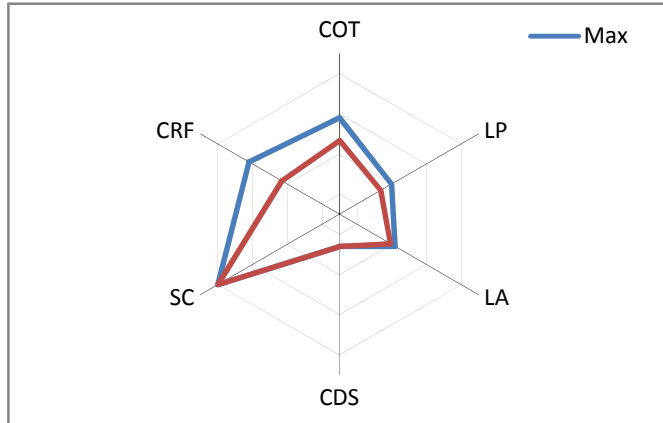


Bhartiya Samruddhi Finance Ltd

Hyderabad, India

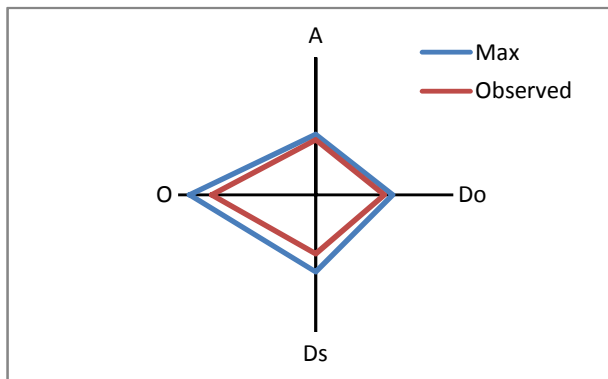
Composite COCA Score: 84%, Very high level of adherence

Score on Dimensions



COT=Client Origination and Training, LP=Loan Pricing, LA = Loan Appraisal
SC=Staff Conduct, CDS=Client Data Security, SC=Staff Conduct, CRF=Client Relationship and Feedback

Score on Parameters



A= Approval, Do=Documentation, Ds=Dissemination, O=Observance

Rationale

Samruddhi receives a high composite score on account of a high focus on maintaining high standards of staff conduct and sound loan appraisal systems.

Highlights

- Samruddhi’s operating practices are designed to ensure that staff members treat clients with respect and dignity in all circumstances.
- Samruddhi does not insist on enforcing joint liability in case the group members have genuine problems.
- The loan appraisal takes into account clients incomes, expenses (or savings in the case of SHG loans), as well as the viability of the project being funded by its loans.
- Samruddhi communicates all its charges to the clients and there is a strong emphasis on informing them about their rights and benefits.
- There is a strong emphasis on Samruddhi not being the fourth or later lender to its clients.

Areas of improvement

- Samruddhi needs to improve the dissemination of its guidelines regarding collection of client complaints through boxes placed in the units.
- Samruddhi should have higher focus on ensuring that informal agents do not influence client origination, and a few clients do not exert undue influence on a larger number of clients.
- Field staff should be better trained on how to record existing borrowing of clients in the loan appraisal forms. In case, information regarding a loan taken by the client is obtained post disbursement, it should also be entered in the system.

Code of Conduct Assessment Compliance Assessment Tool

This tool requires scores to be assigned on the six Code of Conduct dimensions – **Client Origination, Loan Pricing, Loan Appraisal, Client Data Security, Staff Conduct and Client Relationship and Feedback**, across the four parameters – **Approval, Documentation, Dissemination and Observance**. While the tool does not measure adherence to any code of conduct in particular, the six dimensions have been drawn from a review of the norms prescribed for MFIs including Sadhan’s and MFIN’s code of conducts, guidelines from the Reserve bank of India and CGAP’s client protection principles. The methodology followed for this assessment is presented in annexure 2 and the framework of the tool is presented in annexure 3. Distribution of COCA scores will be used to develop a grading system once data from 30 MFI assessments have been analyzed.

Section 1: Scores¹ and facts

Code of Conduct dimensions	Maximum	Observed	%
Client Origination and Targeting (COT)	24	18	76%
Loan Pricing (LP)	15	12	79%
Loan Appraisal (LA)	16	15	91%
Client Data Security (CDS)	8	8	100%
Staff Conduct (SC)	35	35	100%
Client Relationship and Feedback (CRF)	26	17	64%
Total	124	104	84%

Compliance parameters	Maximum	Observed	%
Approval (A)	22	20	91%
Documentation (Do)	28	25	89%
Dissemination (Ds)	28	22	77%
Observance (O)	46	38	82%
Total	124	104	84%

MFI's profile	
Name of the MFI	Bhartiya Samruddhi Finance Ltd
Legal form	Non Banking Financial Company (NBFC)
Operational Head	Mr Sajeev Vishwanathan
Year of starting microfinance	1996
Branches (Units)	222
Operational area	17 States
Total number of staff involved in microfinance	9,340
Visit of the Assessment team	20/12/2010 to 27/12/2010
Correspondence address	Ascent Towers, 3rd Floor, Road No. 10, Opp. Rainbow Children's Hospital, Banjara Hills, Hyderabad – 500034 Tel : + 91- 040 - 3916 2000 / 3000 / 4000 Fax : +91 -040 - 3916 5000 Email: info@basixindia.com

¹ The scores have been colour coded as follows. Red = Less than 60% indicating significant scope of improvement; Orange = 60% or more but less than 80% indicating moderate to high level of adherence; Green = 80% or more indicating high to very high level of adherence

Microfinance Methodology

Bhartiya Samruddhi Finance Limited (Samruddhi) provides its services through four channels – direct lending to individuals, individuals organized as Joint Liability Groups, Group lending to SHGs or MACs and bulk lending to cooperative federations. Its loan products can be categorized as farm loans, non-farm loans, housing loans and general purpose loans. There is a strong emphasis on providing life insurance as well as health and other general insurance to its clients. Apart from providing financial services, Samruddhi’s clients also have the option of getting business development services from its staff.

Details of the loan products

Product	Description	Loan size	APR ¹	EIR ²	% in portfolio
Agri Short Term crop loan	Interest Rate - 21%, Processing fees - Rs 500 for loans between Rs 5,000 and Rs 10,000; Rs 600 for loans between Rs 10,001 and Rs 15,000, 4% of loan amount for larger loans. Repayments in atleast two installments over 11 months. 10% principal should be scheduled for first installment. Moratorium period of 180 days.	5,000 to 30,000	Rs5,000~33%, Rs 15,000~25%, Rs 20,000~24%	Rs5,000~33%, Rs 15,000~25%, Rs 20,000~25%	8.50%
Agri Vegetable Cultivation loan	Interest Rate - 21%, Processing fees - Rs 500 for loans between Rs 5,000 and Rs 10,000; Rs 600 for loans between Rs 10,001 and Rs 15,000, 4% of loan amount for larger loans. Repayments in monthly installments over a period of 18 months. Moratorium of 60 days.	5,000 to 30,000	Rs5,000~32%, Rs 15,000~24%, Rs 20,000~23%	Rs5,000~32%, Rs 15,000~24%, Rs 20,000~24%	
Agri Long Term	Interest Rate - 21%, Processing fees - Rs 500 for loans between Rs 5,000 and Rs 10,000; Rs 600 for loans between Rs 10,001 and Rs 15,000, 4% of loan amount for larger loans. Cash flow based repayments over a period of 36 months. At least 3 installments to be paid in a year. Moratorium of 90 days.	5,000 to 150,000	22% to 24%	22% to 24%	2.10%

Agri Allied	Interest Rate - 21%, Processing fees - Rs 500 for loans between Rs 5,000 and Rs 10,000; Rs 600 for loans between Rs 10,001 and Rs 15,000, 4% of loan amount for loans between Rs 15,001 and Rs 20,000 and 3.5% for larger loans. 10% security deposit taken for loans above Rs 20,000. Monthly repayments over a period of 24 months. Moratorium of 60 days for dairy and 90 days for non dairy loans.	5,000 to 50,000	Rs5,000~30%, Rs 15,000~24%, Rs 20,000~23%	Rs5,000~30%, Rs 15,000~24%, Rs 20,000~24%	24.10%
Nonfarm-Micro Enterprises	Interest Rate - 24%, Processing fees - Rs 500 for loans between Rs 5,000 and Rs 10,000; Rs 600 for loans between Rs 10,001 and Rs 15,000, 4% of loan amount for loans between Rs 15,001 and Rs 20,000 and 3.5% for larger loans. Repayment over 24 months. Moratorium of 60 days.	5,000 to 50,000	Rs5,000~33%, Rs 15,000~26%, Rs 20,000~25%	Rs5,000~33%, Rs 15,000~26%, Rs 20,000~26%	55.70%
Nonfarm-Micro Enterprises growth loans	Interest Rate - 24%, Processing fees - Rs 500 for loans between Rs 5,000 and Rs 10,000; Rs 600 for loans between Rs 10,001 and Rs 15,000, 4% of loan amount for loans between Rs 15,001 and Rs 20,000 and 3.5% for larger loans. Repayment over 36 months. Moratorium of 60 days.	5,000 to 200,000	Rs5,000~30%, Rs 15,000~26%, Rs 20,000~25%	Rs5,000~30%, Rs 15,000~26%, Rs 20,000~26%	
Gen. Purpose - Women JLG's	Interest Rate - 24%, Processing fees - Rs 500 for loans between Rs 5,000 and Rs 10,000; Rs 600 for loans between Rs 10,001 and Rs 15,000, 4% of loan amount for loans between Rs 15,001 and Rs 20,000 and 3.5% for larger loans. Repayment over 24 months. Moratorium of 60 days.	5,000 to 15,000	Rs5,000~33%, Rs 15,000~26%,	Rs5,000~33%, Rs 15,000~26%,	2.80%
ROSCAS	Interest Rate - 21%, Processing fees - Rs 500 for loans between Rs 5,000 and Rs 10,000; Rs 600 for loans between Rs 10,001 and Rs 15,000, 4% of loan amount for loans between Rs 15,001 and Rs 20,000 and 3.5% for larger loans. Repayment over 24 months. Moratorium of 60 days.	5,000 to 100,000	22% to 24%	22% to 24%	1.40%

SHGs and Federation of SHGs/MACTS Loans	Interest Rate - 18%, Processing fees - Rs 500 for loans between Rs 5,000 and Rs 10,000; Rs 600 for loans between Rs 10,001 and Rs 15,000, 4% of loan amount for loans between Rs 15,001 and Rs 20,000 and 3.5% for larger loans. Repayment over 24 months. Moratorium of 60 days.	No Limit Specified		19%	19%	
House Repairs & Extensions	Interest Rate - 24%, Processing fees - Rs 500 for loans between Rs 5,000 and Rs 10,000; Rs 600 for loans between Rs 10,001 and Rs 15,000, 4% of loan amount for loans between Rs 15,001 and Rs 20,000 and 3.5% for larger loans. Repayment over 36 months. Moratorium of 60 days.	5,000 to 25,000	Rs5,000~30%, Rs 15,000~26%, Rs 20,000~25%	Rs5,000~30%, Rs 15,000~26%, Rs 20,000~26%		2.50%
House Construction Loans	Interest Rate - 24%, Processing fees - Rs 500 for loans between Rs 5,000 and Rs 10,000; Rs 600 for loans between Rs 10,001 and Rs 15,000, 4% of loan amount for loans between Rs 15,001 and Rs 20,000 and 3.5% for larger loans. Repayment over 84 months. Moratorium of 60 days.	5,000 to 150,000	24% to 25%	24% to 25%		
Vehicle Loans to LSA/ Employees	Interest Rate - 15%, Processing fees - Rs 500 for loans between Rs 5,000 and Rs 10,000; Rs 600 for loans between Rs 10,001 and Rs 15,000, 4% of loan amount for loans between Rs 15,001 and Rs 20,000 and 3.5% for larger loans. Repayment over 36 months. Moratorium of 60 days.	5,000 to 40,000	15% to 16%	15% to 16%		0.20%
Vidya Samruddhi	Interest Rate - 18%, Processing fees - Rs 500 for loans between Rs 5,000 and Rs 10,000; Rs 600 for loans between Rs 10,001 and Rs 15,000, 4% of loan amount for loans between Rs 15,001 and Rs 20,000 and 3.5% for larger loans. Repayment over 24 months for vocational courses and 48 months for professional courses. Moratorium of 60 days.	5,000 to 150,000	18% to 22%	18% to 22%		0.10%

Watsan and Energy Loans (Urban)	Interest Rate - 24%, Processing fees - Rs 500 for loans between Rs 5,000 and Rs 10,000; Rs 600 for loans between Rs 10,001 and Rs 15,000, 4% of loan amount for loans between Rs 15,001 and Rs 20,000 and 3.5% for larger loans. Repayment over 36 months. Moratorium of 60 days.	5,000 to 25,000	Rs5,000~30%, Rs 15,000~26%, Rs 20,000~25%	Rs5,000~30%, Rs 15,000~26%, Rs 20,000~26%	2.60%
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1. APR takes into account interest income and processing fees on the loans and it has been calculated on the full loan term. The APR is high for lower sized loans on account of a slab based processing fees structure.
2. EIR taken in to account interest income, processing fees and security deposits/loan linked savings on the loans.

Key facts and figures			
Parameters	Mar-09	Mar-10	Sep-10
Active borrowers	574,293	1,114,468	1,738,053
Number of branches (Units)	98	115	222
Number of states	13	14	17
Total staff involved in microfinance	3,330	6,328	9,340
Portfolio outstanding (Rs mn)	4,621.23	10,038.64	18,081.41
Amount of loans disbursed (Rs mn)	5,864.55*	12,253.08*	13,666.41**
PAR ₆₀	0.93%	1.37%	1.48%
Yield on Portfolio (YoP)	21.50%	21.95%	21.72%
Operating Self-Sufficiency (OSS)	115.13%	124.96%	125.68%
Return on Assets (RoA)	2.10%	3.20%	3.60%

*Disbursement during the full year

**Disbursement during the half year.

Equity Structure (March 2010)	
Shareholder	% stake in the company
Promoters	.01%
Individual investors	.02%
Bodies corporate – India	30.5%
Bodies corporate – foreign	57.1%
Financial institutions	9.36%
Employees and Ex-employees	3.01%
Total	100%

Profile of the Board of Directors	
Name	Profile
Mr Vijay Mahajan	Chairman, Samruddhi. Group CEO, Basix
Mr Anoop Seth	CEO, AMP Capital Investors
Dr Lalitha Iyer	Senior Consultant, Thinksoft Consultants Pvt Ltd
Mr Joe Madiath	Cofounder and Executive Director of Gram Vikas
Mr Davis Golding	Shorecap International's Nominee Director on Samruddhi's Board
Ms Nandini Adya	Consultant and Visiting Faculty, International Management Institute
Ms Anita M George	Director for Infrastructure at the International Finance Corporation
Mr Wim van der Beek	Managing Partner, Aavishkaar Goodwell India
Mr Donald Peck	Co founder Lok Capital and Lok Foundation
Mr Frank Streppel	Nominee Director of Hivos Tridos Fond
Mr Sajeew Vishwanathan	Managing Director and CEO, Samruddhi

Section 2: Observations

Client Origination and Targeting (COT)

Observed score 76%

Samruddhi's score on COT can improve if its FXs ensure that LSAs do not depend excessively on a few clients for origination and management of its clients, which increases the risk of informal agents creeping in during the client origination process.

Client origination in Bhartiya Samruddhi Finance Limited (Samruddhi) is primarily the responsibility of Livelihood Service Agents (LSAs). In some cases loan origination is also performed by Livelihood Service Representatives (LSRs). While LSAs are agents contracted by Samruddhi who receive a commission on fulfillment of targets, LSRs are employees of the company. The targets relate to achievement of sound portfolio quality as well as growth. As per the policy, it is expected that a LSA will manage 600 to 800 accounts, so that s/he is not overburdened. LSA's credit commission is calculated and settled every six months on the basis of income earned and portfolio quality. For other financial services and technical assistance services, LSAs are paid incentives every month.

The LSAs identify the potential borrower, register the borrower with Samruddhi after collecting identity and residence proofs, and conduct an initial assessment of the credit-worthiness. Once the LSA is convinced of the credibility of the client, either as an individual or as part of a Joint Liability Group (JLG) – depending on whether group collateral is considered necessary (new area of operation, new clients) and depending on the loan product – an application form is filled out which mentions the purpose and amount of loan needed by the client.

The application form is then used by Field Executives (FXs), who are employees on the rolls of the company, to conduct an appraisal of the borrower. Loans that are recommended at this stage are put before a loan committee that provides the final sanction. A Unit Loan Committee (ULC) sanctions loans smaller than Rs 50,000. Loans greater than Rs 50,000 (and all new/repeat loans to SHGs/Federations of SHGs/MACS) are sanctioned by Area Office Loan Committee (AOLC) or the Head Office Loan Committee (HOLC). After the sanction, disbursement is made (mostly at the unit office, but sometimes off-site too) with due verification of the required documentation.

Samruddhi has a policy of not being the fourth or later lender to its individual clients and this guideline was observed to be followed in general. While the organisation has guidelines that suggest that LSAs should manage only a reasonable number of accounts without specifying any number, we came across a few instances where LSAs were managing more than 1000 loan accounts. In many instances, because of the work pressure the LSAs depended on one member of the JLG for collecting loan repayments. These members also kept the loan passbooks of the other members, which made them influential in the group. In one of the cases it was observed that a group member had been keeping loan passbooks of the members of two JLGs (caselet 1). She had also in the past helped in the formation of Centers of Spandana and SKS with the same members. Such practices may give rise to the presence of informal agents.

Caselet 1: Sandhya Verma (loan No 1656) is a member of a Samruddhi JLG in Imlikhera, Chindwara unit. She is a shop owner and sells general store items. She has borrowed Rs 15 thousands from Samruddhi. In the past she had taken loans from Spandana and SKS. She keeps the loan passbooks of 10 members belonging to two JLGs. In the past she has also helped in the formation of Centers of Spandana and SKS. She informed the assessment team that she keeps the passbooks as the other members trust her. Although, she said that she has not taken any money from the other members for linking them with the MFIs, its likely that she wields considerable influence on the other members of the two JLGs.

Approval (A)	Documentation (D)	Dissemination (D)	Observance (O)
There are well laid out policies for client origination. The focus is on not being the fourth or later lender to a client.	There are detailed guidelines that provide directions for obtaining KYC documents from clients. The procedure for conducting initial meetings at the time of client origination is also clearly laid out.	Training on client origination forms part of Samruddhi's induction training for its staff. All the staff members interviewed were aware of the client origination guidelines.	In some cases we came across instances where the LSAs were managing more than 1,000 clients as well as a case where a single client had a significant influence over two JLGs (ten members).

2.2 Loan Pricing (LP)

Observed score 79%

Samruddhi has a well defined policy on pricing its loans and discloses its interest rate on a declining balance basis. However, there is a considerable difference in the APR to clients and the interest rates communicated on the lower sized loans, and also if loans are prepaid.

Samruddhi follows a scientific basis for pricing its products, which is communicated to all the units in its operational policy document. It identifies the cost components of the products and compares each component with the opportunity cost to the client.

The loan price (interest rate) is broken in the following components:

- Cost of funds – compared with the PLR of SBI
- Operational Expense – compared with the cost of delivery of Money orders
- Loan loss provision – compared with the historical portfolio quality
- Profit margin – compared with the investment needed to maintain capital adequacy.

Samruddhi accounts for interest on a reducing balance basis and does not charge a prepayment penalty in case a prepayment is received. The interest rates are mentioned in the loan passbooks in local language. All the other charges including processing fees and credit plus insurance premium are mentioned in the loan sanction letter. The loan sanction letter also includes a repayment schedule which clearly identifies the principal, interest and the insurance (credit plus) components. The interest rates and other charges are also communicated to clients at the time of enrolment, as well as disbursement of loans. The loan repayment term of the clients are varied according to their needs. Most of the loans can be repaid between periods of 1 to 3 years. The processing fee involved is slab based as presented below:

Loan Size	Loan Processing Fee including service tax
Rs.5000 – Rs.10,000	Rs.500/-
Between Rs. 10,001 – Rs.15,000	Rs.600/-
Between Rs.15,001 –20,000	4 %

This leads to variations in effective interest rates, particularly at lower loan sizes, when the effect of processing fees is taken into account.

Illustration

There could be significant difference between the stated interest rate and the annual percentage rate on account of the processing fees collected on the loans. This is shown in the illustration below.

Structure of the loan product

Loan Amount	Rs5,000 to Rs15,000
Processing fees	Rs500 up to Rs10,000: Rs600 for loans between Rs10,000 and 15,000
Interest rate	21.0%
Credit plus insurance	Yes
Up front deposit	Nil

Loan term	12-24 months
Equated Monthly Installment	Variable, depending on the repayment capacity

There is a significant difference between the interest rate applied on the loan account and the annual percentage rate to the borrower if processing fees is also considered. As shown in the table below, this varies between 25.3% to 42.1% depending on the loan amount and the term.

Loan Amount (Rs)	Loan Term (Months)	Interest rate applied on the loan account	Annual percentage rate considering processing fees
5,000	12	21.0%	42.10%
10,000	12	21.0%	31.00%
10,000	18	21.0%	27.90%
10,000	24	21.0%	26.50%
15,000	18	21.0%	26.60%
15,000	24	21.0%	25.30%

While a very high percentage of clients were found to be aware of the interest rates communicated in local language in the loan passbooks, the APR to clients that had availed of lower sized loans was significantly greater than the interest rate. The credit-plus insurance is compulsory for individual clients availing loans from Samruddhi. While the loan form obtains the voluntary consent of clients, they are not provided loans unless they provide this consent. If the effect of the insurance payments is taken into account, the effective interest rate increases significantly. However, the credit plus insurance is not limited to life insurance in that it also provides hospitalization coverage.

Approval (A)	Documentation (D)	Dissemination (D)	Observance (O)
Samruddhi's policy requires a transparent disclosure of loan pricing.	The loan pricing criteria are clearly documented in the policy manual.	In each of the units visited, we came across the policy manual that specifies the loan pricing criteria. The staff members were broadly aware of the loan pricing parameters.	Clients had been provided with sanction letters which contained all the charges. The decreasing balance interest rate had been printed in the loan passbooks in local language. However, significant variations were observed at lower loan sizes.

2.3 Loan Appraisal (LA)

Observed score 91%

Samruddhi follows sound loan appraisal process which results in it getting a good score on Loan Appraisal.

Samruddhi's loan appraisal policy requires an assessment of borrower's repayment capacities. For loans going to individual clients (directly or through Joint Liability Groups), the appraisal policy requires an assessment of the clients household incomes and expenses as well as an appraisal of the planned utilization of the loan. The loan application and appraisal form requires that the economics of the project funded by the loan is analyzed in case of farm and non farm loans. For Loans given to SHGs, an assessment is performed on the repayment capacity of the SHG as a whole. Before a disbursement is made, the SHG is required to save member funds for a period of five months. Samruddhi has a policy of not being the fourth or later lender to its individual clients and not indebting them beyond Rs 50,000 as stipulated in the MFIN code of conduct. The loan appraisal formats require that the clients other borrowing be mentioned for ensuring this.

It was observed across the units visited that the income, expense and project appraisal are carried out diligently. Counter party check are also performed on loan applicants to determine their credit worthiness. However, it was observed that the practice of recording the existing loans of clients in not uniformly practiced across all the units. We found during client interviews that some of the clients had borrowed from other MFIs but this had not been recorded in their loan forms. In one of the units – Kamareddy in Andhra Pradesh, a random inspection of 15 loan appraisal forms revealed that none of them had a mention of any other lender. It is improbable that none of the clients would have borrowed from any other MFI in the region given the prevalence of MFIs. Also, interviews with the LSPs revealed that nearly 70% of his clients had borrowings from other MFIs. (Also see caselet 2 of Dumka unit in Jharkhand)

Caselet 2: Kamarpara village of Dumka district has four MFIs operating. BSFL entered this village in December 2009 and was the fourth MFI in the village to start operations. Saima is part of a five-member JLG which has taken a loan of Rs12,000 from BSFL. She and other members of their JLG have been taking loans from another MFI for the past three years. Total monthly instalment for both the loans taken together comes to about Rs2,500. Saima has taken the loan to invest in the cloth trading business being carried out by her son and she is not directly involved in the business. Details of loans from other MFIs are not mentioned in the loan application form or the loan appraisal form.

Approval (A)	Documentation (D)	Dissemination (D)	Observance (O)
<p>Samruddhi's policy requires a careful appraisal of the repayment capacity of the borrowers.</p>	<p>Loan appraisal practices have been documented in the operational manual. The loan application and appraisal forms require an analysis of the clients income, expense as well as the economics of the project being funded. It also requires a mention of the borrowers other borrowings.</p>	<p>The staff members had a good understanding of how to perform loan appraisals as per the guidelines.</p>	<p>All the loan applications verified contained an analysis of the incomes, expenses and project economics. However, in several instances it was found that the other lenders had not been recorded in the loan files.</p>

2.4 Client Data Security (CDS)

Observed score 100%

Samruddhi's score on CDS is high on account of its system to ensure privacy of client's data.

Samruddhi has well defined policies and procedures for ensuring safety of client data. The files containing documents of clients are kept secure. The relevant data is entered into the MIS software – Delphix, which has well defined access rights. The retrieval of client data when needed is prompt.

Approval (A)	Documentation (D)	Dissemination (D)	Observance (O)
Samruddhi's policy requires adequate security for client data.	There are detailed guidelines on how client information has to be recorded and files have to be stored. Accessibility rights have been defined for Delphix.	All the units visited displayed consistent awareness of data storage processes.	Client files were found properly stored at the units. Accessibility rights on the software are controlled centrally.

2.5 Staff conduct

Observed score 100%

Samruddhi's field practices ensure that clients do not get under stress at the time of making repayments. Hence Samruddhi scores well on Staff Conduct.

Samruddhi has adopted policies that require its staff to be respectful towards clients. Detailed guidelines have been provided to staff in the policy document as well as the operational manual regarding the way they should interact with clients. Staffs have been trained to communicate the loan terms and conditions to the clients in detail.

In case a client is not able to make a payment on time and the JLG members are unable to contribute, the LSAs do not insist on getting the installment on that day itself. As a result Samruddhi has a few "First Time Overdue Accounts (FTOD)" every month. The LSAs are eligible for full incentives if their ontime repayment rates are over 98% over quarterly intervals. Also, collections are generally scheduled between 1st and 11th of every month and the performance reports are generated at the end of the month so the LSA has about 20 days to follow-up and recover in case there are overdues.

There are also guidelines regarding recovery of overdue. While there is a system of follow-up on overdue accounts, there is a strong emphasis on ensuring that the clients do not get over burdened (see caselet below).

Caselet 3: Brahmdev Yadav of Satar village in Deoghar district has taken a JLG loan of Rs15,000 from BSFL whose monthly installment comes to about Rs1,000. The scheduled date of installment is 9th of every month. For the month of December 2010 he was unable to pay his installments on account of cash flow issues in his household. On the scheduled date of installment, his group members paid their own installments but did not share the installment of Mr Yadav. He asked the LSA to come in the third week of December to collect the repayment. On 27 December 2010, the LSA visited the house of Mr Yadav to follow-up but Mr Yadav again expressed his inability to pay and asked the LSA to come again 2-3 days. The LSA went back without collecting the installment.

Approval (A)	Documentation (D)	Dissemination (D)	Observance (O)
Samruddhi's policies require staff members to treat clients with respect and dignity.	There are detailed guidelines in the policy and the operational manual on the expected conduct of the staff members with the clients.	All the staff members interviewed displayed a high level of awareness on staff conduct issues. Samruddhi has conducted specialized workshops for staff members involved in recovery efforts of overdue loans.	The staff conduct was found to be of a high order.

2.6 Client Relationship and Feedback (CRF)

Observed score 64%

Samruddhi needs to streamline its procedures of handling client feedback and complaint. The policies need to be disseminated better to the units so that there is uniformity in the way client relationship is managed. Samruddhi has a considerable scope for improvement in this regard.

Samruddhi has adopted the principles of livelihood triad which it has pioneered. This involves the following services:

- Livelihood Financial Services
- Agricultural and Business Development Services (ABDS)
- Institutional Development Services

Around 30% of clients covered under this assessment had availed of ABDS and they found the advice very useful. This has a favorable impact on client relationship management for Samruddhi and also helps it in differentiating its services.

Samruddhi has a policy to be responsive to client feedback. As per the policy every unit has to have a complaint box for clients and employees. Also, each unit is required to have a complaint register which has to be checked by the Field Managers (FMs), who are the reporting authorities for the unit heads. Complaint boxes and registers are also part of the risk management audit parameters. Each client passbook has to have a toll free number. Any calls to the toll free number goes to the head office. There is a laid out procedure of receiving and responding to complaints on this number. When a complaint is received, it is sent to the relevant department head. In case, the department head is not able to resolve the complaint, it is escalated to the next higher authority.

It was observed that all the visited units except one were not maintaining complaint registers. The keys to the complaint boxes were with the Unit heads in all the visited branches. The Risk Management Audit had not checked for the existence of these registers for Kamareddy unit. Most of the visited units reported that very few complaints are received. However, during our survey we came across instances where clients had grievances relating to issuance and processing of insurance claims, which had not been resolved to their satisfaction. It was also observed that the toll free number had not been stamped in the loan passbook of clients in the Dumka, Deoghar and Gaya units.

Approval (A)	Documentation (D)	Dissemination (D)	Observance (O)
Samruddhi's policy places a high focus on client grievance redress, feedback mechanism and relationship management.	There are guidelines regarding recording of client complaints in boxes in each unit. Toll free helpline numbers have to be provided in loan passbooks of clients.	Staff awareness regarding the guidelines for receiving client complaints was found to be low.	While generally clients said that they were satisfied overall, in a few instances it was found that outstanding complaints of clients have not been resolved to their satisfaction. Only one of the units visited had a complaint register for recording complains in boxes. In some of the units visited, helpline numbers had not been stamped in loan passbooks.

2.7 Opinion of important stakeholders

Discussions with the Samruddhi's lenders revealed that they had a favorable opinion of the it's field practices and client relationships. It also enjoys a healthy reputation among its peer for its operational practices. It has played an important role in establishing MFIN – the network of NBFC MFIs in India. The chairman of the organization is also involved actively in activities of MFIN and he has played a key role in setting up a credit bureau for MFIs in India.

Annexure 1: Matrix of Score Obtained

Indicators	A		Do		Ds		O		Total	
	Max	Obt	Max	Obt	Max	Obt	Max	Obt	Max	Obt
Client origination and targeting	5	4	5	3	5	4	9	7	24	18
Loan Pricing	3	2	1	0.5	2	2	9	7	15	12
Loan Appraisal	4	4	4	3.5	3	3	5	4	16	15
Client Data Security	1	1	3	3	2	2	2	2	8	8
Staff Conduct	7	7	7	7	10	10	11	11	35	35
Client Relationship and Feedback	2	2	8	8	6	0.5	10	6	26	17
Total	22	20	28	25	28	21.5	46	38	124	104

A= Approval, Do=Documentation, Ds=Dissemination, O=Observance, Max = Maximum,
Obt = Obtained score

Annexure 2: List of Branches Visited

This tool requires scores to be assigned on the six Code of conduct dimensions – Client Origination, Loan Pricing, Loan Appraisal, Client Data Security, Staff Conduct and Client Relationship and Feedback, across the four parameters – **Approval, Documentation, Dissemination and Observance**. The assessment requires visits to the MFI’s head-office as well as branch offices. The visit is spread over a period of four to six days. The first day is spent at the head office. The assessment team visits the branches on days 2 to 6.

This assessment includes:

1. Discussions with key staff members and the senior management at the head 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.
2. Review of policy documents and manuals at the head office. These are reviewed in order to assess the policy as well as documentation regarding important aspects of the code of conduct.
3. Sampling of branches at the head office. The assessment team samples between three to fifteen branches, depending on the size of the MFI for review. The branches are chosen in across different states in case the MFI operates in more than one state. Care is exercised to include older branches as well as branches that are distant from the head office or the regional office. The sampling of the branches is performed at the head office of the MFI.
4. Discussions with the branch staff at the branch office. Discussions with branch managers and the field staff is carried out to assess their understanding of the key code of conduct principles.
5. Sampling of respondents in the selected branches. A judgmental sampling is performed on the MFI’s clients by the assessment team to draw respondents from the interest group. Around 100 to 150 clients are selected for interviews. Of these around, 30 respondents are those that have been having problems in attending meetings or making repayments. The remaining respondents are chosen to reflect different locations within the MFI’s branch.
6. Interview with the clients. Information from the clients is collected ideally during the group meetings. If this is not possible, visits are made to the clients’ locations for collecting information.
7. Review of loan files 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, we visited 8 branches (units) of Samruddhi in three states. The details of the branches visited are provided below.

Sr No	Unit	District	State	No of clients interviewed
1	Deoghar	Deoghar	Jharkhand	20
2	Dumka	Dumka	Jharkhand	19
3	Gaya	Gaya	Bihar	20
4	Chindwara	Chindwara	Madhya Pradesh	22
5	Seoni	Seoni	Madhya Pradesh	8
6	Jabalpur	Jabalpur	Madhya Pradesh	24
7	Kamareddy	Nizamabad	Andhra Pradesh	0
8	Musheerabad	Hyderabad	Andhra Pradesh	0
Total				113

Annexure 3: Code of Conduct Assessment – Framework

Code of conduct dimensions

- Client origination and targeting: Client origination is central to ethical microfinance operations. The code of conduct requires MFIs to practice ethical client origination which results in greater access to financial services. Also, an MFI's commitment to target the low income clients demonstrates its social mission. The way an MFI identifies its clientele and goes about growing a clientele must be approved by the board, which should also see to it that there is adequate attempt by the MFI to ensure that its product and services reach the appropriate clientele.
- Loan pricing: 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. The way its loan products are priced should be approved by the board. Ideally the board members should be aware of the cost of the loan products to the clients.
- Loan appraisal: The lending to a client should be in accordance to her repayment capacity or else she may get over-indebted and her economic situation may deteriorate. The loan appraisal should take into account the repayment capacity of the clients given the loan sizes and the duration of the loan. These are important client protection principles.
- Client data security: The privacy of sensitive data of individual clients regarding their demographic details should be adequately secured so that it is not used by unauthorized parties to cause stress to the clients. For this purpose, MFIs need to define explicitly access rights to all the demographic data pertaining to clients sex, race, age, income, disabilities, mobility (in terms of travel time to work or number of vehicles available), educational attainment, home ownership, employment status, and location.
- Staff conduct: All the staff members of an MFI should treat its clients with respect and dignity. The two important aspects of staff behavior are:
 1. Communication with clients – There should be guidelines for staff to deal with specific situations involving their interface with the clients such as group meetings, loan disbursements and collections. These should ensure that customers with low levels of financial literacy understand the product, the terms of the contract, and their rights and responsibilities. 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. Clients should be encouraged to ask questions regarding the product and policies. Also, the staff should ensure that arrive for meeting in time.
 2. Loan collection and recovery process - MFIs should evolve collection practices that require all clients to be treated with dignity and respect, even when they fail to meet their contractual commitments. The following should be strictly avoided:
 - Abusive language or threats
 - Harassing borrowers at odd hours
 - Forcible entry into dwelling and forced seizure of property without the legal orders

- Relationship management and feedback mechanism: It is important for MFIs to build sustainable and long term relationship with clients. Sound relationship management enhances the quality of the clients' experience with the MFI. It also allows the MFI to better understand clients' needs and grievances. MFIs need to have formal mechanisms to get feedback and complaints from the clients. Customer complaints need to be taken seriously, investigated and resolved in a timely manner. The responsibilities relating to receiving client grievance and feedback and acting upon them need to be clearly identified and allocated.

Compliance

In order to fully integrate operations with the principles presented above, MFIs need to adopt a comprehensive approach involving the board, the management as well as other staff members and clients. This tool measures the adherence to these principles on four parameters:

1. Approval at the policy level from the board
2. Documentation of the guidelines and procedures that emerge from the policy
3. Dissemination of the guidelines and procedures across the organization
4. Observance in practice of these guidelines and procedures.

Weights

The following matrix presents the weights given to the various dimensions and parameters in the tool.

Weight Matrix	Approval	Documentation	Dissemination	Observance	Totals
Client Origination	4%	4%	4%	7%	19%
Loan Pricing	2%	1%	2%	7%	12%
Loan Appraisal	3%	3%	2%	4%	13%
Client Data Security	1%	2%	2%	2%	6%
Staff Conduct	6%	6%	8%	9%	28%
Client Relationship and Feedback	2%	6%	5%	8%	21%
Totals	18%	23%	23%	37%	100%