

Belstar Investment and Finance Private Limited

Chennai, India

Legal form: NBFC-MFI

December 2014

Code of Conduct (CoC) Assessment

Achievement	Maximum	Score achieved
Integrity, Governance and HR Strategy	30%	25.9%
Compliance with guidelines pertaining to clients	60%	49.3%
Effectiveness of client education efforts, and awareness	10%	7.6%
Overall CoC	100%	82.8%

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Visit dates: 15th to 20th December 2014

M-CRIL

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Key for bullets:

- ✓ Positive
- Neutral
- Issue
- Description

Assessment tool and framework

Assessment Tool

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

Methodology

- ▶ The assessment is based on a 6 day visit by the M-CRIL team comprising a VP and an Analyst to the MFI's head office in Chennai and to 8 branches spread across Cuddalore and Vellore regions in Tamil Nadu, Davengere in Karnataka and Puducherry. Multiple groups were visited in each branch. (Refer Page No. 37 for the detailed methodology and Page No. 38 for the sampling plan details).

Perspective on the MFI

- ▶ Belstar scores reasonably well in all aspects of CoC assessment. Guided by the MFIN CoC and RBI FPC, they are committed to treat their clients with respect and dignity. Belstar makes sincere efforts in providing extensive training to the members; post disbursement monitoring would further increase the awareness levels of clients. Grievance mechanism has been laid out well but is not being sufficiently used by the borrowers.

Level of cooperation with assessment team:

HO	HIGH	Branches	HIGH	Follow-up	HIGH
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...Assessment tool and framework

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

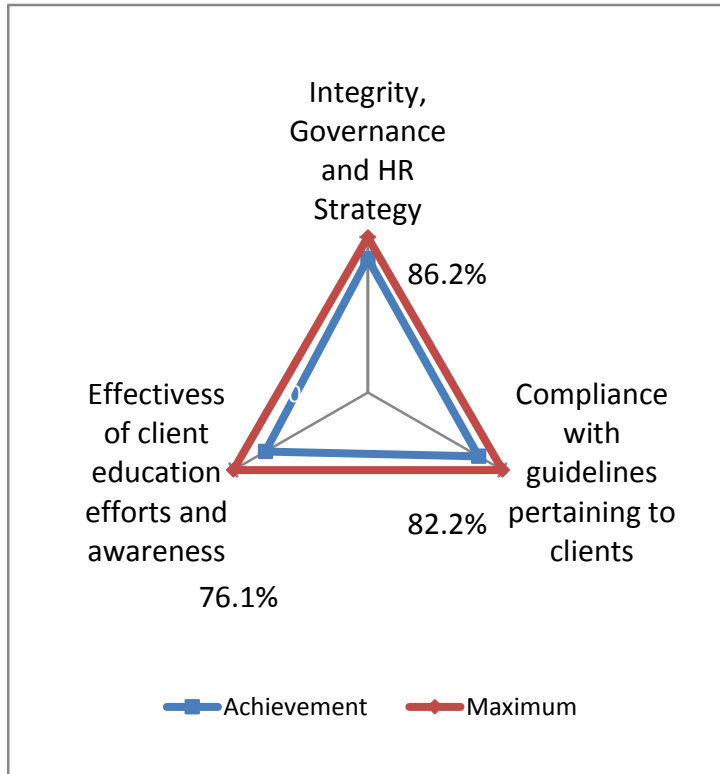
...Assessment tool and framework

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

Parameters and Indicators in M-CRIL tool		SIDBI requirements covered in this section
Integrity, Governance and HR Strategy	30%	
Integrity	10.0%	Integrating social values into operations
Governance	10.0%	
Human Resource Strategy	10.0%	
Compliance with regulations pertaining to clients	60%	Compliance status of MFI vis-à-vis latest RBI guidelines
Client Origination and targeting	9.0%	Client origination and targeting
Loan Appraisal Process	9.0%	Loan appraisal process
Loan product features and pricing	10.0%	Loan pricing and transparency
Transparency	10.0%	
Responsible lending	9.0%	Staff behaviour
		Relationship management & grievance redressal mechanism
Grievance mechanism	9.0%	
Privacy of client information	4.0%	Privacy of Client Information
Client Education Efforts and Field Results	10%	
Client Education (Efforts)	3.0%	
Client Awareness and other Results	7.0%	
Total	100%	

Code of Conduct performance

Performance



- Belstar fares well in “Integrity, Governance and HR” owing to its HR policies, compensation structure as well as institutionalisation of the CoC and FPC. Inducting more independent members in the Board would improve its compliance.
- Belstar fares well in “Compliance with guidelines pertaining to clients” owing to its loan products which are aligned as per the regulation, efficient client targeting, and well developed grievance mechanism. The score can be further increased by incorporating products features and terms & conditions in detail in the individual loan passbook. APR and EIR needs to be communicated to clients.
- Belstar can significantly increase its score in “Effectiveness of client education efforts and awareness” by introducing post disbursement monitoring by internal audit team. Inclusion of client level checks in internal audit would further strengthen MFI’s performance. Regular checks on client awareness and understanding of the key terms and conditions of the products/services can be introduced through supervisory visits.

Strengths

- ✓ Involved Board with rich experience in microfinance
- ✓ Low risk as all financial transactions happen at branch
- ✓ Highly satisfied clients; skill trainings, SHG formation and mechanism of internal lending and savings differentiates them from other MFIs
- ✓ Social performance report, grievance committee reports and compliance with code of conduct shared regularly with Board
- ✓ Well developed grievance redressal mechanism though low client awareness of the same

Issues

- ❑ Only one out of five members in the Board is independent
- ❑ Internal Audit limited to verification of documentation at branches
- ❑ Loans from other MFIs not captured; self declaration limited to overall compliance with RBI indebtedness guidelines
- ❑ Repayment of internal SHG loans and bank loans not always considered in the cash flow while assessing repayment capacity
- ❑ Behavioural aspects of employee not a part of appraisal
- ❑ Low awareness of staff regarding CoC
- ❑ Low awareness amongst clients with regards to insurance
- ❑ Debt restructuring policy yet to be developed



Introduction and background

- Dr. Kalpana Sankar along with the employees of Hand in Hand (HIH) group acquired Belstar, an NBFC in September 2008. Belstar Investment and Finance Private Ltd. (BIFPL) commenced microfinance operations in March 2009 in Haveri district in Karnataka by taking over already nurtured Self Help Groups (SHGs) of HIH. In December 2013, Belstar received recognition as NBFC-MFI from RBI.
- Dr. Kalpana Sankar, the Managing Director, has been with BIFPL since February 2009. As on 30 September 2014, there are 5 members on Board with only one independent director. BIFPL has an experienced board with rich experience in microfinance and banking sector. As per recommendation by CRISIL, Belstar inducted a Trustee of Sarvam Mutual Benefit Trust (SMBT) on its Board.
- As on 30th September 2014, Belstar had 1,28,814 borrowers spread over 64 branches in 4 states and a total portfolio outstanding of Rs 131.95 crores. Belstar has a very health portfolio with PAR30 at 0.06%.
- BIFPL portfolio is concentrated in Tamil Nadu at 76% followed by 13% in Karnataka. To reduce this concentration risk in south, Belstar is expanding to other states in central and western India. Belstar took over 4 branches of Hand in Hand in Madhya Pradesh in December 2013 and started lending. In the next four years it plans to expand to North and Central India.
- Belstar lends through SHG model but to boost growth is piloting JLG model in Maharashtra; operations are set to commence in January 2015. Group based micro-enterprise loan is the primary product offered. In July 2014, Belstar started offering Education Loan and from January 2015 House Improvement Loan will be offered.
- BIFPL has a diversified funding source with borrowings from different institutions including PSUs, Private banks and NBFCs.

...Introduction and background

Vision

“to evolve as a transparent, client-focused, sustainable, professionally managed and socially responsive microfinance institution facilitating financial inclusion with a focus on double bottom line”

Mission

“to assist the poor, discriminated and deprived women in leading a life of prosperity, dignity and privilege with client-centered and sustainable microfinance that will help them develop micro enterprises and jobs”

Main Performance Indicators*

	Mar-13	Mar-14	Sep-14
Active borrowers	93,488	1,13,111	1,28,814
Portfolio Outstanding (Rs cr)	96.23	123.36	131.95
Of which, Managed Portfolio	96.23	123.36	131.95
Number of states	3	4	4
Number of districts	9	10	10
Number of branches	57	64	64
Number of groups	18,160	14,583	15,990
Staff strength	450	468	475
PAR 30	0.05%	0.04%	0.06%
Total PAR inc write-off (Rs cr)	0.38	0.06	0.08
Yield on Portfolio	24.3%	22.7%	24.4%
Operating Self-Sufficiency	109.9%	117.9%	116.6%

*Based on data provided by Belstar

Microfinance policies

Model: Self Help Group (SHG) & Joint Liability Group (JLG)	Process	Details on Page 39, 40 & 41
Services: <ul style="list-style-type: none"> • Loan products <ul style="list-style-type: none"> ▪ Micro Enterprise Loan ▪ Education Loan ▪ House Improvement Loan (to be offered from January 2015) 	Area Selection	<ul style="list-style-type: none"> • Rural/Semi Urban/Urban areas with low income households
Financial	Promotion & Group Formation	<ul style="list-style-type: none"> • Self selection by members, training through 3 modules and specific training for animator and representative on book keeping.
Others <ul style="list-style-type: none"> • Insurance products – Compulsory Life Insurance • Skill training to members to start and run enterprises. 	Loan Sanction	<ul style="list-style-type: none"> • Loan application is taken after 60 days of group formation, once 2 modules have been completed and after observing savings pattern.
	Disbursement	<ul style="list-style-type: none"> • Loan sanctioned by the loan Sanction committee followed by CB check. • All financial transactions in branch.
	Collection	<ul style="list-style-type: none"> • Disbursement in presence of CO, BM, and one more supervisor (RM or CM)
	Loan Utilization Check	<ul style="list-style-type: none"> • Disbursement in cash in front of all group members. • Repayment is collected only in branch, once a month. One member collects repayment from group and deposits in branch. • LUC is conducted by Risk Assessment Team (RAT) for a sample of new loans disbursed; till October'14 100% LUC was done by CO.

Loan products

Product Name	Micro Enterprise Loan	Education Loan
Clients (Active as on 31.03.2014)	1,13,111	Nil
Loan size (Min-Max) in Rs	7,500 to 30,000	11,000
Term (Months)	13-25 months	12 months
Repayment frequency	Monthly	
Moratorium period	One month	
Processing fee(incl. Service tax)	1% +12.36% service tax	
Diminishing rate of interest rate % (p.a.)	25 %	24.5%
Guarantee/collateral	No collateral	
Penalty on overdues	No penalty, interest on overdue period collected	
Prepayment & foreclosure charge	No charges	
Share in portfolio on 31 March 2014	100%	Nil

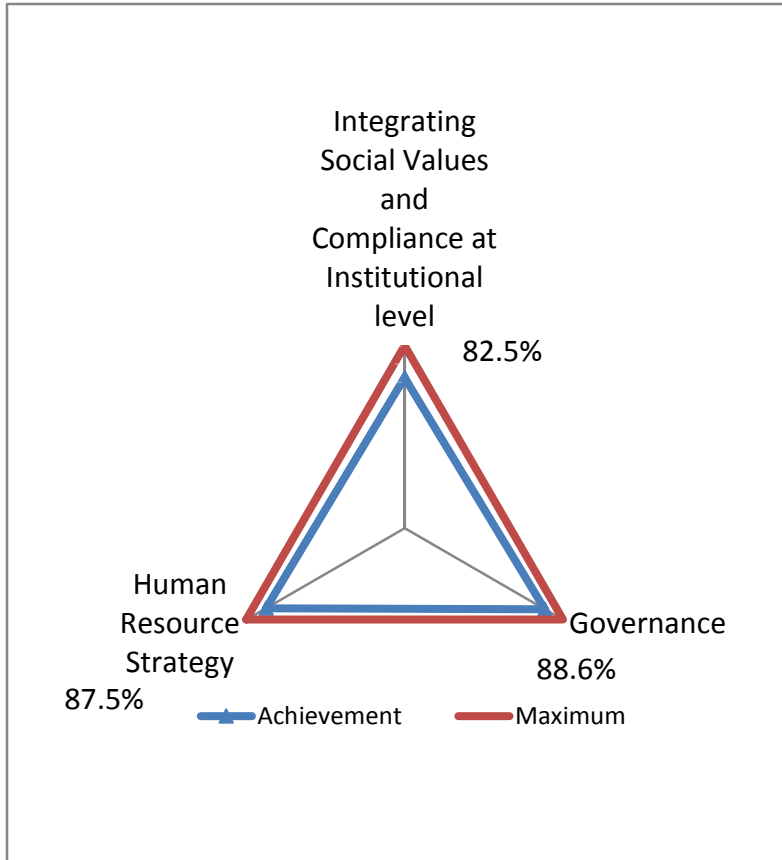
Insurance

Insurance details:		Insurance Processing details	FY 11-12	FY 12-13	FY 13-14	April – Sep 2014
Date introduced	1 st March 2011	Total number of clients insured	96,318	93,488	113,111	128,814
Insurance company	Bajaj Allianz Life Insurance	Number of claims in the year	100	167	211	34
Coverage - who?	Loan Client	Number of pay outs in the year	100	167	211	34
Coverage - what?	Loan Amount + Rs 5,000	Number of rejected claims	0	0	0	0
Premium Amount	Rs 3 per 1,000	% claims/accounts	0.10%	0.18%	0.19%	0.03%
Tenure	Equivalent to Loan Tenure	% payouts/claims	100%	100%	100%	100%
		Average time between claim and settlement	1 month	1 month	1 month	1 month

- Belstar provides compulsory life insurance to clients through Bajaj Allianz Life Insurance Company.
- ❑ During the visit it was observed that all the clients were aware they have an insurance although only 49% could recall the insurance fee, 80.7% recalled the insurance cover applicable and 20.7% were aware of the documents to be submitted to claim the insurance benefit.
- ✓ As per observation, all insurance claims were paid within a month of receiving the death certificate.

Integrity, governance and strategy

Performance



Score Obtained	Maximum
25.9%	30.0%

Levels of internalization

Levels of internalization	Approval	Documentation	Dissemination	Observance
Integrating Social Values and Compliance at Institutional level	Moderate	Moderate	Moderate	Good
Governance	Good	Good	NA	Good
Human Resource Strategy	Good	Good	Moderate	Moderate



...Integrity, governance and HR strategy

Integrating Social Values and Compliance at Institutional level	Compliance by Belstar
Not less than 85% of total assets of MFI	96.56% of the company's total assets were in the nature of qualifying assets for the period ending 31st March 2014 and 93.61% for the period ending on 30th September 2014. With the introduction of Education Loan, House Improvement Loan and plan for Individual Loan, share of qualifying assets is expected to be lower next year.
Aggregate amount of loan extended for income generating activity is >70% of the total loans given	As on 31st March 2014, 100% loans were provided for income generating purpose. With the introduction of Education Loans in June 2014, 96.9% of loans were provided for income generation purpose and 3.8% were given as Education Loans as on 30th September 2014.

Integrating Social Values at Institutional Level

- ✓ Belstar follows the MFIN Code of Conduct and RBI Fair Practice Code as guidelines to treat clients and employees with dignity. The code of conduct is informed to all employees and is displayed in branches for reference. Employees are not supposed to take bribes, mistreat clients, visit clients in hours other than as prescribed by office or misinform them. Any violation from the code leads to disciplinary action.
- Staff are trained on acceptable practices while interacting with clients during induction. All employees go through a two day induction training after joining the organization. Credit Officers (CO) are also provided an on the job training during which they accompany a senior Credit Officer to learn the processes. Branch Manager also guides and supervises new recruits. The on the job training is not structured as of now but Belstar plans to structure a one month on the job training for CO from next financial year.



...Integrity, governance and strategy

Integrating Social Values at Institutional Level...contd

- During branch visits it was observed that MFIN Code of Conduct and Fair Practice Code was displayed in all branches (except one) in vernacular. Although these displays were not as prominent as other displays like loan terms & conditions, MBT details and enterprise trainings etc.
- Compliance with the code of conduct is not verified by any supervisory staff. The appraisal form of the employees gives weightage to "work attitude" which rates employees on relationship with customers but does not emphasize on compliance with code of conduct or behavioral issues. Scope of internal audit is limited to verification of documents at branch and does not include field visit and interaction with clients.
- The MIS is currently decentralized and all entries are done in the branches by Branch Accountant. An internally developed software MF Soft is being used for portfolio data and Tally for accounting. By July 2015 ERP solutions from Microsoft will be used for both MIS and accounting. The accounting data is simultaneously entered in ERP since April 2014. Credit Bureau (CB) verification and insurance claim settlement details will also be integrated in the new software.
- ✓ Loan portfolio of Belstar was Rs 123.36 crores as on 31st March 2014 and Rs 131.95 crores as on 30th September 2014. Margin in financial year 2013-14 was 11.55% which was in compliance with the cap of 12% till March 2014. As per the RBI guidelines, Belstar is required to maintain margin within 10% from April 2014. Therefore for the period ending 30 September 2014, margin recorded was 9.51%.



...Integrity, governance and strategy

Governance

- ✓ Belstar has an experienced board with relevant experience in finance, investment and banking. The Managing Director, Dr Kalpana Sankar has over two decades of experience in microfinance. Induction of a Trustee of Sarvam Mutual Benefit Trust (SMBT) on its Board reflects good governance practices of Belstar. Additionally Board includes an independent member having over 40 years of banking experience and a representative of HIH Consulting Services and Aavishkaar Goodwell each.
- ✓ Board is well informed about the policies and operations of Belstar. Board meets quarterly and discusses on business performance, expansion, capital infusion, fund mobilisation, product pilots, IT development, social awareness programs, customer service and reviews social performance management and grievance committee reports on a regular basis. Representative of its investor NMI has also been invited to the Board meetings in the past.
- Mr. A. Subramaniam, the only independent member in the Board heads the Board level Audit Committee. Representatives of Aavishkaar Goodwell India and HIH Consulting Services are other members in the committee. The Audit Committee meets quarterly.
- ✓ Assets as per last audited balance sheet is Rs 144 crores, so Belstar has an Asset Liability Management Committee as well as Audit committee as per the Corporate governance guidelines on RBI. Belstar has also constituted a Nomination & Remuneration committee as per the Corporate governance guidelines on RBI.
- ✓ External auditor conducts statutory audit twice a year and verifies Belstar's compliance with RBI as well as Code of conduct. This report is shared with board on quarterly basis.



...Integrity, governance and strategy

Human Resource Strategy

- Belstar acquires 2-3 year old branches of its parent organisation Hand In Hand (HIH) and therefore the HIH staff automatically moves from HIH to Belstar. Since mass recruitments does not happen, advertisement in newspapers, company website or job portals is not done. Currently Credit Officers (CO) are largely recruited from amongst members by announcements in the group meetings or through references. All new recruits have to produce two reference checks at the time of joining.
- ✓ Belstar hires from other MFIs only if a relieving letter is provided and reference check is mandatorily done for all recruits though this policy is not documented in the HR Manual. Offer letter is issued to all employees. Staff who were previously employed have to produce a "No Dues" certificate and relieving letter from the previous organization.
- ✓ All Credit Officers recruited from other MFIs are compulsorily placed in a different area than they were working in the previous organization.
- ✓ All employees (confirmed or in probation) have to serve one month notice period after resignation without any consideration except in case of fraud. A proper handover is taken from outgoing employees and no dues is provided.
- ✓ Relieving letter and Service Certificate is provided to all employees exiting from Belstar. Evidence of relieving letter, service certificate and salary slip of previous organisation including MFIs were observed for staff hired from other institutions.



...Integrity, governance and strategy

Human Resource Strategy...contd

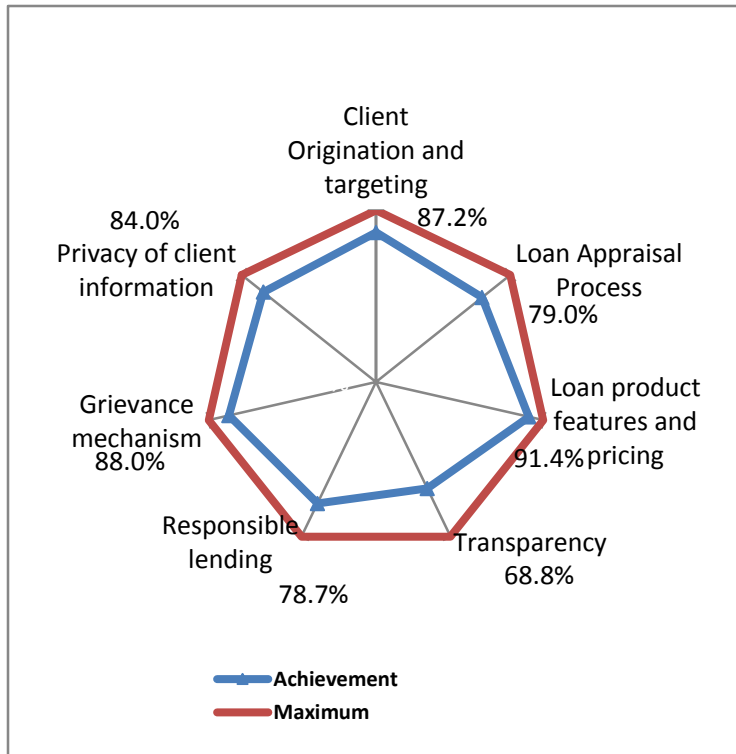
- ✓ Belstar has a fixed salary structure for field staff. There are no performance based incentives to avoid aggressive sales or collection practices. Staff performance appraisal contains multiple parameters that encompass portfolio quality, trainings provided to members, time management and work attitude. Work attitude takes into account the relationship of staff with clients.
- ✓ There is no third party involved in collection. All repayments are done by clients at the branch. In case of overdue, Belstar staff visits the client and encourages them for payment and clients then visits the branch for repayment. Even Belstar's own staff are not allowed to collect installments from clients in the field. All repayments are done by clients in the branch.
- ✓ No shortfall in collection is recovered from staff except in case of fraud.



Compliance on Guidelines pertaining to Clients

Performance

Score obtained	Maximum
49.3%	60.0%



Levels of internalization

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



...Compliance with guidelines pertaining to clients

Client Origination and Targeting	Compliance by Belstar
Borrower's household income (HHI) does not exceed Rs60,000 in rural areas and Rs 120,000 in non-rural areas	<ul style="list-style-type: none">○ Belstar classifies the clients as rural/urban and their household income is captured in the loan application form at the time of screening. It is verified by the Branch Manager and the Risk Assessment Team. However income is not entered in the MIS.✓ Belstar takes a written declaration from clients that their income is within the limits prescribed by RBI.○ 18.5% of the sample visited by M-CRIL team had income more than the prescribed limit.

Client Origination and targeting

- ✓ Belstar targets women who are “deprived of opportunities and lack access to education, skills, information, health, sanitation and good environment”.
- Belstar does not have a written "no discrimination policy" although it does not discriminate between its clients in terms of caste, religion or colour. Moreover, operation manual mentions that "preference shall be given to Most Backward Communities, Backward Communities, Scheduled Tribes, Scheduled Castes, vulnerable and destitute women."
- ✓ KYC guidelines as stipulated by RBI are complied with. Clients are required to submit one ID proof and a separate address proof.
- ✓ An extensive training spanning across three modules is provided to all members. Animator and Representative of the group receive a special training on book keeping.

...Compliance with guidelines pertaining to clients

Loan Appraisal Process	Compliance by Belstar
<p>Total indebtedness of the borrower does not exceed Rs50,000</p>	<ul style="list-style-type: none"> ✓ Indebtedness is checked only through Credit Bureau (CB). ❑ No information on existing loan from other MFIs or informal sources is collected. Although bank loans and credit history of internal loans is considered to evaluate the credit history of client, it is limited to identify default clients only. Loan amount is not considered while checking if the total credit burden on client is below Rs 50,000.
<p>The MFI ensures</p> <ul style="list-style-type: none"> ○ borrower does not have more than two NBFC-MFIs loans ○ borrower cannot be a member of more than one of its SHGs/JLGs ○ not lend to a single person as an individual & group borrower, simultaneously. ○ Involvement of more than one staff in loan sanctioning & disbursement 	<ul style="list-style-type: none"> ✓ Information about existing loans from other MFIs is not collected from members. Only through CB check it is ensured that not more than 2 MFIs lends to the same borrower. ❑ Although, the loan agreement clearly states that a Belstar SHG member cannot be a member of any other SHG or JLG, there is no process to check for duplication of clients in the MIS. ✓ Belstar offers loans only to self help group members and they also make sure that only one individual per household is a member of the group. ✓ Loans are disbursed only in the branch office. The CO, BM and one more supervisory staff have to be compulsorily present at the time of disbursement. It is mandatory for all members to be present at the time of disbursement. ○ Loan is sanctioned by the loan sanction committee twice a month. This committee consists of Chief Manager, Risk Assessment Manager and Regional Manager. Once the loan is approved, MIS team consolidates all loans and send it for credit bureau check.

...Compliance with guidelines pertaining to clients

Loan Appraisal Process	Compliance by Belstar
<p>Credit Bureau (CB)</p> <ul style="list-style-type: none">○ MFI is a member of at least one CB○ Submits data regularly to the CB ○ Checks with CB before sanctioning of loan ○ In addition to CB checks, takes self certification from the borrowers	<ul style="list-style-type: none">○ Belstar is a member of Highmark and Equifax and shares data with them on monthly and weekly basis respectively.○ No information is collected about existing loan from other MFIs or informal sources. Although bank loans and credit history of internal loans is considered to evaluate the credit history of client, it is limited to identify default clients only. Loan amount is not considered while checking if the total credit burden on client is below Rs 50,000. Indebtedness is checked only through CB check through Highmark.○ After screening by CO is complete, BM Rating followed by assessment by a Risk Assessment Team (RAT) member is done. Based on the assessments, Loan Committee comprising of RAT, Regional Manager and Chief Manager approves the loan.□ Data entry for all approved loans is done by the Branch Accountant (BA) in the branches which then leads to credit bureau check. In case any client does not prescribe to RBI guidelines, the loan is rejected.□ A declaration is taken for the entire group and merely states that all members abide by RBI guidelines i.e. loan from not more than 1 MFI and not exceeding Rs 50,000. Details of the existing loan if any is not captured. Instalment due for the existing loan is to be included in the cashflow; however instances were seen where instalment for internal SHG loan was not accounted for.

...Compliance with guidelines pertaining to clients

Product features	Compliance by Belstar
Loan size: does not exceed Rs 35,000 in 1st cycle and Rs 50,000 in subsequent cycles.	<ul style="list-style-type: none"> ○ First Cycle loan is fixed at Rs 12,000 (Rs 7,500 for Madhya Pradesh) and in subsequent cycles loan size is Rs 15,000, Rs 24,000 and Rs 30,000 respectively. Additionally, second cycle onwards, a loan amount of Rs 10,000 can be given for construction of toilets and Rs 11,000 as Education Loan.
Tenure: not less than 24 months when loan amount >Rs 15,000	<ul style="list-style-type: none"> ○ First and second cycle loans (Rs 12,000 and Rs 15,000) have a tenure of 12+1 month and 15+1 month, and third cycle onwards i.e. for loan amount Rs 24,000 have a tenure of 24+1 month.
Repayment frequency: weekly/ fortnightly/ monthly at the choice of the borrower	<ul style="list-style-type: none"> □ Clients are not given a choice for repayment frequency as it is not available in the product design. All products have monthly repayment frequency. ○ Members are encouraged to repay in advance. A few instances were observed where instalment was paid even 10 days in advance.
Moratorium: is not less than the frequency of repayment (or minimum one installment)	<ul style="list-style-type: none"> ✓ A moratorium equivalent to the repayment period i.e. one month is provided for principal amount. ○ Interest amount for the moratorium period is collected during the moratorium period and is included in the repayment schedule.

...Compliance with guidelines pertaining to clients

Pricing	Compliance by Belstar
Interest rate/pricing cap: <ul style="list-style-type: none"> ○ Margin cap of 10% for large MFIs (with portfolio > Rs 100 crore), 12% for others ○ Max. variance between the min. & max. interest rate does not exceed 4% 	<ul style="list-style-type: none"> ✓ Margin in financial year 2013-14 was 11.55% which was in compliance with the cap of 12% till March 2014. As per the RBI guidelines, Belstar is required to maintain margin within 10% from April 2014. Therefore for the period ending 30 September 2014, margin recorded was 9.51%. ○ Max. variance between interest rates is 0.5%. Interest rate is fixed at 24.5% for all Micro Enterprise Loan (MEL) disbursed before December 2014 and 25% for all loans after 1st December 2014. ○ Education loan has an interest rate of 24.5%.
Pricing: only 3 components: (i) proc. fee (ii) interest (iii) insurance premium	<ul style="list-style-type: none"> ○ Loan pricing has 3 components:- <ol style="list-style-type: none"> 1. Interest 2. Processing fee with service tax 3. Insurance premium
Processing fee: max 1% of loan	<ul style="list-style-type: none"> ○ Processing fee is limited to 1% of the loan amount plus service tax.
Insurance commission: as per IRDA norms	<ul style="list-style-type: none"> ✓ Insurance premium charged is Rs 3 per Rs 1,000 and provides a coverage of loan amount plus Rs 5,000. Entire premium amount is passed on to the insurance company.
Others: <ul style="list-style-type: none"> ○ No penalty for prepayment & delayed payments ○ No collateral & security deposit 	<ul style="list-style-type: none"> ✓ Clients are not penalized for foreclosure or delayed payments. □ Excess interest paid owing to advance payment is not adjusted at the end. However, once ERP is introduced in July 2015, interest will be calculated on real time basis. ✓ All loans are without collateral.

...Compliance on Guidelines pertaining to Clients

Transparency	Compliance by Belstar
Standard form of loan agreement: preferably in vernacular language	<ul style="list-style-type: none"> ○ There is a standard loan sanction and loan agreement document in vernacular which is provided to the group.
Loan card: reflecting of (i) EIR (ii) terms & conditions (iii) record of all transactions;(iv) all entries in vernacular	<ul style="list-style-type: none"> ✓ Interest rate (on declining basis) and processing fees & service tax are mentioned in the loan passbook. ✓ Repayment schedule with monthly principal and interest is mentioned. ✓ Every month, after repayment, group passbook is updated by the Branch Accountant and the individual passbook by the animator of the group. ❑ EIR, prepayment terms & conditions, insurance fees and coverage are not mentioned in the loan passbook, however all these details are provided in the loan agreement. ✓ All entries are in vernacular
Display of the EIR in its offices & website	<ul style="list-style-type: none"> ❑ Clients are not informed of the APR/EIR charged by the MFI. Neither have the details been displayed in the Head Office, company website or branches visited by the M-CRIL team.

- ✓ The loan agreement and loan sanction letter contain all terms & conditions like repayment frequency, tenure, interest rate, insurance fee, processing fee as well as service tax and the repayment process. It also mentions that client data will be shared with credit bureau and other financial institutions for matter related to loan sanction only.

...Compliance on Guidelines pertaining to Clients

Transparency	Compliance by Belstar
Member education: professional inputs to members in the formation groups	<ul style="list-style-type: none">✓ Belstar conducts training through pre-designed standardized modules to the Members, Animators and Representatives in the vernacular language with the help of Hand in Hand training staff.○ After group formation, the whole group compulsorily goes through a Module 1(M1) training (within one month of formation). M1 deals with the benefits of the Self Help Groups (SHG), importance of savings, how to avoid over indebtedness and how to efficiently run and benefit from the SHG.○ Module 2 (M2) is the enterprise training that focuses on entrepreneurship and how to run enterprises (to be completed within 2 months of formation).○ Module 3 (M3) is a one day training that list out the various enterprise trainings offered by Belstar (to be completed within 6 months of formation).○ Animator and representative of the group are provided a separate training called A & R training for managing the group, book keeping, writing loan ledgers and documentation. This training has to be completed within 30 days of formation of the group.○ After M3 training , interested members can opt for skill trainings which is provided in a batch of 20 or more and is specific to a particular skill. This training is voluntary and free for 6 days beyond which a fee of Rs 250 per member is charged.
	<ul style="list-style-type: none">□ Clients are not informed about the data privacy clause and about their rights in detail as per code of conduct during the training.

...Compliance on Guidelines pertaining to Clients

Responsible Lending	Compliance by Belstar
<p>Location for transactions and overdue recovery</p> <ul style="list-style-type: none"> ○ All transactions are at a central location ○ Staff are allowed to make recovery at the place of residence/work, if borrower fails to appear at the central place on 2 or more successive occasions 	<ul style="list-style-type: none"> ✓ All financial transactions happen only at the branch office of Belstar. Loans are disbursed only in the branch office. The Credit Officer, Branch Manager and one more supervisory staff have to be compulsorily present at the time of disbursement. It is mandatory for all members to be present at the time of disbursement. ✓ Repayment is collected only at branches even in overdue cases.

Responsible lending

- Branch office timing is from 9:30 a.m to 5:30 p.m. All activities in the field (CO screening, BM Rating, Assessment by RAT, LUC and attending SHG monthly meeting) are conducted during the office timings. Though not documented in any manual, it is implied that staff cannot contact clients at odd hours.
- Belstar has a well defined process for dealing with clients who have defaulted. Credit Officers remind members of repayment five days in advance of the due date. If the repayment is not made on the due date they visit the group and discuss the issue. After 2 days of no repayment, Branch Manager visits the group, 5 days after this the Regional Manager visit the group. During all theses visits, staff tries to enforce the group responsibility. If the repayment is not collected within a month, all financial transactions with the group are stopped and Credit Officer continues to meet the group and motivates them to start repayment. After 6 months of delinquency a legal notice is issued.
- ✓ Belstar follows the MFIN code of conduct as well as FPC which clearly define the acceptable behavior of staff towards clients. Belstar provides in print (in loan passbook) to the clients that all clients will be treated with respect by the staff.



...Compliance on Guidelines pertaining to Clients

- ❑ Belstar does not have a debt restructuring policy.
- Feedback is informally collected from the members by the staff during supervisory visits. Additionally members share their feedback through quarterly Customer Service Committee meetings at the branches or by calling at the toll free number.
- ✓ Maximum loan amount was increased from Rs 24,000 to Rs 30,000 and Education Loan was introduced based on client feedback. Plans to offer House Improvement Loan and Sanitation Loan is also to meet clients' needs. Further waiting period after group formation was reduced from 90 days to 60 days.



...Compliance on Guidelines pertaining to Clients

Grievance Mechanism

- ✓ Belstar has grievance mechanism in place with a dedicated employee to take member complaints. This employee is based out of Hand in Hand office in Chennai. The staff can speak Hindi, English and Tamil.
- ✓ Clients have multiple channels to submit complaints. (i) inform the Credit Officer, Branch Manager or Regional Manager whose contact details are provided on the passbook and are displayed in branch office (ii) submit complaint in the complaint box present in the branch office or to the branch accountant who would note it down on the grievance register (iii) toll free number (iv) Belstar Head Office, nodal officer (CFO of Belstar) or RBI contact details of which are displayed in branches.
- ✓ Grievance report is shared with Board quarterly.
- ❑ However it was observed that clients were not aware of grievance mechanism and are not using any of these channels effectively. Clients are not informed verbally or in writing that they can approach RBI if their complaints are not resolved by Belstar.
- Grievance register of all branches were empty and no complaints had been received through the complaint box.
- ❑ 90% of clients remembered being informed about the grievance mechanism but only 61% could locate the toll free number on the passbook.

Monitoring & audit of compliance on guidelines pertaining to clients

- There is minimal client-staff interaction in Belstar. The Credit Officer visits the group monthly or once in two months to check if the individual passbooks have been updated by the animator. They also check the records for internal lending and savings. Internal Audit does not visit the group. BM also visit the group after disbursement only for loan utilization check which from November 2014 is done by the RAT member.



...Compliance on Guidelines pertaining to Clients

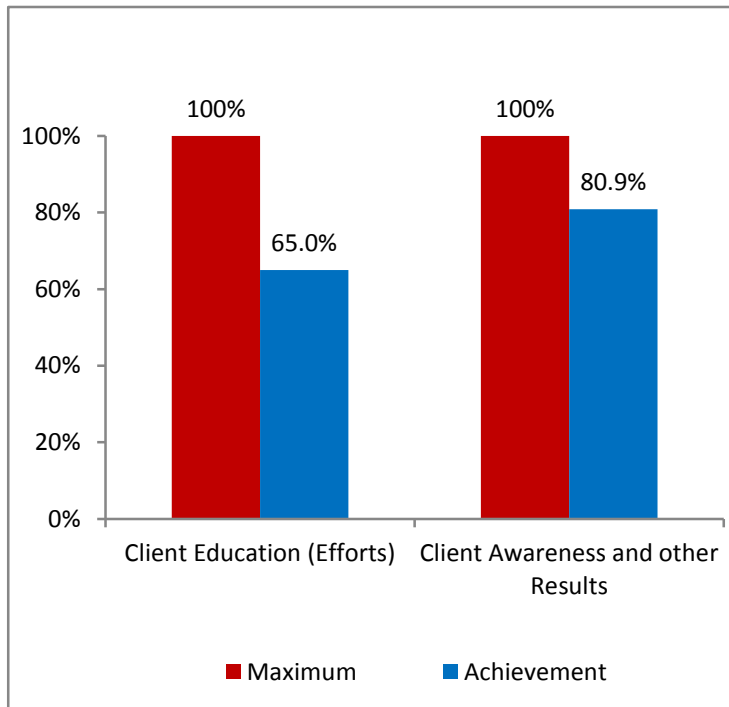
Privacy of client data

- ✓ Belstar has a privacy policy and it is stated in the loan agreement form given to the SHG. The policy states that Belstar will not share clients personal data with any organisations except credit bureau and other financial institutions involved in the sanction of loan.
- ✓ Apart from the written policy, staff interviewed confirmed that they do not share client data with any third party.
- ✓ MIS is strictly for Belstar usage only and no third party has access to it. IT policy clearly states that any information sharing is prohibited without proper approval from supervisors.
- Software backup is taken daily and stored in external servers outsourced to Sify to keep client data safe. Hard copy of documents are maintained in the branch premises safely.
- All systems and applications are role based and password protected. All employees are informed not to share their passwords although the consequences of violation are not defined.
- The loan agreement signed by the SHG declares that Belstar would share client data with Credit Bureau and other concerned financial institutions.
- All clients are informed that their data is shared with credit bureau to verify their level of indebtedness and in case of rejection they are informed about the reason. On request, clients are also provided their credit bureau report.
- However during the loan orientation meeting at the time of disbursement observed in visited branches, clients were not briefed about the privacy aspects. Awareness on data sharing with CB of the surveyed clients was also very low.
- Clients are also aware that their KYC is shared with insurance company to process their policy.



Client education efforts & field results

Performance



Score obtained	Maximum
7.6%	10%

Levels of internalization

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



...Client education efforts & field results

Client Education

- ✓ All clients undergo 2 sets of compulsory training called Module 1 and Module 2. In Module 1 training the self help group concept, importance of savings and how to use the group corpus for internal lending is explained in detail. The second module training deals with the functioning of enterprises. The Animator and Representative of the group undergo another training called "A and R" training or the "Animator and Representative" training after group formation. Apart from these, clients also receive Module 3 training on enterprise trainings conducted by Belstar through Hand in Hand.
- ✓ All clients are informed about the policies and procedures of Belstar 4 times before disbursement. First time by the Credit Officer at the time of group formation and screening of loan application form; second time by the Branch Manager while cross checking the loan application form; third time by the Risk Assessment Team that also verifies if clients are aware of the policies and procedures; fourth time by the Regional Manager or the Chief Manager during the orientation before disbursement.
- During client survey it was observed that a few new clients added in an old group have not received the mandatory trainings.
- Although Belstar has a detailed training program, it does not adequately include the Code of Conduct or its implementation. However, clients are informed about few features of the code of conduct like they must collect receipts for every payment made and loan must be used for the purpose specified in the loan application form (for income generating purpose only unless it's an Education Loan).



...Client education efforts & field results

Client awareness and other results

- ✓ High recall was noted with regard to receiving initial training on the organization, SHG principles, pricing, insurance coverage details, grievance mechanism and managing over indebtedness at the time of group formation.
- ✓ There was high awareness with regards to the loan amount, repayment tenure, instalment amount and the number of instalments paid by the client.
- ❑ There was low awareness on insurance charges, partial awareness on insurance cover applicable and only 21% clients were aware of the documents to be submitted to claim the insurance benefit.
- ❑ Only 24% clients were aware that their details are shared with CB to check their indebtedness level and with other third party like insurance company.
- ❑ Only 61% clients were aware that the toll free number is provided to them on the loan passbook.

Awareness on	Share of clients
Loan Amount	100.0%
Loan repayment tenure	96.0%
Loan instalment amount	98.0%
Number of instalments already paid	95.3%
Processing fees	67.3%
Interest rate	74.0%
Insurance charges	49.3%
Documents to be submitted for getting insurance claim	20.7%
Insurance cover	80.7%
Prepayment terms & conditions	49.3%
Information being shared by third party CB, insurance etc.	24.0%
Code of Conduct and rights as per the Code	89.3%
Grievance Redressal detail on passbook	61.3%



Annexes

Profile of the Board

Board member	Designation in the Board	Experience
Dr. Kalpana Sankar	Managing Director	Dr. Kalpana Sankar has over two decades of experience in microfinance in Tamil Nadu and has been a consultant with UNOPS, UNDP, Christian Aid, and Wetlands International on gender and microfinance issues. She was working as Key Person in Tamil Nadu Women Development Corporation, Govt. Of Tamil Nadu. Also, she is the Chairman and Managing Trustee of Hand in Hand India.
Mr. A. Subramanian	Independent Director	Mr. A. Subramanian is a former Executive Director of Indian Bank. He has 40 years of rich banking service and he started his career in Oriental Bank of commerce. His experience spans across treasury, corporate governance and mergers.
Mr. L. Muralidharan	Nominee Director	Mr. L. Muralidharan has over 13 years of post-qualification experience in Corporate Finance, Statutory, Internal and Management Audit of large public sector undertakings. He had earlier worked with IFMR Trust as VP- Finance and at Emirates Trading Agency LLC in Dubai in their Corporate Affairs division.
Mr. Pradeep Pathiyamveettil	Nominee Director	Mr. Pradeep is the CIO of the sub Advisory company that provides non - binding advisory services to AGIMDC. He has extensive experience in project finance, private equity investing and business development in rural India.
MS. T. Vijayalakshmi	Nominee Director	Ms. T. Vijayalakshmi is a Trustee since 2011 on the Board of M/s. Sarvam Mutual Benefit Trust Kancheepuram (SMBT), the apex body of 119 Mutual Benefit Trusts (MBTs). She is the Animator (Group Leader) of Kanchi Kamakshi Self Help Group, Sathavaram right from its formation in 2007.

Shareholding Pattern, 30th September 2014

S.NO	Shareholder	No. of Shares	Amount (Rs.)	Shareholding
1	Dr Kalpana Sankar	398,742	3,987,420	2.78%
2	Ms D Bindhu	38,842	388,420	0.27%
3	Ms Kamini Dhandapani	32,367	323,670	0.23%
4	Mr Ashwin Kumar	4,032	40,320	0.03%
5	Capt. P.K Ayre, Trustee, Sarvam Mutual Benefit Trust	8,754,225	87,542,250	60.97%
6	Hand In Hand Consulting Services Private Limited	729,472	7,294,720	5.08%
7	International Finance Corporation	2,000,000	20,000,000	13.93%
8	Norwegian Microfinance Initiative Frontier Fund KS	1,600,000	16,000,000	11.14%
9	Aavishkaar Goodwell India Microfinance Development Company	800,000	8,000,000	5.57%
TOTAL		14,357,680	143,576,800	100.00%

Methodology

- ▶ **Preliminary analysis of MFI's information, review of available reports and financial statements**
- ▶ **Visit to Head Office of MFI**
 - ❑ Discussions with the senior management (Operations, Human Resources & Training, Internal Audit and Information Technology) to understand MFI's objectives, governance, market strategies, operations, products and services, integration of CoC in policies and procedures, IT systems and procedures etc.
 - ❑ Collection and review of documents, manuals, Board minutes and associated documents to Code of Conduct.
- ▶ **Visit to branches – 8 branches in Tamil Nadu, Pondicherry and Karnataka.**
- ▶ Discussion with Branch Manager and all branch staff on different aspects of CoC, MFI's policies and procedures
 - ❑ Documentation review – internal audit reports, complaints register if any and CoC displays
- ▶ **Visit to centre meetings – FGD with minimum 15 members per branch; 20 FGDs were conducted across 8 branches**
 - ❑ Assess relationship between MFI staff and clients
 - ❑ Check for implementation of client protection principles
 - ❑ Spot check of passbooks, receipts, repayment cards, maintenance of documents
 - ❑ Feedback on products – suitability to client needs, application of terms & conditions
- ▶ **Data Analysis and Report writing**
- ▶ **Internal Review at M-CRIL**
- ▶ **Report draft sent to Belstar Investment and Finance Private Limited.**

Sampling Plan

Branch	District	Borrowers	Total Groups
1 Cuddalore	Cuddalore	20	2
2 Davangere	Davangere	18	2
3 Harihara	Davangere	16	2
4 Kaveripakkam	Vellore	15	2
5 Nemili	Vellore	15	2
6 Puducherry	Puducherry	19	2
7 Vandavasi	Thiruvannamalai	15	2
8 Vellore	Vellore	32	6
Total		150	20

Microfinance Policies

Target Clients:

- Belstar targets women from low income households and those who lack access to education, skills, information, health, sanitation and good environment in rural, semi urban and urban areas.

SHG formation:

- Most of the SHGs in Belstar are the already nurtured groups of Hand in Hand. The new groups that Belstar forms should be a group of 12-20 women living close to each other and with similar financial condition.
- Once the group is formed, the Credit Officer visits them on a pre-decided date and time. Members then decide name for their group, select an animator and a representative for the group. CO then explains the rules of the functioning of the group, importance of savings and the roles of the animator and representative.
- Once this is decided, a bank account is opened in the name of the group.
- After group formation, it is enrolled and registered with BIFPL for the purpose of availing the financial services. CO enrolls the group by filling the enrolment form and collecting KYC.

SHG trainings:

- ✓ As described earlier in the report, Belstar conducts training through pre-designed standardized modules to the Members, Animators and Representatives in the vernacular language with the help of Hand in Hand training staff.
- ✓ After group formation, the whole group compulsorily undergo three trainings called Module 1, 2 & 3. Animator & representative go through another training on book keeping.
- ✓ Enterprise trainings are also provided to the interested members.

...Microfinance Policies

Loan Application:

- Loan Application is taken 60 days (90 days until 1st November 2014) after the formation of the group. Loan is sanctioned in 5 steps:-
- (i) Screening by Credit Officer:- CO collects the KYC and fills the loan application form. Loan application contains cashflow, family details, internal loan and bank loan details. CO visits the houses of all the members. Clients sign a declaration that their income is within the prescribed limits of RBI and they have not availed loans more than as prescribed by RBI.
- (ii) Verification by Branch Manager:- BM verifies if the information given in the form is correct however does not visit clients' houses. BM assesses the performance of the SHG and scores it on various parameters like repayment of internal loans, saving patterns and documentation quality amongst others. All SHGs must score more than 70% to become eligible for loan..
- (iii) Risk Assessment: the Risk Assessment Team (RAT) member visits the SHGs and counter-checks the screening done by the CO and rating done by the BM. RAT also assess the awareness level of the individual applicants, verify the repayment capacity and then recommend for the sanction of the loan.
- (iv) Loan sanction Committee:- The loan sanction committee includes the Chief Manager, Regional Manager and regional Risk Assessment Manager which meets twice a month.
- (v) Credit bureau check:- Once the loans are sanctioned by the loan sanction committee, MIS team consolidates all the sanctioned loans and sends it for credit bureau check. All the loans eligible as per CB report are finally sanctioned for disbursement.

Disbursement:

- Disbursement happens at the branch in the presence of Credit Officer, Branch Manager and one more supervisor who could be Regional Manager or Chief Manager.

...Microfinance Policies

- Before disbursement, RM/CM gives a pre disbursement speech called the orientation and explains the product terms & conditions and policies of Belstar.
- Loan is disbursed in the presence of whole group to each individual in cash. Receipts are provided for insurance and processing fee.
- Clients receive a group passbook, an individual passbook, loan sanction letter and loan agreement at the time of disbursement.

Collection:

- Repayments are done at branch. One member collects the repayment from the whole group and deposits it in the Belstar branch. This member is rotated every month so that all members of the group get a chance. Branch Accountant (BA) collects the repayment and provides a receipt for the whole group. BA also updates the group passbook. Animator informs all the members of the repayment and updates the individual passbooks after receiving the group receipt from the member who deposited instalment at the branch.
- Members are encouraged to repay in advance. Usually groups repay 4-5 days in advance.

Loan Utilisation Check:

- October 2014, 100% LUC was done by the CO within 30 days of disbursement. From 1st November 2014, Risk Assessment Team conducts LUC for a sample of 30% of the disbursements across all branches.

Prepayment:

- Prepayment is allowed without any penalty. Even if a client prepays the loan, she is bound by the group responsibility norm for loans of other members.

Assessment tool: weight, scores and performance

Sections	No. of Indicators	Max Score	Weights	Performance
Integrity, Governance and HR Strategy	35	175	30%	25.9%
Integrating Social Values and Compliance at Institutional level	9	45	10%	8.3%
Governance	7	35	10%	8.9%
Human Resources Strategy	19	95	10%	8.7%
Compliance with regulations pertaining to clients	102	510	60%	49.3%
Client Origination and targeting	11	55	9%	7.8%
Loan Appraisal Process	7	35	9%	7.1%
Loan product features and pricing	24	120	10%	9.1%
Transparency	25	125	10%	6.9%
Responsible lending	19	95	9%	7.1%
Grievance mechanism	10	50	9%	7.9%
Privacy of client information	6	30	4%	3.4%
Client education and financial literacy	27	135	10%	7.6%
Client Education	4	20	3%	2.0%
Client Awareness	20	100	7%	5.6%
Overall	164	820	100%	82.8%

Abbreviations

ADDO	Approval Documentation Dissemination Observation	IT	Information Technology
ALM	Asset Liability Management	JLG	Joint Liability Group
AM	Area Manager	KYC	Know Your Customer
APR	Annual Percentage Rate	LUC	Loan Utilization Check
BA	Business Assistant	M-CRIL	Micro-Credit Ratings International Ltd
BC	Business Correspondent	MFI	Micro Finance Institution
BM	Branch Manager	MFO	Microfinance Officer
BoD	Board of Directors	MIX	Microfinance Information eXchange
CB	Credit Bureau	MIS	Management Information System
CEO	Chief Executive Officer	MFIN	Microfinance Institutions Network
CO	Credit Officer	NOC	No Objection Certificate
CoC/		NBFC	Non Banking Finance Company
U-CoC	Code of Conduct/ Unified Code of Conduct	OSS	Operational Self Sufficiency
CRAR	Capital to Risk Weighted Assets Ratio	PAR	Portfolio at Risk
CRT	Compliance, Risk and Training	PSL	Priority Sector Lending
EIR	Effective Interest Rate	RBI	Reserve Bank of India
EMI	Equated Monthly Installment	RM	Regional Manager
FPC	Fair Practices Code	SRO	Self-Regulatory Officer
HO	Head Office	SIDBI	Small Industries Development Bank of India
HR	Human Resources	SPM	Social Performance Management
ICAI	Institute of Chartered Accountants of India		