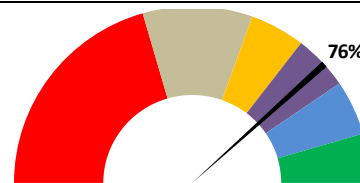
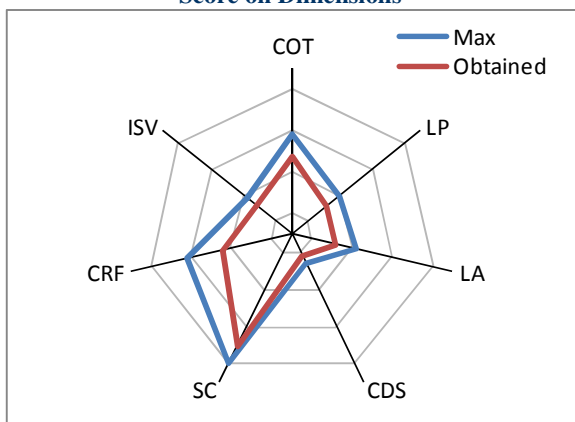


**Chanura Microfin Manipur (CMM)**  
December 2012



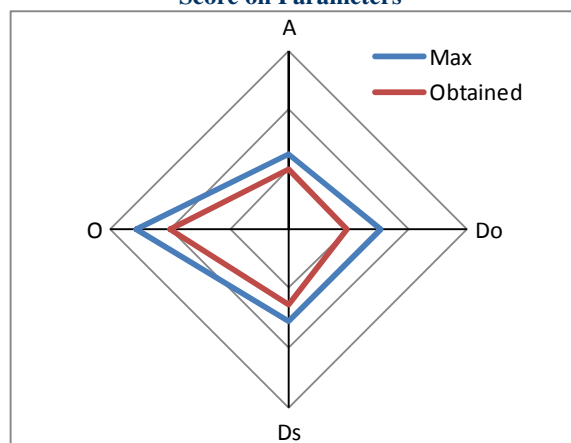
**Composite COCA Score: 76%, Good level of adherence**

**Score on Dimensions**



COT=Client Origination and Training, LP=Loan Pricing, LA = Loan Appraisal, CDS=Client Data Security, SC=Staff Conduct, CRF=Client Relationship and Feedback, ISV=Integrating Social Values into Operations

**Score on Parameters**



A= Approval, Do=Documentation, Ds=Dissemination, O=Observance  
ADDO © Prime M2i Consulting Private Limited

**Rationale**

Chanura receives a “good” overall score on account of development and adoption of its own fair practice code and good level of adherence to it. Chanura has client friendly policies and staffs have been well trained on them. However, there is a need for strengthening client grievance handling process and to document policies. Due to higher interest rate charged (more than 26% declining) prior to February 2012, Chanura is unlikely to comply with the interest rate margin cap of 12% in the current financial year.

**Highlights**

- Chanura has sound process for regular staff communication, ensuring effective policy dissemination.
- Despite being very small in size, Chanura has tried to establish good policies and processes for fair practices with clients.
- Chanura has been active in providing other services to its members apart from financial services. It also has a bouquet of financial products to address client vulnerabilities and other needs. Its ‘emergency loan’ is interest free.

**Areas of improvement**

- Chanura needs to strengthen its policy documentation and needs to define processes clearly.
- Chanura needs to streamline its grievance redressal process to make it effective.
- Chanura can enhance scope of internal audit to cover code of conduct aspects in detail. There is also scope of improvement in audit process by making the audit formats objective.









**Code of Conduct Assessment Compliance Assessment Tool**






This tool requires scores to be assigned on the seven Code of Conduct dimensions – Client Origination, Loan Pricing, Loan Appraisal, Client Data Security, Staff Conduct, Client Relationship and Feedback and Integrating Social Values into Operations, across the four parameters – Approval, Documentation, Dissemination and Observance. The seven dimensions have been drawn from a review of the norms prescribed for MFIs including industry’s code of conduct, fair practices’ code of RBI and CGAP’s client protection principles (Smart Campaign). The COCA tool also specifically assesses the MFI for compliance against the RBI’s guidelines and scores it as well. The scores on the COCA indicators are then scaled down in proportion to the score received in Regulatory Compliance. The methodology followed for this assessment is presented in Annexure 2 and the framework of the tool is presented in Annexure 3.

## Disclosure

M2i has not been engaged in any assignment of advisory, capacity building or of consulting nature with Chanura Microfin Manipur in the last one year. Further, none of M2i's staffs or their relatives are represented in the Board of Chanura Microfin Manipur or related institutions.







### Section 1: Scores<sup>1</sup> and facts

Code of Conduct dimensions <sup>2</sup>	Maximum	Obtained	%
 Client Origination and Targeting	24	18.6	78%
 Loan Pricing	15	11.0	73%
 Loan Appraisal	16	11.1	69%
 Client Data Security	8	5.8	72%
 Staff Conduct	35	30.1	86%
 Client Relationship and Feedback	26	17.2	66%
 Integrating Social Values into Operations	14	11.0	79%
 <b>Total</b>	<b>138</b>	<b>104.7</b>	<b>76%</b>
<b>RBI's Directions</b>	<b>12</b>	<b>11</b>	<b>92%</b>

Compliance parameters	Maximum	Obtained	%
 Approval	25	20.2	81%
 Documentation	31	19.3	62%
 Dissemination	31	25.7	83%
 Observance	51	39.6	78%
 <b>Total</b>	<b>138</b>	<b>104.7</b>	<b>76%</b>

### MFI's profile – December 2012

Name of the MFI	Chanura Microfin Manipur (CMM or Chanura)
Legal form	Society
Operational Head	Mr P K Khuman
Year of starting microfinance	2007
Branches	5
Operational area	Manipur
Total number of staff involved in microfinance	48
Visit of the Assessment team	7 January 12 – 9 January 12
Correspondence address	Chanura Microfin Manipur Hodam Leirak Machin Airport Road, Opposite Tiddim Oil Pump, Imphal West-795001, Manipur, Phone: +91-385-22445799

<sup>1</sup>The scores have been colour coded as follows:  = Less than 41% (Very Weak);  = 41-60% (Weak);  = 61-70% (Reasonable);  = 71-80% (Good);  = 81-90% (Very Good);  = >90% (Excellent).

<sup>2</sup>Scores have been reduced by a factor of 0.92 to reflect overall achievement on regulatory compliance.

### Microfinance Methodology

Chanura uses Joint Liability Group (JLG) model for its lending activities. Chanura has only women members, who are organized into groups of five. Three to eight such groups form a centre. The members take joint liability of each other. In case a group fails to make good of any delinquency, the centre as a whole has to take the responsibility for the repayment. The disbursements are done at the branches and the collections are done in the weekly centre meetings. In addition to Income Generation Loans, Chanura also offers other loan products which are all JLG based.

Chanura has recently become member of High Mark Credit Information Services but has not yet started using the credit bureau services.

### Details of the loan products - 31 December 2012

Product	Description	Loan size*	Interest Rate	APR (Interest Rate and Processing Fees)	% in portfolio
Income Generation loan (IGL)	Loans given to members of Joint Liability Groups of women. These loans are given for income generation activities. Loan tenure is 50 weeks.	5,000 in first cycle and up to Rs15,000 in subsequent cycles.	26% pa, reducing balance basis and 1% processing fees	28.9%	92.0%
To-up loan	Second cycle onwards, clients become eligible for this loan. After 25 weeks of timely repayment of IGL a client can take a top-up loan (after consent from all other centre members) up to 50% of the IGL. Loan tenure is 50 weeks.	50% of the income generation loan.	26% pa, reducing balance basis and 1% processing fees	28.9%	0.0%
Emergency loan	This loan is given for emergency purposes such as funeral or maternity. The loan is interest free but 1% processing is charged. The loan tenure is 25 weeks.	Maximum loan amount is Rs2,000.	No interest, 1% processing fees	3.9%	0.0%
Energy loan	This loan is given to buy a solar lamp, for which Chanura has tied up with a solar lamp company. The loan tenure in 25 weeks.	Rs1,579 (cost of solar lamp)	24% pa, reducing balance basis and 1% processing fees	31.2%	4.0%
Biomass Cook stove	This loan is given to buy a smoke-free stove, for which	Rs1,904 (Cost of stove)	24% pa, reducing	30.8%	4.0%

loan	Chanura has tied up with a stove company. The loan tenure in 25 weeks.		balance basis and 1% processing fees		
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**Notes:**

1. APR has been calculated by taking the actual cash flow for each loan including principal, interest and processing fee.
2. EIR for Chanura’s loan products, except emergency loans, is between 33% and 36.1%. EIR has been calculated through compounding interest on monthly rests:  $EIR = (1+r)^n - 1$ , where  $r = APR/12$  and  $n=12$  (for 12 months to annualize).

Key facts and figures			
Parameters	31-Mar-11	31-Mar-12	31-Dec-12
JLG Members	11,987	13,903	14,597
Active borrowers	10,221	5,406	4,522
Branches	7	7	5
States	1	1	1
Number of districts	2	4	4
Total staffs	57	56	48
Number of loans disbursed for the FY ending	18,780	12,916	6,225
Amount of loan disbursed for the FY ending (Rs mn)	84.8	73.7	47.7
Loan portfolio outstanding (Rs mn)	43.8	27.5	36.8
PAR-60	0	0	0
PAR-30	0	0	0
Yield on portfolio	45.5%	47.1%	32.3%
OSS	116.3%	128.1%	105.0%
RoA	4.9%	6.5%	0.4%

*Source: Data Provided by Chanura*

<b>Chanura Board Members – 31 December 2012</b>	
<b>Name</b>	<b>Profile</b>
Mr Kh. Yaiskul Singh	Mr Yaiskul Singh is the Chairman of the Board. He is a Bachelor in Science and has 15 years of professional experience in Banking and microfinance.
Ms Naorem Harimati Devi	Ms Naorem is the Vice-Chairperson of the Board. She is an MA in Economics and also a Post Graduate in Manipuri dance. She is a Lecturer of Manipuri Dance at Manipur University.
Mr Kh. P K Khuman	Mr Khuman is the CEO of Chanura Microfin Manipur. He has 15 years of experience in rural development and 12 years in microfinance. Mr Khuman is Bachelor in Arts by qualification.
Ms Wangkheimayum Bimolata Devi	Ms Bimolata ia MA in English and B. Ed. She is the State Project Officer, UNDP programme, Meghalaya. She has 10 years experience in Social Development. Her focus area is women and youth.
Mr P Yaima Singh	Mr Yaima Singh is a Masters in Commerce and has 20 years experience in rural development and 10 years in microfinance. He is heading an NGO called RAID.
Mr Konjengbam Ibomcha Meetei	Dr Ibomcha Meetei is an MBA and PhD. He is Director of Institute of Cooperative Management, Guwahati. Mr Meetei has 15 years of experience in Business Management and Microfinance.
Mr Kongbrailatpam Bangkimchandra Sharma	Mr Kongbrailatpam Bangkimchandra is MA in Sociology and is a social worker. He is Secretary of Gandhian Institute of Rural Development.

## Section 2: Status of Regulatory Compliance

### 2.1 Compliance with regulations

*Chanura complies with most of the guidelines issued by RBI regarding priority sector lending status of MFIs. However, given the high rates of interest charged by the organization prior to Feb 2012, it will not be able to comply with the margin cap in the current financial year.*

Chanura's compliance with RBI guidelines for MFIs is presented below.

Chanura is a Society and its compliance is guided by the RBI's circular RBI/2010-11/505 RPCD.CO.Plan BC. 66/04.09.01/2010-11 dated 3 May 2011. The Circular was on bank loans to microfinance institutions under priority sector status. It encompassed all MFIs availing loans under priority sector from banks irrespective of their legal forms.

#### **Capital requirement**

Being a not-for-profit organisation, Chanura does not have any mandatory compliance for capital. However, as on 31<sup>st</sup> March 2012, Chanura had total equity of Rs5.43 million comprising of its General Fund.

#### **Proportion of qualifying assets and income generation loans**

Chanura has been obtaining CA certificate for its qualifying assets. As per CA's certificate for the financial year end of 2012, Chanura had 93.87% of its total assets (excluding cash and bank balance) as 'qualifying assets'. Further, CA has certified that 87.23% of Chanura's loans were for income generating purposes. This is in compliance with the RBI directions given for MFIs.

M2i during its assessment has also verified the conditions for qualifying assets, the observations are presented below:

- Loan size verification

From February 2012 onwards, Chanura has not been offering any loan beyond Rs15,000. Thus, it is in compliance with the RBI directions on maximum loan in first cycle of Rs35,000 as well as maximum loan in any subsequent cycle of Rs50,000. Physical verification of over 100 loan documents as well as visit to 97 clients across all branches of Chanura corroborated this.

- Collateral verification

M2i has verified that Chanura does not take any collateral on its loan, thus complying with RBI directions.

- Loan duration verification

All of Chanura's loans disbursed after February 2012 are less than Rs15,000 and the loan term is 50 weeks. This is in compliance with the RBI directions.

- Household income

Chanura, as a policy, has adopted its target clients as those having annual household income of not more than Rs60,000 in rural areas and Rs120,000 in urban areas. Thus Chanura complies with the RBI directions on target clients. Chanura takes client profile at the beginning of every loan cycle in which it collects data of household cash flow, thus capturing the household income. Chanura also captures household income in its loan application. Any client who does not qualify on the income criteria is not selected. In a check of over 100 loan documents selected randomly across all 5 branches of Chanura it was observed that all members had their income within the RBI stipulated annual household income limit for rural and urban areas.

### **Multiple lending and Indebtedness**

As per the existing policy of Chanura, it does not lend to any member who is member of any other SHG or JLG. Chanura itself does not give loan beyond Rs15,000. Thus, it complies with the RBI direction regarding client indebtedness. M2i did not find any of these directions breached in any of the 100 loan documents checked and 97 clients visited.

### **Pricing of credit**

From February 2012, Chanura is charging interest rate of 26% per annum on reducing balance basis and 1% processing on its income generation loan. The interest rate on other loan products is lower than 26%. It does not collect any security deposit for any loan and insurance premium is collected on actual basis. Chanura does not charge any penalty for overdue loans.

Thus all products offered by Chanura comply with the RBI directions as far as interest rate and other fees are concerned.

However, the margin on interest of Chanura is higher than 12% as stipulated by the RBI. The average annualized cost of borrowing of Chanura for the period April to December 2012 was 14.4%. Its yield on portfolio for April to December 2012 period was coming over 30%. The yield is higher mainly because prior to February 2012, Chanura had been lending at 18% flat interest rate with 1% processing fee and those loans were still outstanding. Thus, Chanura is not complying with the interest rate margin cap.

### **Capital adequacy**

Although no directions have been issued by RBI regarding the capital adequacy for Societies, but as on 31<sup>st</sup> March 2012, Chanura had CRAR of 19.63%. It had risk weighted assets of Rs27.67 million against the total capital of Rs5.43 million.

### **Customer Protection Initiatives**

Chanura has formally resolved to abide by the RBI Fair Practice Code, which has been approved by its Board in its Board meeting of September 2012. Chanura has also formed its own Fair Practice Code which it framed and adopted in June 2012. Chanura has displayed its Fair Practice Code in all its branches and staffs have been trained on it.

### **Membership with SRO and credit bureau**

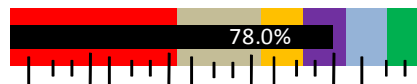
Chanura is not a member of Sa-Dhan. However, Chanura is a member of Northeast Microfinance Forum. It is an association of 20 MFIs of northeastern region but the forum is still not very active. In November 2012, Chanura became member of High Mark Credit



Information Services Limited but Chanura is in the process of setting up systems to enable it to share data with High Mark. At the time of M2i visit in January 2013 Chanura had not begun sharing client data with High Mark and was not availing any credit reports from the bureau.

**Section 3: Observations**

**3.1 Client Origination and Targeting (COT)**



*Chanura’s score on client origination and targeting is ‘good’. Chanura has clearly defined its target clients, client origination policies and staffs are well aware of them. However, there is need for documentation of policy on avoidance of unauthorized agents. Further, there is scope of improvement in branch survey process of Chanura.*

Approval (A)	Documentation (D)
<ul style="list-style-type: none"> <li>✓ Chanura has a board approved policy of targeting low income clients as per RBI directed income criteria.</li> <li>✓ The board has approved of policies regarding proper authentication of client identity and avoiding overlap of clients with other institutions.</li> </ul>	<ul style="list-style-type: none"> <li>✓ The organization has documented policy on target clients.</li> <li>✓ Clear policies have been framed regarding member eligibility criteria, member identification, group formation, group training and final induction of member.</li> <li>✗ Currently there is no formal format for carrying out survey or reporting the survey findings.</li> <li>✗ There is no documented policy regarding avoidance of unauthorized agents in client acquisition process.</li> </ul>
Dissemination (D)	Observance (O)
<ul style="list-style-type: none"> <li>✓ Staff members have been provided trainings on client origination process.</li> <li>✓ All policies related to client origination are documented in manual which is available in each branch.</li> <li>✓ Member eligibility criteria are prominently displayed in each branch.</li> </ul>	<ul style="list-style-type: none"> <li>✓ No evidence of use of any external agent or payment of unfair money for client origination was observed.</li> <li>✓ Chanura does not provide any incentives to its staffs for acquiring new clients or servicing existing clients.</li> </ul>

Chanura carries out survey of an area before starting operation in it. The survey is carried out by Area Manager, Branch Manager or other senior staff members. In the survey, details are collected on livelihood scenario in the area, target clientele, competition etc. The findings are discussed by the senior management which finally takes the decision on expansion. But, currently there is no structured format for carrying out the survey. No formal report for the survey is produced.

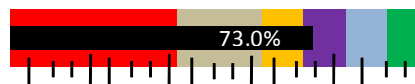
Chanura has clearly defined its target clientele and the criteria are prominently displayed at each branch office. Targeting low income clients is also part of Chanura’s Fair Practice Code. The target clientele policy of Chanura qualifies the RBI directions on income (annual household income of not more than Rs60,000 in rural area and Rs120,000 in urban areas). The income details of the clients are gathered during group formation process as detailed client profile is obtained along with household cash flow. The house hold and business income and expense details are again obtained at the time of filling the loan application and these are recorded in the application form.

The clients visited by M2i across all 5 branches belonged to low income category and matched the income profile as stated in the policy.

The clients are identified and trained through a structured process comprising projection meetings, group formation and Compulsory Group Training (CGT) of 3 days followed by Group Recognition Test. During CGT clients are trained on all terms and conditions and products of Chanura. House hold visits of all potential clients is compulsory and is carried out by field staffs; during visits KYC documents are also obtained and verified. Random household visits are again carried out during GRT by Branch Manager.

Chanura as a policy does not induct any member who is member of any other SHG or JLG. M2i in its field visit did not come across any member of Chanura who was member of any other MFI. Further, Chanura does not provide any incentive to its staffs for client origination or for any other activity. The staff salaries across the organisation are fixed.

While, overall client origination practices of Chanura are good, Chanura does not have any documented policy regarding avoidance of unauthorized agents. It was also observed that while members stated that they were not members of any other MFI, Chanura’s operational area overlapped with 2-3 other MFIs in almost all field areas visited by M2i and in many areas Chanura was a later entrant.



### 3.2 Loan Pricing (LP)

*Chanura’s pricing is very transparently displayed at all branches and well communicated to clients. Awareness of clients on pricing was found to be high. However, due to higher interest rate charged prior to February 2012, Chanura’s interest rate margin breaches the RBI stipulated margin cap.*

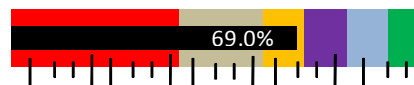
Approval (A)	Documentation (D)
<ul style="list-style-type: none"> <li>✓ Chanura’s board has discussed loan pricing and issued guidelines to ensure that these are in line with RBI’s directions.</li> <li>✓ Board has approved policies for transparent pricing and its clear communication to the clients.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Chanura has clearly documented its pricing for all its loan products.</li> <li>✗ Process for prepayment settlement is not documented in the policy manual.</li> </ul>
Dissemination (D)	Observance (O)
<ul style="list-style-type: none"> <li>✓ Staffs have been trained on pricing during regular staff meetings.</li> <li>✓ Pricing is prominently displayed in branches and documented in operational manual.</li> </ul>	<ul style="list-style-type: none"> <li>✓ The interest rates, processing fees and insurance charges are clearly printed in the loan cards provided to clients and staffs have clarity on it.</li> <li>✓ Awareness regarding pricing was found to be high among clients.</li> <li>✗ Chanura is not complying with the interest rate margin cap currently.</li> </ul>

Chanura’s income generation loan carries interest rate of 26% on diminishing balance basis and other loans products have lower interest rates. In none of the products processing fee greater than 1% is charged and insurance premium is charged on actual basis. Chanura does not collect any security and does not take any collateral. Also no penalty is charged for overdue or in case of prepayments. However, the process of prepayment settlement is not documented.

Chanura has very prominently displayed its pricing in branches and has given printed loan cards to clients which clearly show its interest rate, processing fee, insurance charges and also the loan installment to be paid along with break-up of principal and interest. A high proportion of the clients visited by M2i had awareness about interest rate and processing fee.

As already discussed under the regulatory compliance section, Chanura is unlikely to comply with the interest rate margin cap in the current financial year. This is due to high yield of its portfolio on account of higher interest rate charged on loans disbursed prior to February 2012.

### 3.3 Loan Appraisal (LA)



*There is scope of improvement in loan appraisal process of Chanura. It was observed that there were some inconsistencies in cash flow analysis and policies on appraisal are not documented. However, Chanura does not provide any large sized loan and makes effort to understand household cash flows, making the overall loan appraisal reasonable for the size of loan it offers.*

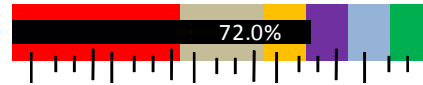
Approval (A)	Documentation (D)
<ul style="list-style-type: none"> <li>✓ Chanura has approved policies for avoiding over indebtedness of clients and to lend as per the repayment capacity of the members.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Chanura’s operations manual provides guidelines on measuring indebtedness of its potential clients and to not lend to clients who are members of other MFIs.</li> <li>✓ Various forms and formats of Chanura require calculation of household cash flow.</li> <li>✗ Policies regarding loan decision making based on client data gathered are not documented.</li> </ul>
Dissemination (D)	Observance (O)
<ul style="list-style-type: none"> <li>✓ Chanura’s field staffs have been trained on collecting information related to indebtedness of their potential borrowers as well as on collecting information on their income levels.</li> <li>✗ Staffs are still not very well-trained in carrying out cash flow analysis or on taking decision based on client data gathered.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Chanura makes an effort to assess repayment capacity of clients.</li> <li>✓ The maximum loan size is not very high and hence is less likely to create over indebtedness.</li> <li>✗ There were inconsistencies in cash flow recording and also the appraisal criteria are not clearly linked to loan decision making.</li> <li>✗ Credit bureau checks are not being performed currently.</li> </ul>

As part of its Fair Practice Code, Chanura commits to lend to clients according to their repayment capacity. Chanura collects a detailed client profile during the group formation process including data on house hold cash flow. The loan application is mobilized by the field staff and loan is appraised on a separate format by the Branch Manager who recommends the loan. The loan is finally sanctioned by the Area Manager.

Chanura’s maximum loan size is currently Rs15,000. Further, the fact that it does not lend to anyone who is member of any other MFI, ensures that client is less likely to be over indebted. Chanura carries out loan appraisal which includes looking at clients’ attendance in previous cycle, past loan performance, household and business income and expenses.

However, the effectiveness of the appraisal is restricted due the fact that there were inconsistencies in the cash flow analysis being carried out. There were also no clear guidelines linking the appraisal parameters to loan decision-making. Further, currently Chanura does not obtain any credit bureau reports although it has overlap of operational area with other MFIs. The loan repayment capacity of the client and the quality of appraisal is not specifically checked by the internal audit.

### 3.4 Client Data Security (CDS)

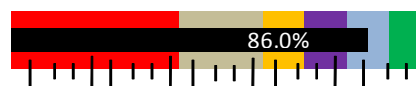


*Chanura has an approved policy for keeping the client data completely secured and restricts any unauthorized access of data. The policy is also clearly displayed across all its branches and is part of its Fair Practice Code. However, all client documents are stored at branch level in open cabinets which limits the overall security of the documents.*

Approval (A)	Documentation (D)
<ul style="list-style-type: none"> <li>✓ Chanura has a board approved policy regarding client data security.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Chanura has documented its policy of client data security and has made it part of its Fair Practice Code.</li> </ul>
Dissemination (D)	Observance (O)
<ul style="list-style-type: none"> <li>✓ Chanura’s policy on client data security has been communicated to its staffs through meetings, through manuals and it is also displayed in all its branches.</li> </ul>	<ul style="list-style-type: none"> <li>✓ The rights regarding accessing and modifying MIS data are restricted to IT team at Central Office.</li> <li>✗ Physical documents are stored at branch level in open cabinets making them susceptible to manipulation.</li> </ul>

Chanura has formulated policies for protection of client data and preventing unauthorized access of client records. The policy is documented in manual and is also displayed in branches. Client data security is also part of Chanura’s fair practice code which is available to all staffs.

The staffs of Chanura are well-sensitized on client data security. However, Chanura stores all client documents at branch level. The documents are stored in open cabinets which makes them susceptible to manipulation or loss.



### 3.5 Staff Conduct (SC)

*Chanura's score on staff conduct is very good. Chanura has framed clear policies around acceptable staff behavior. These are part of its fair practice code and staffs are well aware of them. The staff behavior in the field was observed to be good and clients did not report of any incidence of any misconduct by any staff in the past.*

Approval (A)	Documentation (D)
<ul style="list-style-type: none"> <li>✓ Chanura has framed its own Fair Practice Code and has also adopted the RBI fair practices which include policies regarding expected staff conduct with clients.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Chanura has documented policies around acceptable staff behavior with clients. Its Fair Practice Code calls for honest, cordial and straightforward relation with clients.</li> <li>✗ Policy regarding visiting clients at odd hours is not documented.</li> </ul>
Dissemination (D)	Observance (O)
<ul style="list-style-type: none"> <li>✓ Fair Practice Code is displayed across all branches very prominently.</li> <li>✓ Employees are trained on such aspects during regular weekly all-staff meetings.</li> <li>✓ Each branch has been given a handbook which contains the code of conduct.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Staffs were found to be aware of behavioral issues with clients.</li> <li>✓ Chanura does not incentivise its staff for collections, on-time repayments or for overdue recoveries.</li> <li>✓ Visited clients did not report any incidence of staff misconduct or coercion.</li> </ul>

Chanura has adopted policies which require its staff to be honest, cordial and straightforward with clients. The policies are documented in a staff handbook which is kept at each branch. Further Fair Practice Code of Chanura is displayed very prominently at each branch. Staffs are regularly sensitised on various issues in the weekly staff meetings, weekly meetings of branch managers and senior management. Thus, it was found that staffs had good understanding on behavioral aspects with clients.

The salient aspects of appropriate staff conduct and communication with clients and other stakeholders followed by Chanura are as follows:

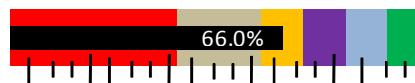
1. Be honest, cordial and straightforward with clients, fellow employees, funders and supporting institutions
2. Conduct quality training of clients for their better understanding
3. Develop good relationship with other MFIs to avoid unethical competition
4. Organize meetings/trainings of clients in common place
5. Ensure regular checking of client awareness and understanding

Chanura has an approved policy of recovery of overdue loans which does not allow any use of threat or force. Policy calls for involvement of higher officials with passing days of overdues to convince the client to pay. As a last resort, Chanura black lists the client, which means that client will not be inducted in Chanura in future. None of the clients interviewed



during this assessment made any adverse observation regarding the conduct of Chanura's staffs at any level.

### 3.6 Client Relationship and Feedback (CRF)



*While Chanura provides a forum for grievance redressal to its clients at branch level and through direct access to Central Office through helpline, the overall function needs to be better structured. Grievance handling is also not under the scope of internal audit currently. However, Chanura does make efforts to maintain good relationship with clients.*

Approval (A)	Documentation (D)
<ul style="list-style-type: none"> <li>✓ The Board has approved the policy on providing a platform to clients for lodging any grievances.</li> <li>✓ Chanura has included addressing grievances of clients as part of its Fair Practice Code.</li> </ul>	<ul style="list-style-type: none"> <li>✓ The policy regarding grievance redressal is mentioned in the operation manual and staffs are expected to address client issues promptly.</li> <li>✗ The step-wise process to be followed for grievance handling is not documented.</li> </ul>
Dissemination (D)	Observance (O)
<ul style="list-style-type: none"> <li>✓ Staffs are aware of the grievance redressal forum i.e. the complaint box at branches and the helpline number.</li> <li>✓ Members are sensitized on maintaining good relations with clients.</li> </ul>	<ul style="list-style-type: none"> <li>✓ A high proportion of clients interviewed were aware of complaint box and the helpline number.</li> <li>✓ Helpline number was stamped on all client loan cards.</li> <li>✗ There is no clear process defined for grievance resolution and cross-verification. Grievance handling is also not under scope of internal audit currently.</li> <li>✗ It was observed that there were hardly any complaints being received in the complaint box and also the call frequency on helpline was very low.</li> </ul>

Chanura has a grievance redressal system under which each branch has a complaint box. The clients can drop their complaints in the complaint box. The keys of the complaint box remain with the HR department. The HR officials check the box of each branch twice every month.

In addition to the complaint box, the clients have also been provided a helpline number. According to Chanura’s policy, any complaint received from client must be responded to within 3 days. The helpline calls are received by the Admin official at the Central Office, who either responds directly to the client, if these are routine queries, or informs the HR department if there are some serious issues to be dealt with. The HR department on receiving the problem then contacts the concerned branch staff to resolve the issue.

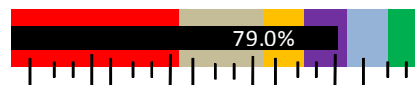
The overall effectiveness of the grievance handling is limited because there is no formal process of properly documenting the complaints. The complaint letter received or the phone call received on helpline number are not recorded anywhere. The staff taking the call simply informs the HR department which then contacts the concerned operations staff. Thus no

record of complaints is maintained. Further, there is no formal mechanism to cross-check whether the complaint has been addressed to the satisfaction of the client and no record of action taken is maintained. The grievance redressal process is also not checked by the internal audit.

M2i made a check of the helpline number and it was found that the number was functional and the helpdesk did provide the responses to the queries raised.

Chanura makes efforts to maintain good relationship with clients. It organizes annual functions inviting its clients in which clients are also recognized for their good performance. It provides ‘Chanura of the Year’ award to its best performing member. It supports education of one child for a year of the award winner. One of the objectives of the recently created social performance department is to maintain client relationships. Chanura has also shared phone numbers of its Field Officers with the clients and also branches have phone numbers of all centre leaders. This helps in good communication particularly during blockades and *bandhs*.

### 3.7 Integrating Social Values into Operations (ISV)



*Chanura has 'good' performance on ISV. This is on account of its active independent board and number of social initiatives taken by Chanura for supporting its members. It also offers other financial products to address client needs in addition to that for income generation.*

Approval (A)	Documentation (D)
<ul style="list-style-type: none"> <li>✓ Chanura's board has adequate representation of independent members.</li> <li>✓ The organization's mission is to empower poor women and low income households by providing financial services in a sustainable manner.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Chanura's commitment to poor and low income is amply documented in its all policy manuals.</li> <li>✓ Its vision, mission and values reflect the organization's social commitment.</li> <li>✗ Chanura currently does not have any social performance management policy.</li> </ul>
Dissemination (D)	Observance (O)
<ul style="list-style-type: none"> <li>✓ Chanura's staffs are aware of the target clients who are mainly from low income category.</li> <li>✓ The target clientele of Chanura and its social vision and mission are displayed in all its branches.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Chanura has recently created a social performance department.</li> <li>✓ Chanura offers emergency loans and loans for solar lamps and low-smoke stoves.</li> <li>✗ Although recently constituted, the Audit committee and social performance committee were still not active.</li> </ul>

Chanura has a seven member board and of those six members are independent. It was observed that board was quite active and discussed most of the organization's matters in detail and also periodically made field visits. Chanura has also recently constituted three-member board level committees: Audit Committee and Social Performance Committee. However, at the time of M2i visit these committees had not become operational.

Chanura has also created a Social Performance Management department in October 2012. The department was already functioning and has made some recommendations which had been adopted. But, so far no clear mandate or policy for the department or on social performance management has been developed.

Chanura collects PPI data of its client but is currently not making analysis to see the progress of clients. However, last year Chanura internally undertook an impact assessment study of its services and wants to make such a study a regular annual feature.

Chanura has been active in taking initiatives beyond financial services. It has provided relief services during floods, has organised health camps and financial literacy trainings.

Chanura also offers other financial products apart from the income generation loans. It offers an emergency loan on which it does not charge any interest. It also offers loans for solar lamps and smokeless stoves in collaboration with FWFB, India. Chanura has hired

technicians who provide the after-sale service at a token price of Rs20 for any kind of repair. Thus, the actual cost of repair and the cost of technicians are borne by Chanura.

Chanura also actively promotes saving culture among its members. In camps and trainings it motivates members to revive traditional saving culture. It also encourages its members to save internally within the centre and to rotate savings (just like in SHG model) and thus its members carry out internal saving and lending. All saving related decision such as the amount to be saved and interest rate are decided by the group members. Chanura does not allow members to charge more than 3% per month interest on their internal savings and actively checks their internal records. Chanura also provides the members saving passbooks.

It was verified by M2i that Chanura does not charge its members any fee for the support provided in their internal savings. The internal saving amounts per member were generally Rs5 to 10 per week. Further, the record-keeping of internal savings, which is monitored by Chanura staffs, was found to be good.

Chanura also helps its members in opening saving accounts in banks.

**Case study: Relief during natural disaster**

There was a severe hail storm in April 2010 at Kiyamgei area which drastically affected many houses including those of the clients of Chanura. The hail storm blew away roofs of houses, rooms were flooded and mud walls were broken. People's clothes were damaged and many livestock died. People's half-weaved clothes were destroyed, cow sheds and Pig sty were broken.

Chanura came forward to offer support and collaborated with Khagi Club Kiyamgie & Kiyamgie mamang leikai Meirapaibi and distributed relief materials to the hail storm affected 37 families. It distributed GI sheets and rice to provide immediate relief to the affected families.

Similarly, during floods in valley area of Manipur, Chanura distributed rice, lentils and salt to the affected families.

**Annexure 1: Matrix of Score Obtained<sup>3</sup>**

Indicators	A		Do		Ds		O		Total	
	Max	Obt	Max	Obt	Max	Obt	Max	Obt	Max	Obt
Client origination and targeting	5	3.7	5	3.7	5	3.7	9	7.6	24	18.6
Loan Pricing	3	2.8	1	0.9	2	1.8	9	5.5	15	11.0
Loan Appraisal	4	3.7	4	1.8	3	1.8	5	3.8	16	11.1
Client Data Security	1	0.9	3	1.8	2	1.8	2	1.2	8	5.8
Staff Conduct	7	5.5	7	5.5	10	9.2	11	9.9	35	30.1
Client Relationship and Feedback	2	1.8	8	3.7	6	4.6	10	7.2	26	17.2
Integrating Social Values into Operations	3	1.8	3	1.8	3	2.8	5	4.6	14	11.0
<b>Total*</b>	<b>25</b>	<b>20.2</b>	<b>31</b>	<b>19.3</b>	<b>31</b>	<b>25.7</b>	<b>51</b>	<b>39.6</b>	<b>138</b>	<b>104.7</b>

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

<sup>3</sup> ADDO © Prime M2i Consulting Private Limited

**Annexure 2: Tool Development, Methodology and List of Branches Visited**

The code of conduct compliance assessment tool was developed as a response to the need expressed in a meeting of stakeholders in Indian microfinance by the Small Industries Development Bank of India (SIDBI) and the World Bank in December 2009. The code of conduct dimensions were identified by reviewing the various norms for ethical finance. These included RBI’s fair practices guidelines for Non Banking Financial Companies, industry code of conduct (Sadhan-MFIN) and CGAP’s client protection principles. The most important challenge for M2i was to create objective indicators which could comprehensively measure the seven dimensions. A total of 138 indicators<sup>4</sup> were developed across these dimensions, so that subjectivity in measurement could be minimized. The numbers of indicators for each dimension are presented below.

<b>Dimension</b>	<b>Nos. of Indicators</b>
Client origination and targeting	24
Loan Pricing	15
Loan Appraisal	16
Client Data Security	8
Staff Conduct	35
Client Relationship and Feedback	26
Integrating Social Values into Operations	14
<b>Total</b>	<b>138</b>

In order to make the measurement comprehensive and objective, a method of scoring was developed so that:

1. Measurements on the indicators are taken on the dimensions across the four parameters within an MFI – Approval, Documentation, Dissemination and Observance
2. Indicators are mapped to underlying characteristics which can be objectively measured. This is illustrated in the box below.

**Illustration**

One of the indicators developed to measure the dissemination of guidelines related to staff conduct is:

Has the MFI provided training to its operational staff on their conduct with clients, particularly relating to:

- A. Conducting client meetings
- B. Collecting repayments
- C. Recovering overdue loans

The basis of scoring this indicator is the proportion of operational staff interviewed who have received training on these specific aspects. In case all the staff members have received trainings on each of these aspects then the score is 1 on each of these indicators, totaling to 3. If only 50% of the operational staff members interviewed have received training on these specific aspects then the score totals to 1.5 (0.5+0.5+0.5).

<sup>4</sup> Integrating Social Values into Operations with 14 indicators was added to tool in September 2012.

The Code of conduct assessment tool was tested on four MFIs during its portfolio audit and best practices validation engagements. M2i formally presented the code of conduct assessment tool at a microfinance lender's forum meeting held in Mumbai at SIDBI's office in June 2010.

### **RBI's Directions and Guidelines**

With RBI issuing various specific guidelines for MFIs, M2i started scoring MFI's compliance to regulatory guidelines from 2012 onwards. The scores obtained by MFI on various COCA dimensions are scaled down in proportion to the score obtained in regulatory compliance.

### **Methodology**

The code of conduct exercise is spread over four to eight days. The first day is spent at the head office. The assessment team visits the branches over the next three to eight days. Depending upon the size and the operational area of the MFI, three to fifteen branches and between 120 and 200 clients are sampled for primary survey.

### **Key Aspects**

- Duration of the exercise: Four to eight days
- Nos. of branches to be visited: Eight to Fifteen
- Nos. of MFI clients to be interviewed: 120-200

This exercise requires:

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. The last audited financial statements will also be required.
3. Sampling of branches at the head office. The assessment team samples branches 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, in order to maximize the likelihood that instances of non-adherence can be detected.
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 this assessment, we visited. The details of the project offices (branch) visited are provided below.



Sr No	Branch*	State	No of clients interviewed
1	Sega Road	Manipur	18
2	Singjamei	Manipur	17
3	Wangkhei	Manipur	25
4	Sagolband	Manipur	18
5	Kwakeithel	Manipur	19
<b>Total</b>			<b>97</b>

\*Chanura has only five branches and M2i visited all its branches.

## 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.

- Integrating Social Values into Operations: It is necessary to have high standards of governance and to have client focused social mission. It is also necessary to measure the socio-economic changes that MFIs’ efforts are bringing in the lives of its clients and to compare it against the mission.

## 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 – Approval, Documentation, Dissemination, Observance (ADDO). This ADDO framework has been developed by M2i and is summarized below:

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%	<b>19%</b>
Loan Pricing	2%	1%	1%	7%	<b>11%</b>
Loan Appraisal	3%	3%	2%	4%	<b>12%</b>
Client Data Security	1%	2%	1%	1%	<b>5%</b>
Staff Conduct	5%	5%	7%	8%	<b>25%</b>
Client Relationship and Feedback	1%	6%	4%	7%	<b>18%</b>
Integrating Social Values into Operations	2%	2%	2%	4%	<b>10%</b>
<b>Totals</b>	<b>18%</b>	<b>23%</b>	<b>21%</b>	<b>38%</b>	<b>100%</b>

## Regulatory compliance (ReC)

Since it is mandatory for MFIs to comply with the guidelines given by the regulator, the MFIs are assessed for their compliance with these regulations. The level of compliance of an MFI to regulations is scored and this is factored-in in COCA by scaling down the scores on various COCA dimensions in proportion to the score obtained on ReC. In total there 12 indicators have been used to measure ReC.