adopted policies that lay adequate emphasis on the conduct of its staff members towards the members. The following are the important aspects of the expected behaviour of field staff towards the clients.

1. Staff should not miss- behave or use un-social language with any of clients.
2. Staff should not do forceful collection of EMI from clients and try to motivate them to pay their installments.
3. Staff should not visit any client's house or perform any field activity after 7 pm.
4. Staff should not discriminate any clients on the basis of caste creed or religion.
5. Staff should always wear formal clothes when we are in duty.

VCCL has written HR circular related to selection, recruitment, training, evaluating the staff performance and promotions. One of the important aspects of staff's induction training is conduct towards clients. Detailed guidelines have been provided to staff in the policy documents regarding the way they should interact with the clients. VCCL also provides incentives to the field staff on performance basis i.e. number of client handling, asset quality, punctuality etc. Promotion of staff is done in the organization from one job position to another on the basis of the staff performance and organization requirement.

Loan collection and recovery process -

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

All group members are required to meet every monthly at group meeting for the purpose of repayment of their monthly installments. These meetings are conducted by the LO, who carries collection sheets which contains the loan installment member-wise generated through system. LO collects the installments from the respective groups. LO after ensuring that the amount is correct updates the each member's passbook.

An important aspect of the recovery procedure is that although there is high degree of emphasis on timely recovery and application of peer pressure, this does not always mean that all the scheduled installments should come on the same day.

Approval	Documentation	Dissemination	Observance
<ul style="list-style-type: none"> • Various policies of the organization provide adequate directions for staff to treat client with respect and dignity. Clear directions are there on how to deal with situations where one or more clients are facing problems in repayment of installments. • In case of delay or default in installment repayment, VCCL has the policy to visits the house of borrowers or conducts the special meeting for center members to motivate them to make repayment. 	<ul style="list-style-type: none"> • There are detailed guidelines in the policy on the expected conduct of the staff members with the client. 	<ul style="list-style-type: none"> • The entire branch staff members interviewed displayed good level of awareness on staff behaviour & client grievance handling. • Few visited branches grievance Redressal was not adequately captured in complaint register. 	<ul style="list-style-type: none"> • All staff was found to be aware of the rules of staff conduct and grievance handling. • Behaviour of staff towards clients was found to be professional in almost all situations encountered.

INTEGRATING SOCIAL VALUES INTO OPERATIONS

77%

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

VCCL maintains a high standard of governance and integrity by inducting persons with good and sound reputation in the industry and understanding of microfinance as members of board of directors or governing body. VCCL has qualified and professional board having diversified functional expertise. The board members are actively involved in policy making and approvals, fund mobilization, responsible for all decisions at a strategic level, approving business plan & new products, reviewing the performance and other important decisions pertaining to VCCL. Board also performs functions such as review of financials and discussion on the auditor's report.

VCCL vision is to facilitate provision of financial services in a viable manner to various categories of clients with focus on small loans mainly to stimulate client's income generating activities. It aims to spread its operations to different states of India. VCCL does not charge any prepayment charges or onetime membership fee from the borrowers. VCCL has provided insurance cover to its borrowers and their spouse.

Approval	Documentation	Dissemination	Observance
<ul style="list-style-type: none"> VCCL has approved principles of integrating social values into operations. 	<ul style="list-style-type: none"> VCCL maintains integrity by adopting policies or process notes to attain the vision of the organization to see an India where every child, woman and man can be the best that god meant for him or her to be, without the burden of poverty. 	<ul style="list-style-type: none"> VCCL has a system of dissemination of its social values. 	<ul style="list-style-type: none"> VCCL maintains an adequate standard of governance and integrity in operation. VCCL has provided insurance cover to its borrowers and their spouse. So that, in case of death of the insured member and her spouse, VCCL write off the remaining loan amount.

RELATIONSHIP MANAGEMENT AND FEEDBACK MECHANISM
79%

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

VCCL has a sound procedure to be responsive to client feedback and to established dedicated feedback and grievance redressal mechanisms. As per the policy every branch has to have a complaint register in branch & complaint box outside the branch for clients.

For any grievance Head Office number is provided in the passbook provided to the clients. Members have been informed of this mechanism during training and group formation. *VCCL does not have a policy to maintain complaint register at their respective branches.*

Approval	Documentation	Dissemination	Observance
<ul style="list-style-type: none"> The board has provided formal and informal channels for feedbacks and suggestions to handle complaints of clients 	<ul style="list-style-type: none"> VCCL guidelines regarding collection of feedback from clients and actions to be taken are documented. 	<ul style="list-style-type: none"> Branch and Head office number is provided to the clients on their passbooks. Every branch was having complaint box outside the branch office. 	<ul style="list-style-type: none"> Clients gave satisfactory feedback about the overall services of the VCCL.

COMPLIANCE STATUS OF MFI VIS-À-VIS THE RECENT RBI GUIDELINES
80%

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

<u>Conditions as per RBI Guidelines</u>	<u>VCCL's Policy</u>	<u>Compliance</u>
Household annual income levels for eligible borrowers in Rural Areas not exceeding : ₹ 60,000 Non-Rural Areas not exceeding: ₹ 120,000	The Annual income of the clients should be below ₹ 60,000 in rural areas and below ₹ 120,000 in non-rural areas	During the branch visit, it was observed that in few applications annual household income declared by few of the borrowers was less as compare to their standard of living observed.
Loan size should not exceed 1 st cycle loan : ₹ 35,000 2 nd cycle loan : ₹ 50,000 Tenure of the loan should be 24 months for amounts in excess of ₹ 15,000.	VCCL loan ranges from ₹ 14,000 to ₹ 21,500. The loan amount depends on the loan cycle, repayment track record of previous loan and attendance of centre meeting.	VCCL meets the criteria.
Total Indebtedness of the borrowers should not exceed to ₹ 50,000	The company checks the credit report of borrowers with Credit Information Company (CIC) i.e. "Highmark".	VCCL meets the criteria.
Tenure of the loan not to be less than 24 months for amounts in excess of ₹ 15,000	The maximum loan size is ₹ 50,000 repayment tenure is 24 Monthly Installments.	VCCL meets the criteria.
Repayment frequency should be weekly, fortnightly or monthly at the choice of the borrower	Repayment of loans are collected only on monthly installment basis.	VCCL provides loans on Monthly Installments basis.

<p>With effect from the quarter beginning April 01, 2014, the interest rates charged by an NBFC-MFI to its borrowers will be the lower of the following:</p> <p>a) The cost of funds plus margin as indicated in para (i) above; or</p> <p>b) The average base rate of the five largest commercial banks by assets multiplied by 2.75. The average of the base rates of the five largest commercial banks shall be advised by the Reserve Bank on the last working day of the previous quarter, which shall determine interest rates for the ensuing quarter.</p>	<p>VCCL charges 27.25% per annum on diminishing balance method.</p>	<p>VCCL meets the interest rate criteria.</p>
<p>Loan pricing to include processing fee (not exceeding 1% of the loan amount)</p>	<p>VCCL is charging processing fee of 1.00% on the disbursed loan amount plus applicable service tax..</p>	<p>VCCL meets the processing charges criteria fully.</p>
<p>Collateral free loans</p>	<p>VCCL does not accept any collateral for extending the credit.</p>	<p>No collateral have been accepted from the clients.</p>
<p>MFIs shall not collect any Security Deposit / Margin from the borrower.</p>	<p>VCCL does not collect any security deposit / margin from the borrower.</p>	<p>VCCL meets the criteria fully.</p>
<p>No late payment or prepayment penalties</p>	<p>VCCL does not take late payment or prepayment penalties from the clients.</p>	<p>VCCL meets the criteria fully.</p>
<p>Share complete client data with at least one Credit Information Company (CIC) established under the CIC Regulation Act 2005, as per the frequency of data submission prescribed by the CIC.</p>	<p>Currently VCCL is availing credit bureau check from Highmark.</p>	<p>VCCL meets the criteria fully.</p>
<p>Minimum 75% of the MFIs portfolio should be given for income generation activities</p>	<p>VCCL provides loan only for the income generation activities.</p>	<p>VCCL meets the criteria fully.</p>



Approval	Documentation	Dissemination	Observance
<ul style="list-style-type: none">The policies framed by board of VCCL mostly adhere with respect to the guidelines issued by RBI.	<ul style="list-style-type: none">Circulars have been issued to follow the RBI guidelines.	<ul style="list-style-type: none">Policies were updated / modified on most of the recent guidelines issued by RBI.	Almost all the guidelines issued by RBI are adhered by VCCL.

LIST OF BRANCHES VISITED

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

This assessment includes:

1. Discussions with key staff members and the senior management at the head office and branch office, particularly the senior operational management team as well as the human resources team. These discussions focus on key issues of the code of conduct identified above and systems and process of MFI.
2. Review of manuals and policy documents at the head office. These are reviewed in order to assess the policy as well as documentation regarding important aspects.
3. Sampling of branches at the head office. The assessment team selected eight branches (located in Ranchi, Dhanbad, Ramgarh and Jamshedpur) as samples, as per the size of the MFI for review. Care is exercised to include old & new branches as well as branches that are distant from the regional office and branches with the overdue.
4. Discussions with the branch staff at the field office. Discussions with field office managers and center managers are carried out to assess their understanding of the key code of conduct principles and systems and process.
5. Selection of groups from the sample branches. A judgmental sampling is performed on the MFI's clients by the assessment team to draw respondents from the interest group. Two/three centers from each sample branches was selected for interviews. Out of which few respondents are those that have been having problems in attending meetings. SMERA has also selected respondents those have defaulted in the past or started repaying on defaulted loans.
6. Interview with the clients. Information from the clients is collected ideally during the centre meetings as well as visits are made to the clients' locations for collecting information.
7. Review of loan application at the branch office. This review focuses on loan appraisal performed before disbursing loans as well as the documents collected from the clients.



As part of the assessment, SMERA visited 8 branches and head office of VCCL based at various locations. The details of the branches visited are provided below.

Sr. No.	Branch Names	No. of Borrowers Visited
1.	Aditiyapur	24
2.	Biradingi	09
3.	Dhanbad	23
4.	Hazaribagh	22
5.	Jamshedpur	24
6.	Koderma	19
7.	Ramgarh	27
8.	Ranchi	30
9.	Head Office	-

METHODOLOGY

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

**Questionnaire for the field visit**

1	Name of the Member
2	How did members came to know about the MFI and who motivated to form the group
3	What Kind of training provided before sanctioning of loan?
4	Does anyone visited the house pre and post disbursement
5	Loan amount taken
6	Amount Applied for (If sanctioned is less - Reason)
7	Interest Rate and any other Charges
8	Any commission paid to anyone for availing loan
9	Purpose of Loan
10	Mode of Repayment
11	Installment amount
12	Aware of pending installments or balance outstanding
13	Any penalty charged
14	What are the KYC documents submitted?
15	Where the disbursement of loan happens and under who's presence?
16	Where collections of loan take place?
17	Any delays / default at present or in past, If Yes, what is the reason?
18	Number of Family members
19	Earning Family Member
20	Occupation of Spouse
21	Monthly Family Income
22	Number of Childers going School
23	Aware about any other MFIs operating in the area
24	Loan from Any other MFIs' / Bank / Moneylender / others
25	If Yes,
26	Name of the MFIs' / Bank / Moneylender / others
27	Amount Taken and Interest Rate
28	Is the group formed by the persons living in nearby vicinity?
29	Knows the house / name of each group member?
30	What are the responsibilities of the group?
31	Attendance of members
32	Saving habit among the group members?
33	Dominant nature of group leader?
34	Familiar with the branch manager / staff?
35	How are the interaction / behaviour of the MFI staff?
36	Process / Awareness of feedback / Complaints mechanism?
37	Have made any complaints in past?
38	Any Request / demand
39	Others if any,

*****The End*****