



SMERA RATINGS LIMITED

CODE OF CONDUCT ASSESSMENT FOR CHAITANYA INDIA FIN CREDIT PRIVATE LIMITED (CHAITANYA)

Date of Report - 26th December, 2014

Valid Till - 25th December, 2015



EXECUTIVE SUMMARY

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

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

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



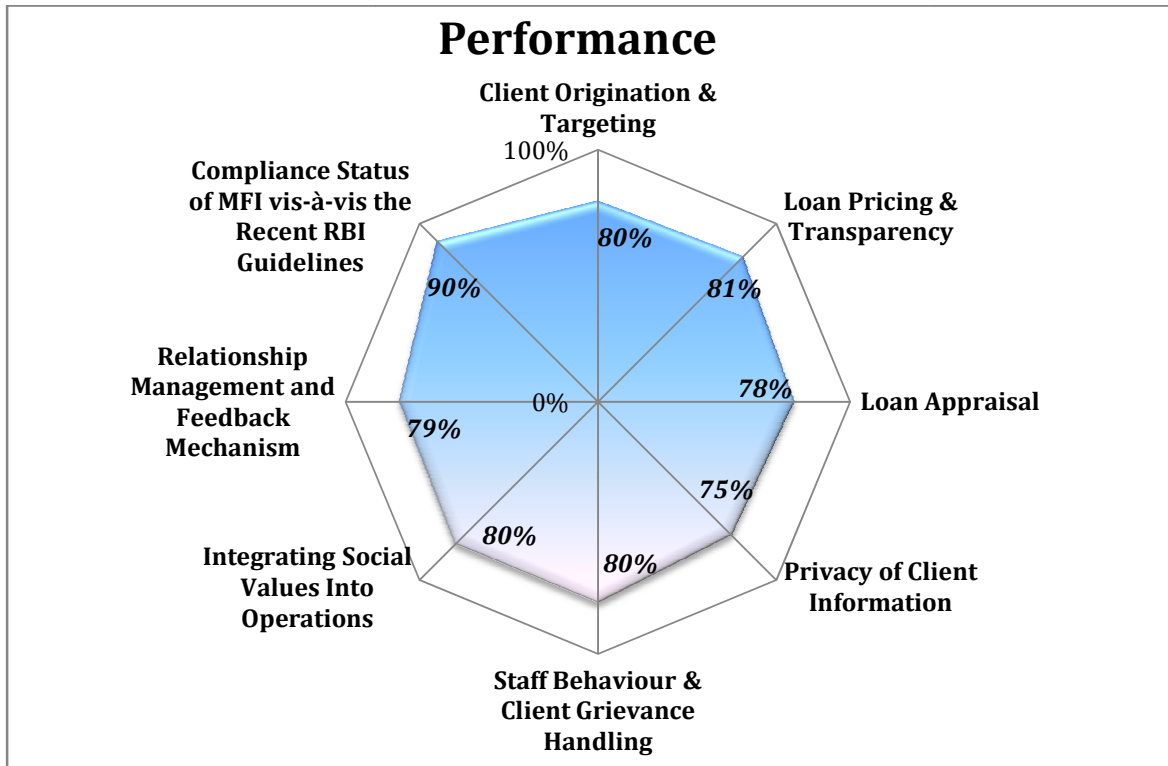
RATING

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

RATING SCALE

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

MATRIX



SCORES ON PARAMETERS

Code of Conduct Parameters	% Performance
Client Origination & Targeting	80%
Loan Pricing & Transparency	81%
Loan Appraisal	78%
Privacy of Client Information	75%
Staff Behaviour & Client Grievance Handling	80%
Integrating Social Values Into Operations	80%
Relationship Management and Feedback Mechanism	79%
Compliance Status of MFI vis-à-vis the Recent RBI Guidelines	90%

**SNAPSHOT**

D&B D-U-N-S® Number	86-453-1444
MFI Name	CHAITANYA INDIA FIN CREDIT PRIVATE LIMITED
Tradestyle	Chaitanya
Head Office Address	#98, 3 rd Floor, Sirsi Circle, Mysore Road, Chamrajpet, Bengaluru - 500 018 Karnataka India
Telephone	(91) (80) (26750010)
Fax	(91) (80) (26756767)
Webpage	www.chaitanyaindia.in
Email	anand@chaitanyaindia.in samit@chaitanyaindia.in vijaykumar@chaitanyaindia.in
Line of Business	Microfinance services under Joint Liability Group (JLG) Model
Chief Executive	Mr. Anand Rao, Managing Director
Legal Form	NBFC - MFI
IncorporationDate	31/Mar/2009
Date of Commencement of Microfinance Operations	25/Sep/2009
Company Registration Number	U67190KA2009PTC049494
RBI Registration Number	N-02.00243
Total Employees	310
No. of Active Branches	29
Geographical Reach	Karnataka
Visit of the Assessment Team	10 th December, 2014 to 13 th December, 2014



BACKGROUND

Chaitanya started as a Non Governmental Organization (registered as a society) in 2004 with a focus on rural economic development and rural education. Later it evolved as a microfinance organization under the name of Chaitanya Foundation. Chaitanya Foundation was founded in October 2007 by Mr. Anand Rao to focus on rural Micro-finance lending for economic development activities. Chaitanya has worked closely with Small Scale Sustainable Infrastructure Development Fund (www.s3idf.org) since 2007 and successfully implemented more than 30 projects in the small scale infrastructure support and finance. The activities include providing infrastructure services to low income families; enabling rural entrepreneurship; retailing of renewable energy, energy efficiency and health related products in villages; and providing microfinance to rural poor. Chaitanya NGO's activities were focused in Central Karnataka (districts of Bellary, Chitradurga and Davangere). With the intention to expand its coverage and make it sustainable, Chaitanya India Fin Credit Private limited (Chaitanya) was set up as a for profit non-banking financial corporation.

Chaitanya operates only in Karnataka with the mission to do large scale poverty alleviation by providing micro-finance services to poor women, and through them to their families, facilitating increased earnings, better money management, and life quality improvement

Currently Chaitanya operations are running through thirty-four active branch offices (BO). Five new BOs were established during the period from April, 2014 to November, 2014.



OBJECTIVE OF THE STUDY

The objective is to evaluate Chaitanya's adherence to the code of conduct laid down by Sa-dhan, MFIN and Reserve Bank of India.

The broad parameters for assessing the Code of Conduct are as follows

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



FRAMEWORK AND SCOPE

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

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

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

As part of the assessment, SMERA visited 08 branches of Chaitanya in Karnataka. The assessment was conducted as per a specific methodology and questionnaire. Details of branches visited and methodology used for evaluation are provided in Annexure I and II.

**LIST OF BOARD MEMBERS**

Name of Director	Designation
Anand Rao	Managing Director
Samit Shankar Shetty	Executive Director
K. Subramanyam Ravi	Independent Director
Ane Narasimha	Independent Director
Rachamadugu Nandakumar	Independent Director
Ramesh Sundaresan	Nominee Director

Promoters' Background**Mr. Anand Rao**

Anand is one of the founders/Promoters of Chaitanya and the Managing Director of Chaitanya. Anand has a MA in International Relations from Syracuse University, USA, a Management Degree from Indian Institute of Technology, Bombay and a BE in Mechanical Engineering from Bangalore University. His earlier work experience has been in International Development at World Resources Institute, Washington DC and earlier in the Indian Corporate Sector at PepsiCo India and Bosch India. He comes to Chaitanya from Small Scale Sustainable Infrastructure Development Fund (S3IDF), an international non-profit organization working in supporting enterprises in the small scale infrastructure space, where he worked for five years. He is the Managing director of the company; currently handles internal audit, HR, accounting and finance functions within the company.

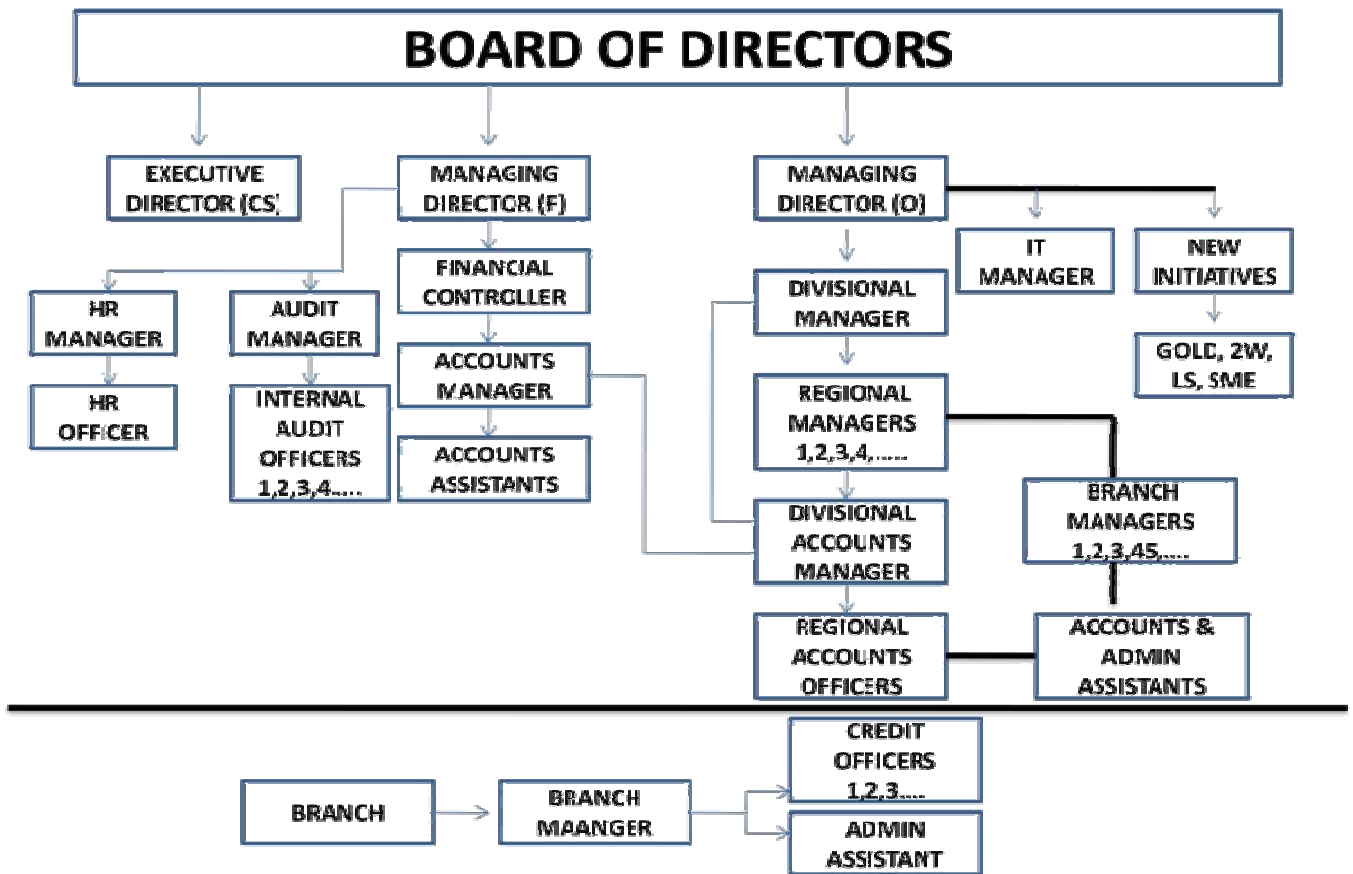
Mr. Samit S Shetty:

Samit is one of the founders/Promoters of Chaitanya and an executive Director at Chaitanya. Samit has a MBA from Indian Institute of Management, Ahmedabad and a BE in Mechanical Engineering from Bangalore University. Before Chaitanya, Samit has worked in Olam International Limited, a global leader in the supply chain management of agricultural products and food ingredients. He has been associated with Chaitanya since 2008 April. He has developed an understanding of the joint liability group model initially by studying and training with other micro finances and later by being part of the implementation team in Jagalur. He is the Executive director of the company; currently handles Operations & IT within the company.

**HIGHLIGHT OF OPERATIONS**

Particulars	31/Mar/2012	31/Mar/2013	31/Mar/2014	30/Nov/2014
No. of states	01	01	01	01
No. of districts	05	08	10	11
No. of field offices	14	24	29	34
No. of sub-groups	3,591	5,433	8,864	11,727
No. of centers	1,584	2,680	4,334	5,612
No. of total members (Registered)	25,344	44,150	69,711	91,913
No. of active borrowers	18,268	28,062	44,074	56,106
No. of active loans	18,268	28,062	46,329	61,666
No. of loans disbursed during the period	18,903	31,137	48,206	43,742
No. of total employees	100	156	237	310
No. of field staff	49	86	136	178
Loan disbursements during the period (₹ in thousands)	293,133	500,362	852,918	808,544
Net Loan portfolio outstanding (₹ in thousands)	167,933	318,006	564,764	739,155
Loan amount outstanding per active loan (In ₹)	9,193	11,332	12,190	11,986
Active borrowers per field staff	373	326	324	315

ORGANOGRAM



**CLIENT ORIGINATION & TARGETING****Score - 80 %**

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

Chaitanya originates clients by themselves and is directly involved in forming the JLGs. Credit Officers (COs) are responsible for client origination at Chaitanya. The client origination process begins with the CO's visits to rural and urban areas to search for potential borrowers. CO provides information about Chaitanya and explains benefits and features of financial services provided by Chaitanya to the prospective borrowers. Further, customer awareness meeting is held with the interested borrowers to explain the company policies, procedures, and rules and regulations, different loan products in detail. Group of around 04 to 07 members are formed. A centre is formed with 06 to 30 members. Minimum centre size can be 05 for 2nd disbursement and 3rd disbursements of multi disbursement loans. Once the centre is formed, CO conducts household survey and ascertains the repayment capacity of the potential borrowers. CO provides Compulsory Group Training (CGT) to all members. CO collects KYC (Know Your Customer) documents from the members and verifies the same with the original and fills the registration and application forms of each borrower. CO hands over the fully filled registration and application forms to Admin Assistant (AA), who enters it in Delphix Software. CO requests the members to attend the group recognition test (GRT) conducted by the Branch Manager (BM) to check whether the member's have understood the details provided during the CGT. BM also conducts household survey to ascertain the eligibility of customers for taking loan and to obtain complete required information of each member.

Criteria for considering a Group:

- All customers from the same area/street and should know each other very well.
- Each and every member of the group is mutually liable for every other member's loan.
- All customers should attend centre meetings.
- Loan should be taken primarily for income generation purpose and should be utilized for the purpose it was taken.
- Aggregate amount of loan extended for income generating activity should be >75% of the total loans given in a branch.



- No customer should have more than one other MFI loans. Total indebtedness of the customer from all MFIs should not exceed ₹ 50,000.
- One house can get only one loan. Loans can be given for same family, but different houses; such as sisters, brothers, in laws etc.
- Age limit for customer: minimum 20 years & maximum 57 years and for customer's husband minimum 20 years & maximum 59 years.
- Customer house hold income not to exceed ₹ 60,000 in rural areas and ₹ 120,000 in non-rural areas.
- Customer's total loan amount not to exceed ₹ 35,000 in first cycle and ₹ 50,000 in subsequent cycles.
- Tenure of loan is not less than 24 months when loan amount exceeds ₹ 15,000 with right to borrower of prepayment without penalty.

Chaitanya collects two KYC (Know Your Customer) documents from the group members such as proof of identity and proof of residence i.e. Voter ID Card or UID Aadhaar Card and Ration Card & photograph. If ration card is unavailable, driving license, electricity bill, telephone bill, municipal tax receipt, gas bill or LIC certificate is accepted. Registration and application is filled, wherein all the basic data is filled by the CO.

The identification of right target client, household income, and individual income is a challenge for Chaitanya. Chaitanya targets poor borrowers and to understand the poverty status and repayment capacity of the member, Chaitanya collects self-declaration for income given by the clients, Progress out of Poverty Index (PPI).

The overall compulsory group training process was found to be moderate; however some inconsistency was observed.

Approval	Documentation	Dissemination	Observance
<ul style="list-style-type: none"> • Chaitanya has approved policies for client origination & targeting process. 	<ul style="list-style-type: none"> • Client origination process has been documented clearly in the operational manual. 	<ul style="list-style-type: none"> • Chaitanya has a moderate system of dissemination of its approved policies through training. 	<ul style="list-style-type: none"> • COs were moderately aware about the guidelines for targeting (low income) clients. • Annual household income declared by few of the borrowers in application form was observed to be less as compared to their standard of living.

**LOAN PRICING & TRANSPARENCY****Score - 81 %**

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

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

Chaitanya maintains considerable transparency in the interest rates charged to its clients. The organization discloses all terms & conditions of all financial products to the borrowers including interest rate on the loan and processing fees in written as well as verbal communication at the time of training. The details are mentioned on the loan passbook as well as on the repayment sheet (i.e. client copy) of the borrower.

Processing Charges and Service Tax

Chaitanya charges 01 % of loan amount upfront from each individual borrower for every fresh disbursement of loan.

Interest Rate

Chaitanya charges interest @ 26% p.a. on diminishing balance method. A moratorium period is provided as per repayment frequency option (fortnightly and monthly) selected by the borrower.

Chaitanya is providing life insurance coverage to borrower and her spouse (through Bajaj Allianz Life Insurance Company Limited, Kotak Mahindra Old Mutual Life Insurance Limited) and has made it mandatory.



Approval	Documentation	Dissemination	Observance
<ul style="list-style-type: none">Chaitanya board has approved principles of pricing loans and transparency in a responsible manner.	<ul style="list-style-type: none">The loan pricing criteria and method of charging have been clearly documented in the loan policy document of the organization.	<ul style="list-style-type: none">Borrowers are informed about the interest rate & charges during the customer awareness meeting conducted by the COs. Also, details such as interest rate and loan processing fee on the loans are mentioned clearly on the loan passbook.Members are also given the loan repayment schedule on loan pass books which clearly shows the instalment amount and loan outstanding balance.	<ul style="list-style-type: none">Awareness level of the borrowers about the interest rates and method of application and other charges was observed to be moderate.

**LOAN APPRAISAL****Score - 78 %**

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

The loan appraisal or sanction process begins with the loan application by the JLG to avail the loan. Also approval and signature is taken from the borrower's spouse. BM verifies the documents attached with application form at GRT and all the details provided by applicants are entered in Delphix by AA.

In order to check and avoid multiple lending Chaitanya get the credit bureau check done for all the applicants. Credit bureau check helps to comply with RBI guidelines for maximum credit exposure limit of borrower and abstain from lending defaulter applicants. Chaitanya is availing credit bureau services from High Mark Credit Information Services Private Limited to check the multiple lending and it shares credit data with High Mark. Hence indebtedness is promptly captured in the MIS system.

Chaitanya has a policy of recording the annual household income of the borrower in the application form and the value of loan taken from Chaitanya and value of loan outstanding from other MFIs based on the information provided by the client in self-declaration. However, Chaitanya does not capture annual household expense of the borrower.

After the credit bureau check, the BM discusses his observations about the centre with the Regional Manager (RM) personally or over the telephone. RM goes through the credit bureau report and decides the loan size. After the BM meeting with RM, the BM holds a sanction meeting with the concerned CO. Any other minor changes in the loan size are made and the minutes are recorded in the sanction register. Once the loans are sanctioned in Loan Sanction Meeting, BM will sanction loan in Delphix Software.

Following points are considered while loan sanction:

- Valid KYC documents
- Repayment Capacity i.e. Cash Flow and PPI
- Credit Bureau Report



- Eligibility conditions for different loan products
- Verification of LUC and repayment of previous loans.

Loan Utilization Checks

Loan Utilization check (LUC) is an essential process to ensure that the loan is properly utilized for the purpose, for which the loan is sanctioned and is aimed at identifying cross lending. Chaitanya extends loan for income generation as well as consumption purpose. Chaitanya conduct loan utilization check (LUC) for all the loans. As per policy, loan utilization checks are to be done 28 days after the loan is disbursed and to be completed within 02 months (60 days) of loan disbursal. The LUC must be completed within 45 days from the month end.

SMERA's assessment team has observed that in most of the cases KYC documents are not self-attested, as per the guidelines. Further in few KYC documents, the age as per UID (Aadhaar) Card and Ration Card does not match. (As per example 01)

Delays in conducting the LUC checks were observed.

In few cases, purpose mentioned in the LUC differs from the purpose for which the loan was applied/ granted or the purpose for which the loan was actually utilized.

Example 01 -

Mrs. Akhtar Jaan, member of Centre - Kerebilachi 06

The date of birth of the applicant as per ID proof obtained is 18/Apr/1955. However, in the application form the date of birth captured is 01/Jan/1964.

Mrs. Abeedabi, member of Centre - Kerebilachi 06

The date of birth as per ID proof obtained is 20/Apr/1952. However, in the application form the date of birth captured is 01/Jan/1963.



Approval	Documentation	Dissemination	Observance
<ul style="list-style-type: none">• Chaitanya policy requires that adequate loan appraisal could be performed before disbursing a loan and proper examine of the repayment capacity of the borrowers.• Chaitanya have a policy to check multiple lending / indebtedness of the borrower through credit bureau check.• Chaitanya has policy to capture the actual utilisation of loan and maintain records regarding loan utilization check in documented form.	<ul style="list-style-type: none">• The guidelines for appraising a loan application are clearly documented in the loan policy document.• Chaitanya has format to capture LUC details.	<ul style="list-style-type: none">• Members are given with loan repayment schedule on loan pass books which clearly shows the instalment amount and loan outstanding balance.	<ul style="list-style-type: none">• Awareness level of the borrowers about the interest rates, other charges and process of application was observed to be moderate.• LUC was delayed in few cases. Further, LUC checks needs improvement.

**PRIVACY OF CLIENT INFORMATION****Score - 75%**

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

Chaitanya has an adequate system of storage and retrieval of documents and information collected from the clients. The files containing documents and members profile are kept at the respective branches. The relevant data is entered into the MIS software "Delphix" at branch level by the AA. User ID and password is provided to AA staff as well as other members in MIS department at HO.

Approval	Documentation	Dissemination	Observance
<ul style="list-style-type: none">Chaitanya's policy requires that the information received from the clients is stored properly and unauthorised access is prohibited.	<ul style="list-style-type: none">Chaitanya provided adequate guidelines on how the client documents and information has to be recorded and files have to be stored.	<ul style="list-style-type: none">All the branches visited displayed consistent awareness of data storage processes.	<ul style="list-style-type: none">All the files are kept properly in all the branches. Branch staffs have access to entire data of client.

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

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

Staff Behaviour -

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

1. Field staff use polite language, maintain decorum, and are respectful of cultural sensitivities during all interaction with customers
2. They do not indulge in any behaviour that in any manner suggests any kind of threat or violence
3. They do not contact customers at odd hours, as per the RBI guidelines for loan recovery agents.
4. They do not visit customers for recoveries or collections at inappropriate occasions such as bereavement, weddings, festivals, etc.

Chaitanya has written HR circular related to selection, recruitment, training, evaluating the staff performance and promotions. Chaitanya has the following criteria to recruit the field staff -

- Age between 21 to 30 years (Sometimes based on the work experience and considering the performance in the interview, candidates above 30 years is also selected).
- Minimum education: 12th passed (In case of rural area, 10th standard passed).
- Should have sound health.
- Should not have any bad habits.
- His family background should be good.

One of the important aspects of staff's induction training is conduct towards clients. Detailed guidelines have been provided to staff in the policy documents regarding the way they should interact with the clients.

Chaitanya also provides incentives to the field staff on performance basis i.e. number of client handling, asset quality, punctuality etc. Promotion of staff is done in the organization from one job position to another on the basis of the staff performance and organization requirement.



Loan collection and recovery process -

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

All centre members are required to meet once in a month at centre meeting for the purpose of repayment of their monthly instalments. The centre leader collects the instalments from the respective sub-groups and hands over the amount collected along with the loan passbook to CO. CO after ensuring that the amount is correct updates the all passbooks and issues single receipt for centre. As per Chaitanya's policy, centre meeting is usually conducted in the morning time for 15 to 30 minutes.

An important aspect of the recovery procedure is that although there is high degree of emphasis on timely recovery and application of peer pressure, this does not always mean that all the scheduled instalments should come on the same day. In case, one or more clients of the group are not able to repay during the scheduled meeting, the other group members contribute the amount. In case of delay or default in repayment, Chaitanya has policy to visit the house of borrowers or conducts the special meeting for centre to motivate them to make repayment.



Approval	Documentation	Dissemination	Observance
<ul style="list-style-type: none">• Various policies of the organization provide adequate directions for staff to treat client with respect and dignity. Clear directions are there on how to deal with situations where one or more clients are facing problems in repayment of instalments.• Chaitanya has guidelines regarding grievance redressal mechanism.	<ul style="list-style-type: none">• There are detailed guidelines in the policy on the expected conduct of the staff members with the client.• Grievance Redressal Mechanism is properly documented in the operational manual.	<ul style="list-style-type: none">• Field staff interviewed displayed moderate level of awareness on staff behaviour & client grievance handling.	<ul style="list-style-type: none">• Behaviour of staff towards clients was found to be professional in almost all situations encountered.• Client grievance handling system is moderate at Chaitanya.• Customers are aware of Grievance Redressal Mechanism.

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

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

Chaitanya's mission

"To improve the lives of low income families through provision of Financial Services and ensuring sustainable shareholder returns."

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

Currently, Chaitanya focuses on providing microfinance services to JLGs for income generation, livelihood improvement and social welfare purpose. Chaitanya provides insurance facility to the borrower and her spouse.

Currently, Chaitanya is actively involved in socio-economic initiatives such as Pradhan Mantri Jan Dhan Yojana to channelize financial inclusion. Chaitanya also conducts health check-ups for the members. As informed by management, Chaitanya is planning to undertake some more social initiatives or activities in future.



Approval	Documentation	Dissemination	Observance
<ul style="list-style-type: none">Chaitanya has approved principles of integrating social values into operations.	<ul style="list-style-type: none">Chaitanya maintains integrity by adopting policies or process notes to attain the vision of the organization to improve the quality of life of the poor by providing access to financial and support service.	<ul style="list-style-type: none">Chaitanya provides funds to JLGs for carrying income generating activities and livelihood program to improve the living conditions of the target clients.	<ul style="list-style-type: none">Chaitanya maintains an adequate standard of governance and integrity in operation.

**RELATIONSHIP MANAGEMENT AND FEEDBACK MECHANISM****Score -79%**

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

Chaitanya has a moderate procedure to be responsive to client feedback and to established dedicated feedback and grievance redressal mechanisms.

For any grievances, helpline number is mentioned on the passbook and client copy provided to the clients. Divisional office (at Dharwad) has dedicated team for handling customer grievances. Members are made aware this mechanism system during training and group formation; however few members were not aware of the same. Further, all the complaints received are forwarded to respective CO. CO takes the necessary steps to resolve the grievance and try to resolve the complaints to the satisfaction of the client.

Approval	Documentation	Dissemination	Observance
<ul style="list-style-type: none">The board has provided formal and informal channels for feedbacks and suggestions to handle complaints of clients.	<ul style="list-style-type: none">Chaitanya policy provides detailed guidelines regarding collection of feedback from client and actions to be taken upon them.	<ul style="list-style-type: none">Branch office phone number is pasted on the passbook and client copy provided to the clients.	<ul style="list-style-type: none">Most of the clients visited were aware of helpline number to resolve their grievances.



COMPLIANCE STATUS OF MFI VIS-À-VIS THE RECENT RBI GUIDELINES **Score - 90 %**

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

<u>Conditions as per RBI Guidelines</u>	<u>Chaitanya's Policy</u>	<u>Compliance</u>
Household annual income levels for eligible borrowers in Rural Areas not exceeding : ₹ 60,000 Non-Rural Areas not exceeding: ₹ 120,000	The company obtains the declaration from the borrowers regarding annual household income in loan application form.	Chaitanya adequately meets the criteria.
Loan amount does not exceed ₹ 35,000 in the first cycle and ₹ 50,000 in subsequent cycles.	The maximum loan size for first cycle loan is ₹ 35,000 per member and repayment tenure ranges from 12 to 24 months.	Chaitanya meets the criteria.
Total Indebtedness of the borrowers should not exceed to ₹ 50,000	The company checks with the credit bureau and also takes a declaration from the client for the amount of indebtedness in the application form.	Chaitanya meets the criteria prescribed by RBI.
Share complete client data with at least one Credit Information Company (CIC) established under the CIC Regulation Act 2005, as per the frequency of data submission prescribed by the CIC.	Currently, Chaitanya shares its client data with High Mark and Equifax.	Chaitanya meets the criteria prescribed by RBI.
Minimum 70% of the MFIs portfolio should be given for income generation activities	Loans are given for Income generation, livelihood improvement and social welfare purpose. Majority loans are given for income generation activities.	Chaitanya meets the criteria prescribed by RBI.
Tenure of the loan not to be less than 24 months for amounts in excess of ₹ 15,000	Repayment tenure for loan size more than ₹ 15,000 repayment is around 24 months.	Chaitanya meets the criteria prescribed by RBI.



Repayment frequency should be weekly, fortnightly or monthly at the choice of the borrower	Repayment of general loan & supplementary loan is collected fortnightly or monthly.	Chaitanya offers fortnightly & monthly repayment loan products.
Loan pricing to include processing fee (not exceeding 1% of the loan amount)	Chaitanya is charging processing fee of 01% on the disbursed loan amount.	Chaitanya meets the criteria prescribed by RBI.
Collateral free loans	Chaitanya does not accept any collateral for extending the credit.	Chaitanya meets the criteria prescribed by RBI.
MFIs shall not collect any Security Deposit / Margin from the borrower.	No security deposit / margin to be collected from borrowers.	Chaitanya meets the criteria prescribed by RBI.
No late payment or prepayment penalties	No late payment or prepayment penalties	Chaitanya meets the criteria prescribed by RBI.

Approval	Documentation	Dissemination	Observance
<ul style="list-style-type: none"> Board has approved policies and product features as per the guidelines issued by RBI. 	<ul style="list-style-type: none"> Circulars have been issued to follow the RBI guidelines. 	<ul style="list-style-type: none"> Management updates the staff on regular intervals on all the changes in the policy. 	<ul style="list-style-type: none"> All staff members showed a moderate degree of awareness on the recent changes in the business as per the RBI guidelines Annual household income declared by few of borrowers in application form was less as compare to their standard of living observed.



LIST OF BRANCHES VISITED

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

This assessment includes:

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



As part of the assessment, SMERA visited following branches of CHAITANYA in Karnataka. The details of the branches visited are provided below.

Sr. No.	Branch Name	District	Branch Opening date	No. of Borrowers Visited
1.	Jagalur	Davanagere	02/Nov/2009	21
2.	Khanahosahalli	Bellary	07/Dec/2009	22
3.	Bhramasagara	Chitradurga	19/Feb/2013	16
4.	Santebennur	Davanagere	22/Feb/2012	22
5.	Holalkere	Chitradurga	07/Jun/2010	19
6.	Hosadurga	Chitradurga	26/Feb/2013	18
7.	Kadur	Chikmagalur	17/Jan/2014	17
8.	Ajjampura	Chikmagalur	03/Jan/2013	20
9.	Head Office	Bengaluru	-	-



METHODOLOGY

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

**Questionnaire for the field visit**

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

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