



SMERA RATINGS LIMITED

**CODE OF CONDUCT
ASSESSMENT FOR
SHIKHAR MICROFINANCE
PRIVATE LIMITED
(SMPL)**

Date of Report -20/Jan/2015

Valid Till - 19/Jan/2016



EXECUTIVE SUMMARY

The Code of Conduct report for SHIKHAR MICROFINANCE PRIVATE LIMITED (SMPL) 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 SMPL exhibits [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 SMPL's adherence towards ethical operational practices.

**SNAPSHOT**

D&B D-U-N-S® Number	87-180-1279
MFI Name	SHIKHAR MICROFINANCE PRIVATE LIMITED
Trade Style	SMPL
Registered Office & Corporate Office Address	A-113, 2 nd Floor, Palam Extension, Sector - 7, Dwarka, New Delhi - 110 077 India
Telefax	(91) (011) (28082352)
Webpage	www.shikharfin.com
Email	Ravi.shankar@shikharfin.com ho.shikhar@shikharfin.com
Line of Business	Microfinance services under Joint Liability Group (JLG) Model
Chief Executive	Mr. Satyavir Chakrapani, Managing Director
Legal Form	Non-Deposit Taking Non-Banking Finance Company (NBFC) Microfinance Institution (MFI)
IncorporationDate	16/Feb/1993
Date of Commencement of Microfinance Operations	2007
Company Registration Number	U74899DL1993PTC052165
RBI Registration Number	B-14.02362
Total Employees	122
No. of Active Branches	22
Geographical Reach	Delhi, Uttar Pradesh, Uttarakhand & Haryana (04 States)
Visit of the Assessment Team	13 th January, 2015 to 16 th January, 2015



BACKGROUND

Shikhar Microfinance Private Limited (SMPL) is a microfinance institution based out of New Delhi. It started out microfinance operations in 2007 (then known as Shikhar Development Foundation registered as a Trust under the Indian Trust Act 1882). Now, it operates as a non-banking financial institution (NBFC - MFI). SMPL extends financial services to the poor people to raise their income levels and improve standard of living. The vision of SMPL is, empowering communities by providing financial services and livelihood opportunities.

SMPL was founded and is led by Mr. Satyavir Chakrapani (Managing Director & CEO), a post-graduate from the Entrepreneurship Development Institute of India (EDII). He has more than 18 years of experience in the development and microfinance sectors.

Mr. Vinoy Thomas (Director & CFO), also a founding member, has worked with development financial institutions in the areas of infrastructure consulting, advisory, financial modeling and analysis.

SMPL operations are spread in four states namely Delhi, Haryana, Uttar Pradesh and Uttarakhand with the mission to do large scale poverty alleviation by providing micro-finance services to poor women, and through them to their families, facilitating increased earnings, better money management, and life quality improvement. Majority loan portfolio of SMPL is maintained at Delhi.

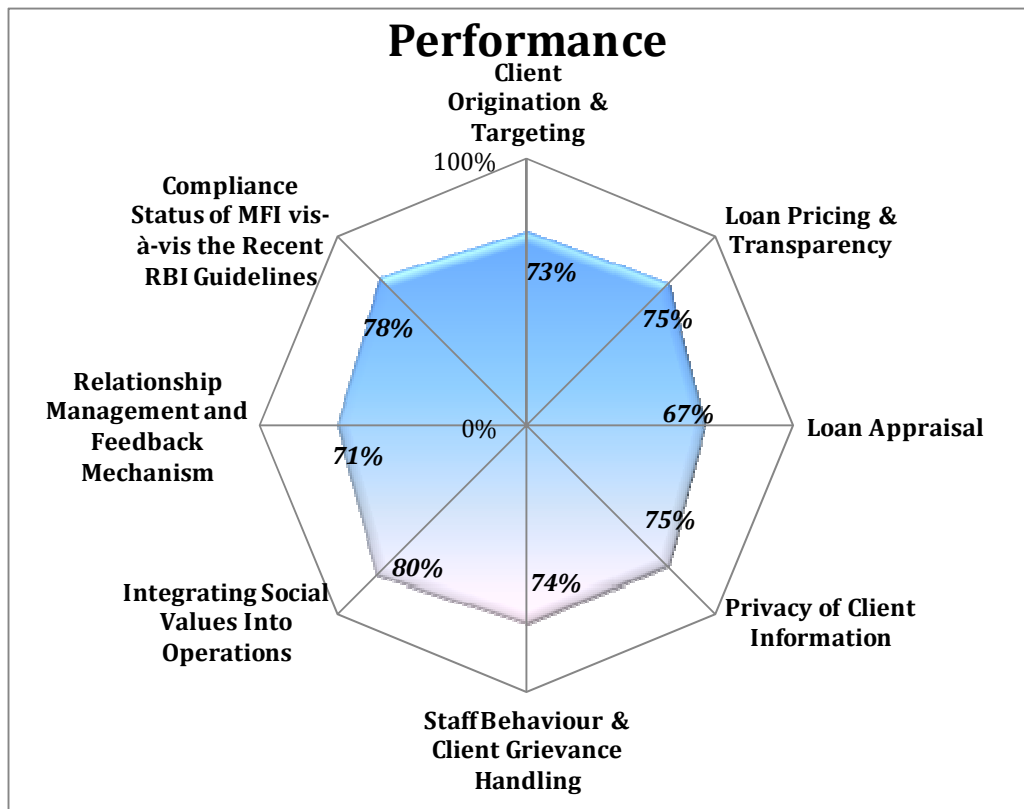
RATING

**Code of Conduct Assessment Score : 74%,
COCA Rating - COCA 4 (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



SCORES ON PARAMETERS

Code of Conduct Parameters	% Performance
Client Origination & Targeting	73%
Loan Pricing & Transparency	75%
Loan Appraisal	67%
Privacy of Client Information	75%
Staff Behavior and Client Grievance Handling	74%
Integrating Social Values Into Operations	80%
Relationship Management and Feedback Mechanism	71%
Compliance Status of MFI vis-à-vis the Recent RBI Guidelines	78%



Business Model

Loan Products

SMPL follows group based lending approach with a joint liability within the group. The group consists of five members, to open a new group, there must be minimum 03 groups are compulsory, later there can be up to maximum 08 groups. Loans from SMPL are given only for the income generation activities.

Repayment Frequency	Monthly Repayment				
Loan Products	IGL -I	IGL -II	IGL -III	IGL -IV	IGL -V
Loan Term/Duration	12 months	24 months	24 months	24 months	24 months
Loan Size	5,000 – 15,000	7,000 – 19,900	12,000 – 30,000	12,000 – 35,000	36,000 – 39,800
Interest Rate	25.99% per annum on diminishing balance method with Weekly, Monthly or Fortnightly rest as applicable (rounded to nearest rupee)				
Loan Processing Fee	0.99% on the disbursed loan amount plus 12.36% applicable service tax. (rounded to nearest rupee)				

Repayment Frequency	Monthly Repayment			
Loan Products	Refresher Loan	Booster Loan	Samruddhi Loan	Samarthan Loan
Loan Term/Duration	10 - 12 months	12 months	24 months	06 months
Loan Size	6,000 – 8,000	15,000	16,000 – 32,000	7,000
Interest Rate	25.99% per annum on diminishing balance method with Weekly, Monthly or Fortnightly rest as applicable (rounded to nearest rupee)			
Loan Processing Fee	0.99% on the disbursed loan amount plus 12.36% applicable service tax. (rounded to nearest rupee)			



OBJECTIVE OF THE STUDY

The objective is to evaluate SMPL 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

- 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

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 08 branches of SMPL in Delhi and Agra. The assessment was conducted as per a specific methodology and questionnaire.

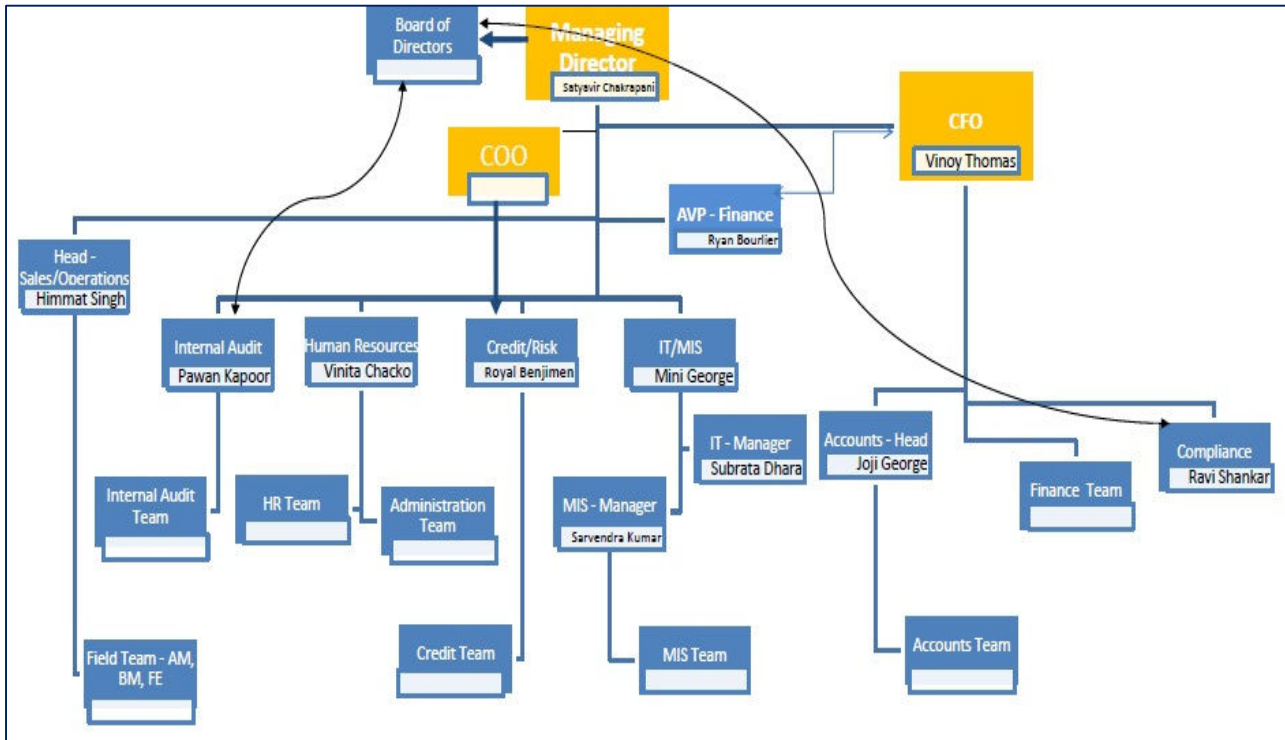
BOARD OF DIRECTORS

List of Board of Directors		Board Appointment date
Mr. Satyavir Chakrapani	Managing Director	25/03/2009
Mr. Cherian Thomas	Director	04/06/2009
Dr. Shantanu Dutta	Director	04/06/2009
Mr. Saneesh Singh	Director	27/08/2010
Mr. Anil Vidyarthi	Director	16/01/2013
Mr. Vinoy Thomas	Director	25/03/2009
Mr. Sanjay Naveen Gowan	Director	22/08/2013

**HIGHLIGHT OF OPERATIONS**

Particulars	31/Mar/2012	31/Mar/2013	31/Mar/2014	31/Dec/2014
No. of states	3	3	4	4
No. of districts	13	13	19	19
No. of Group offices	14	16	22	22
No. of total members	14,084	17,544	28,100	31,219
No. of active loans	14,196	17,679	28,452	31,359
No. of loans disbursed during the period	12,531	13,223	22,218	16,662
No. of total employees	86	83	125	122
No. of field staff	43	42	55	56
Loan disbursements during the period (₹in thousands)	191,511	160,050	349,391	269,872
Gross Loan portfolio outstanding (₹in thousands)	126,906	176,036	287,906	301,984
Active borrowers per field staff	328	418	511	557

ORGANOGRAM



Corporate Governance

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

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

For a MFI, Corporate governance should cover,

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

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

CLIENT ORIGINATION & TARGETING**Score - 73%**

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.

Field Executive (FE) is responsible for client origination in SMPL. SMPL 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, FE organizes orientation meeting to inform the members about SMPL, objective, product & services, lending methodology and group & group formation; etc. Five members are required to form one group. Once the group is formed a group 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, FE provides Compulsory Group Training (CGT) to members, duration of this training is of minimum 02 days approximately. FE 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 SMPL 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 SMPL 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 SMPL. Targeting poor is the approach which SMPL follows. SMPL performs a cash flow analysis and asset assessment based upon self-declaration provided by the clients. SMPL has tie-up with “Equifax” and “Highmark” RBI approved credit bureau 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 SMPL also provides an incentive to the FE on the basis of group formation.

Approval	Documentation	Dissemination	Observance
<ul style="list-style-type: none"> • SMPL have approved policies for client origination & targeting process. • For capturing annual household income SMPL depends on information provided by the borrowers which is provided to FE during the time of filed investigation. 	<ul style="list-style-type: none"> • Client origination process has been documented clearly in the operational manual. 	<ul style="list-style-type: none"> • SMPL 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.

**LOAN PRICING & TRANSPARENCY****Score - 75%**

The transparency observed by the MFI in terms of pricing of loans is examined in detail. The pricing of loans covers interest rate and loan processing charges, service tax is collected as applicable. 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 SMPL charges interest of 25.99% per annum on diminishing balance method with monthly rest (rounded to nearest rupee) for all the loan products with processing fee of 0.99% on the disbursed loan amount plus applicable service tax. (rounded to nearest rupee).

SMPL 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 cards which is available with the borrowers.

SMPL loan ranges from 5,000 to 39,800. The loan amount is depends on the loan cycle, repayment track record of previous loan and attendance of group meeting. There is no uniformity of loan amount within the group. According to its policy, SMPL does not charge any prepayment charges or membership fees to its clients.

Approval	Documentation	Dissemination	Observance
<ul style="list-style-type: none"> SMPL 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 cards 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 and loan outstanding balance. 	<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.

LOAN APPRAISAL**Score - 67%**

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 GRT officer who conducts Group Recognition Test (GRT) to check whether members have understood the SMPL's loan product and loans are provided only after successful completion of GRT.

The loan amount to be disbursed as recommended by Branch Manager (BM) is authenticated by GRT Authority. Application information received from the members is provided to the MIS relationship officer for processing of credit check through credit bureaus (Equifax and Highmark). After receiving verification report from Credit Bureaus and approval of GRT authority, applications are processed for loan disbursement. Loan disbursement takes place at the branch office and all documents are then forwarded to the Hub office for data entry and safe-keeping.

SMPL has a policy of recording the annual household income of the borrower in the application form and the value of loan taken from SMPL and value of loan outstanding from other MFIs based on the information provided by the client. However, SMPL has captured annual household expense of the borrower.

SMPL conducts Loan Utilization Check (LUC) for a selected sample of loans by its branch managers and area managers, who visit the borrowers at their place of business between 07 and 10 days after disbursement to ascertain utilization of the 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 cash at Branches. Further 100% attendance is compulsory during time of disbursement. SMPL collects the processing & insurance fees at the time of disbursement and also issues the receipt to the member for the same.

As per the policy; group meeting and loan repayment should be conducted at a designated place decided by the group members and loan disbursement is conducted only at branches. SMPL issues loan cards to each borrower and informs them to retain their cards so they can be updated at subsequent group meetings.

Approval	Documentation	Dissemination	Observance
<ul style="list-style-type: none"> • SMPL policy requires that adequate loan appraisal could be performed before disbursing a loan and proper examine of the repayment capacity of the borrowers. • SMPL have a policy to check multiple lending / indebtedness of the borrower through credit bureau check. 	<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 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; however the details pertaining to annual household income were not properly captured in application forms. • BM conducts compulsory LUC along with the Area Manager for random borrowers.

PRIVACY OF CLIENT INFORMATION
Score - 75%

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.

SMPL 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 Hub offices for centralized safekeeping. The relevant data is entered into the MIS software “**FIMO**” at Head Office level.

Approval	Documentation	Dissemination	Observance
<ul style="list-style-type: none"> SMPL’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"> SMPL 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"> The files containing documents and members profile are kept at the respective Hub offices for centralized safekeeping. The clients’ personal information and important details are recorded in FIMO.

STAFF BEHAVIOUR & CLIENT GRIEVANCE HANDLING**Score - 74%**

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 Behaviour -

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

SMPL 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. SMPL 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 monthly (or fortnightly as applicable) at the group meeting for the purpose of repayment of their monthly installments. These meetings are conducted by the FE, who carries collection and demand sheets (CDS) which contains the loan installment member-wise generated through system. The group leader collects the installments from the respective groups and hands over the amount collected along with the loan cards to FE. FE after ensuring that the amount is correct updates the each member's loan cards.

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 repayments, SMPL has the policy to visits the house of borrowers or conducts the special meeting for group members to motivate them to make repayment after 02 consecutive group meetings. 	<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 moderate level of awareness on staff behaviour & client grievance handling. 	<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. • SMPL maintains a client complaint box at every branch location. A centralized client complaint register is maintained at the Head Office, which provides for improved monitoring, rather than maintaining a separate complaint register at each branch.

INTEGRATING SOCIAL VALUES INTO OPERATIONS**Score - 80%**

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.

SMPL 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. SMPL 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 SMPL. Board also performs functions such as review of financials and discussion on the auditor's report.

SMPLvision is to be a world class, role model, techno savvy international Micro Finance Institution providing support to poverty stricken at low cost.. SMPL does not charge any prepayment charges or onetime membership fee from the borrowers. SMPL has provided insurance cover to its borrowers and their co - borrowers.

Approval	Documentation	Dissemination	Observance
<ul style="list-style-type: none"> SMPL has approved principles of integrating social values into operations. 	<ul style="list-style-type: none"> SMPL 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"> SMPL has a system of dissemination of its social values. 	<ul style="list-style-type: none"> SMPL maintains an adequate standard of governance and integrity in operation. SMPL has provided insurance cover to its borrowers and their co-borrower so that in case of the death of the client or co-borrower, the nominee will get a sum assured. In case of the death of the client, SMPL will not charge any interest on the balance principal amount. The balance principal amount will be deducted from the sum assured under the insurance and the rest of the amount will be handed over to the nominee.

**RELATIONSHIP MANAGEMENT AND FEEDBACK MECHANISM****Score - 71%**

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.

SMPL has a moderate 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 loan cards provided to the clients. Members have been informed of this mechanism during training and group formation.

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"> SMPL guidelines regarding collection of feedback from clients and actions to be taken are documented. 	<ul style="list-style-type: none"> A dedicated telephone line is provided to the clients on their loan cards.. Every branch was having complaint box outside the branch office. 	<ul style="list-style-type: none"> Generally clients said that they were satisfied overall with the services of the SMPL. While SMPL does not maintain a complaint register at the branch level, a complaint box is maintained at the branch level and checked regularly. The complaint box is checked regularly and complaints are centrally maintained at the Head Office and registered for appropriate action and follow-up.

COMPLIANCE STATUS OF MFI VIS-À-VIS THE RECENT RBI GUIDELINES
Score - 78%

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. SMPL 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>SMPL'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.	SMPL loan ranges from ₹ 5,000 to ₹ 39,800. The loan amount depends on the loan cycle, repayment track record of previous loan and attendance of group meeting.	SMPL 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. "Equifax" and "Highmark".	SMPL 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 ₹ 39,800 & repayment tenure is 24 Monthly Installments.	SMPL meets the criteria.
Repayment frequency should be weekly, fortnightly or monthly at the choice of the borrower	Repayment of loans are collected on Weekly / Fortnightly / Monthly installment basis at the choice of the borrower	SMPL meets the criteria.

<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>SMPL charges 25.99% per annum on diminishing balance method (Rounded to nearest rupee).</p>	<p>SMPL meets the interest rate criteria.</p>
<p>Loan pricing to include processing fee (not exceeding 1% of the loan amount)</p>	<p>SMPL is charging processing fee of 0.99% on the disbursed loan amount plus applicable service tax. (rounded to nearest rupee).</p>	<p>SMPL meets the processing charges criteria fully.</p>
<p>Collateral free loans</p>	<p>SMPL does not accept any collateral for extending the credit.</p>	<p>No collateral have been accepted from the clients.</p>
<p>MFI's shall not collect any Security Deposit / Margin from the borrower.</p>	<p>SMPL does not collect any security deposit / margin from the borrower.</p>	<p>SMPL meets the criteria fully.</p>
<p>No late payment or prepayment penalties</p>	<p>SMPL does not take late payment or prepayment penalties from the clients.</p>	<p>SMPL 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 SMPL is availing credit bureau check from Equifax and Highmark.</p>	<p>SMPL meets the criteria fully.</p>
<p>Minimum 75% of the MFI's portfolio should be given for income generation activities</p>	<p>SMPL provides loan only for the income generation activities.</p>	<p>SMPL meets the criteria fully.</p>



Approval	Documentation	Dissemination	Observance
<ul style="list-style-type: none">• The policies framed by board of SMPL 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.	<ul style="list-style-type: none">• Most of the guidelines issued by RBI are adhered by SMPL.

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 nine branches (located in Punjab) 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 centre 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. One/two centre / groups from each sample branches were 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 group 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 following branches of SMPL in Delhi and Uttar Pradesh. The details of the branches visited are provided below.

Sr. No.	Branch Names	District	Branch Opening date	No. of Borrowers Visited
1.	Uttam Nagar	West Delhi	May-09	18
2.	Nangloi	West Delhi	Nov-09	21
3.	Bhalaswa	North West Delhi	Sep-09	20
4.	Faridabad	Faridabad	May-09	19
5.	Badarpur	South Delhi	May-09	21
6.	Agra	Agra	Oct-12	18
7.	Raya	Mathura	May-13	21
8.	Mathura	Mathura	May-12	20
9.	Head Office	New Delhi	-	

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 MF is 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*****