



SMERA RATINGS LIMITED

**CODE OF CONDUCT
ASSESSMENT (COCA)
FOR
DIGAMBER CAPFIN LIMITED
(DCL)**

Date of Report - 31/Dec/2014

Valid Till - 30/Dec/2015

DIGAMBER CAPFIN LIMITED (DCL) – SMERA COCA REPORT



EXECUTIVE SUMMARY

The Code of Conduct report for DIGAMBER CAPFIN LIMITED (DCL) 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 DCL exhibits an **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 DCL's adherence towards ethical operational practices.



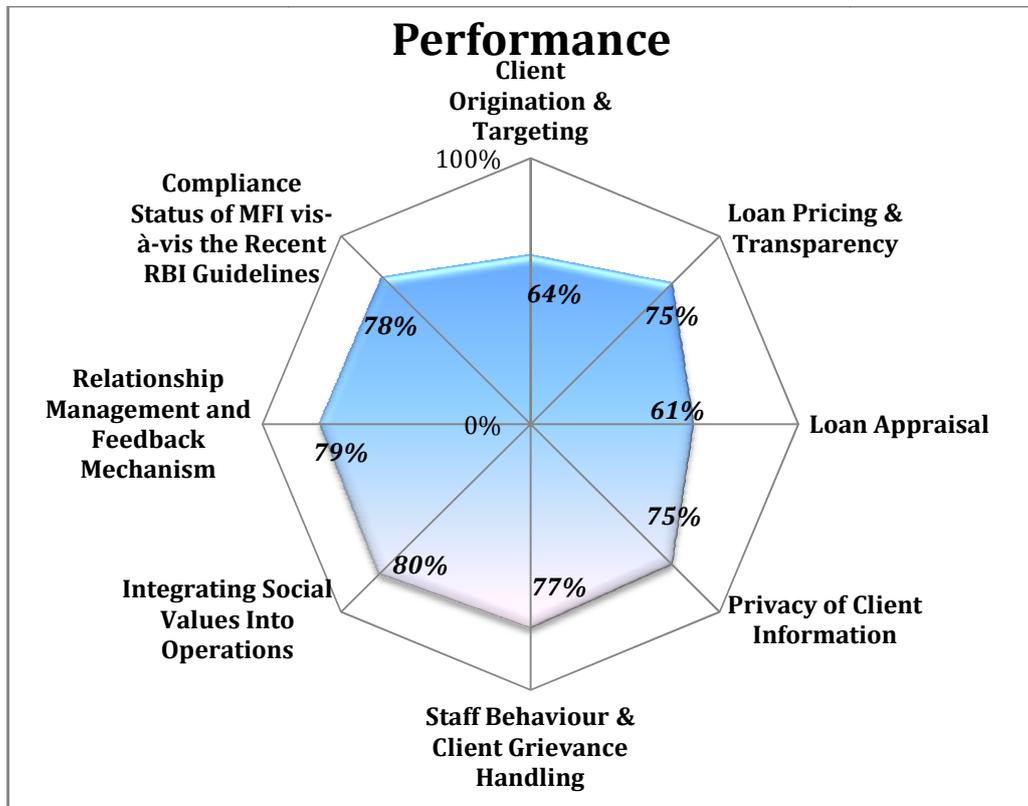
RATING

**Code of Conduct Assessment Score : 74%,
COCA Rating - COCA 4 (Average Level of Adherence)**

RATING SCALE

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

MATRIX



**SCORES ON PARAMETERS**

Code of Conduct Parameters	% Performance
Client Origination & Targeting	64%
Loan Pricing & Transparency	75%
Loan Appraisal	61%
Privacy of Client Information	75%
Staff Behaviour & Client Grievance Handling	77%
Integrating Social Values Into Operations	80%
Relationship Management and Feedback Mechanism	79%
Compliance Status of MFI vis-à-vis the Recent RBI Guidelines	78%

**SNAPSHOT**

D&B D-U-N-S® Number	91-532-0775
MFI Name	DIGAMBER CAPFIN LIMITED
Trade Style	DCL
Head Office Address	J-54-55, Second Floor, Anand Moti Gopalpura, Tonk Road, Jaipur - 302 018 Rajasthan India
Telephone	(91) (141) (2700233) (91) (141) (2700234)
Webpage	www.digamberfinance.com
Email	info@digamberfinance.com amit.jain@digamberfinance.com
Line of Business	Microfinance services under Joint Liability Group (JLG) Model
Chief Executive	Mr. Amit Jain, Executive Director
Legal Form	Non-Deposit Taking Non-Banking Finance Company (NBFC) Microfinance Institution (MFI)
Incorporation Date	17/Apr/1995
Date of Commencement of Microfinance Operations	01/Sep/2009
Company Registration Number	U67120RJ1995PLC009862
RBI Registration Number	B-10.00099
Total Employees	153
No. of Active Branches	40
Geographical Reach	Madhya Pradesh, Rajasthan, Maharashtra, Gujarat & Chhattisgarh (05 states)
Visit of the Assessment Team	15 th December, 2014 to 19 th December, 2014



BACKGROUND

Digamber Capfin Limited (DCL) is a Rajasthan's first regulated Non-Banking Financial Company (NBFC-MFI). Company Registered in 1995 providing financial and support services to the marginalized sections in society, particularly to poor rural and urban women. The creation of social value includes poverty alleviation and the broader impact of improving livelihood opportunities through the provision of capital for micro enterprises, and insurance for risk mitigation and consumption smoothing. Systematically, by providing them income generating loans and business development services, DCL reaches out to help these women build productive microenterprises, thereby contributing to the development of sustainable communities.

- *The organization is rated CARE "BB" Stable in February, 2014*

Mr. Rajiv Jain, is having around 02 decades of experience in retail finance. He is analyzing day to day working of company for confirming the mission, what institution has. Accordingly update and suggest changes to meet with the wave length of the present scenario.

Mr. Amit Jain, is having around 02 decades of experience in retail finance and marketing of concepts. He is the master of making and delivering the loan products.

DCL operations are spread in 05 states namely Madhya Pradesh, Rajasthan, Maharashtra, Gujarat & Chhattisgarh 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.



Business Model

Loan Products

DCL follows group based lending approach with a joint liability within the centre. The group consists of 05 to 10 members, to open a new centre, there must be minimum 02 groups are compulsory, later there can be up to maximum 04 groups. Loans from DCL are given only for the income generation activities.

Repayment Frequency	Fortnightly Repayment		
	Kranti Loan	Pragati Loan	Samriddhi Loan
Loan Products	Long Duration - Kranti Loan (LD - KL)	Long Duration - Pragati Loan (LD - PL)	Long Duration - Samriddhi Loan (LD - SL)
Loan Term/Duration	20 Fortnightly Installments	20 Fortnightly Installments	20 Fortnightly Installments
Loan Size	A: 11000 B: 13000 C: 15000 D: 18000* E : 20000*	A: 11000 B: 13000 C: 15000 D: 18000* E : 20000*	A: 11000 B: 13000 C: 15000 D: 18000* E : 20000*
Interest Rate	27.69% per annum on diminishing balance method with Fortnightly rest (Rounded to nearest rupee)		
Loan Processing Fee	01% on the disbursed loan amount plus 12.36% applicable service tax. (Rounded to next rupee)		

*Loan Term/Duration - 24 months.



OBJECTIVE OF THE STUDY

The objective is to evaluate DCL's adherence to the code of conduct,

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

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



FRAMEWORK AND SCOPE

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

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

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

As part of the assessment, SMERA visited 05 branches of DCL in Madhya Pradesh & 04 branches of DCL Rajasthan. The assessment was conducted as per a specific methodology and questionnaire.

**BOARD OF DIRECTORS**

List of Board of Directors		Board Appointment date
Amit Jain	Executive Director	17/Apr/1995
Rajiv Jain	Managing Director	17/Apr/1995
Dr. Basant Gupta	Director	01/Apr/2005
Naveen Sharma	Director	15/Jun/2011
Manoj Gupta	Director	15/Jun/2011
Manoj Mathur	Director	15/Jun/2011

**HIGHLIGHT OF OPERATIONS**

Particulars	31/Mar/2012	31/Mar/2013	31/Mar/2014	20/Dec/2014
No. of states	01	01	02	05
No. of districts	18	23	30	36
No. of Centre offices	18	21	32	40
No. of Centre	2,435	3,115	6,400	6,696
No. of total members	29,221	40,500	70,399	74,994
No. of active borrowers	22,513	33,840	42,107	36,707
No. of loans disbursed during the period	17,612	27,948	30,898	18,510
No. of total employees	90	114	138	153
No. of field staff	42	66	80	132
Loan disbursements during the period (₹in thousands)	184,822	288,521	330,450	261,196
Net Loan portfolio outstanding (₹in thousands)	141,170	221,000	252,592	324,925
Loan amount outstanding per active loan (₹)	6,271	6,531	5,999	8,852
Active borrowers per field staff	536	513	305	278

CLIENT ORIGINATION & TARGETING**Score - 64%**

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

Field Officer (FO) is responsible for client origination in DCL. DCL conducts study of the potential new area on the basis of following parameters;

1. Demographic - population, economic status, occupation and social background.
2. Geographical - distance, route and condition of transport facilities.
3. Political - whether conflicts are prevalent or not.
4. Industry - other financial institution working, MFI banks, co - operatives and level of interests.

Eligibility criteria for membership and group formation are: age, household income, availability of know your customer (KYC) documents (voter card, ration card, electricity bills), no family members in the same group, members belonging to same locality, willing to take group responsibility, majorly lending for income generation purposes only.

Once the area is selected, FO organizes orientation meeting to inform the members about DCL, objective, product & services, lending methodology and group & centre formation, etc. FO need to form minimum 02 groups each consisting of five members together will be called as one centre. The objective of centre meeting is to educate the members on financial and non-financial aspects such as product & services, interest rate structure, repayment schedule, group responsibilities, proper utilization of loan, prompt repayment, attendance, KYC documents etc. through Group Formation Meeting (GFM)

Once the centre is formed, Regional Officer (RO) provides Compulsory Group Training (CGT) to members, duration of this training is 03 days approximately. RO also conducts the evaluation of the members to ascertain the eligibility of customers for taking loan and to obtain complete required information of each member. The RO plans and provides 03 days of CGT to a group to inculcate credit discipline. The series of CGT shall proceed according to the curriculum developed by DCL for 03 different days.



Members are made aware about the products and its benefits. Lending process and policies are informed in details and members are trained with regards to credit discipline. Every client shall undergo CGT, and shall have mandatory orientation on the following fundamental aspects of DCL business relationship with its groups / clients.

1. Financial obligation and duties under group guarantee lending
2. Group leadership & management
3. Group constitution and its cohesiveness
4. Loan products and its disbursement pattern
5. Insurance fees, interest rates and processing fees
6. The agenda focus on group lending policies and procedures and the loan approval procedures.

Membership form is capturing most of the data/details regarding the borrower & its family at the time of joining the DCL. However if the borrower applies for second loan all the documentation is done again but only after first loan is closed.

The identification of right target client, household income, and individual income is a challenge for DCL. Targeting poor is the approach which DCL follows. However, DCL depends on self-declaration given by the clients rather than capturing an alternative source such as housing index or asset classification. *SMERA's assessment team has observed that few members of the DCL in Indore & Ratlam branch were having net income more than as per annual household income prescribed by RBI guidelines in semi - urban / urban areas.*

DCL has tie-up with "Highmark" RBI approved credit bureau for sharing clients' data to check the indebtedness of the members; hence indebtedness is promptly captured in the MIS system.

Staffs have been trained on how to apply this aspect of client origination and DCL also provides an incentive to the FO on the basis of group/centre formation.



Example 1 – Mrs. Devkibai, member of Ujjain branch, Vishwa bank colony

Assessment team has observed that as per application form, Total Income is ₹210,000 as against Total Expenditure of ₹47,000. So Net income comes to ₹163,000 which is high as per RBI guidelines prescribed for urban areas.

Example 2 – Mrs. Manisha, member of Ratlam branch

Assessment team has observed that as per application form, Total Income is ₹280,000 as against Total Expenditure of ₹80,000. So Net income comes to ₹200,000 which is high as per RBI guidelines prescribed for urban areas.

Example 3 – Mrs. Hemlatabai, member of Indore branch, Vijay Nagar

Assessment team has observed that as per application form, Total Income is ₹300,000 as against Total Expenditure of ₹150,000. So Net income comes to ₹150,000 which is high as per RBI guidelines prescribed for urban areas.

Assessment team has observed that in application forms of some of the borrowers, total income is more as against total expenditure i.e. Net income is higher as per RBI guidelines prescribed for urban areas.

Approval	Documentation	Dissemination	Observance
<ul style="list-style-type: none"> DCL has approved principles of ethically originating clients. This includes ensuring identity of clients before application of loans through appropriate documentary evidences and non-involvement of unauthorized agents in the client origination process. For capturing annual household income DCL depends on information provided by the borrowers which is provided to FO during the time of filed investigation. 	<ul style="list-style-type: none"> Policy document clearly specify the directions for obtaining KYC documents from client. As per policy notes, capturing annual household income is mandatory. The procedure for conducting centre meeting and client origination is clearly laid out. 	<ul style="list-style-type: none"> DCL has a moderate system of dissemination of its approved policies through CGT. 	<ul style="list-style-type: none"> Interviewed Staff members were aware of the client origination process and products. Annual household income declared by few of the borrowers in application form was stated more than the guidelines prescribed by RB, observed in example 1. There were manual mistakes by FO in the application forms while calculating annual household income

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

The transparency observed by the MFI in terms of pricing of loans is examined in detail. The pricing of loans covers interest rate, loan processing charges, additional charges (service tax) 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.

Currently DCL charges interest of 27.69% per annum on diminishing balance method with fortnightly rest (rounded to nearest rupee) for all the loan products with processing fee of 01% on the disbursed loan amount plus applicable service tax. (rounded to next rupee).

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.

DCL maintains high transparency in the interest rates charged to its clients. The organization discloses all terms & conditions of all financial products to the borrowers including interest rate on the loan and processing fees in written as well as verbal communication at the time of training. The details are printed on the loan passbook which is available with the borrowers. *The assessment team of SMERA has observed that some of the borrowers in Jhotwara branch, adarsh nagar were not aware of interest rate.*

DCL loan ranges from 11,000 to 20,000. The loan amount is depends on the loan cycle, repayment track record of previous loan and attendance of centre meeting. There is no uniformity of loan amount within the group. According to its policy, DCL does not charge any prepayment charges & onetime membership fees from its members.



Approval	Documentation	Dissemination	Observance
<ul style="list-style-type: none">• DCL board has approved principles of pricing loans and transparency in a responsible manner.	<ul style="list-style-type: none">• The loan pricing criteria and method of charging have been clearly documented in the loan policy document of the organization.	<ul style="list-style-type: none">• Interest rate and loan processing fee on the loans are mentioned clearly on the loan passbook provided to the borrower at the time of disbursement.• Borrowers are already informed about the interest rate & charges during the orientation meeting conducted by the FO.	<ul style="list-style-type: none">• Awareness level of the borrowers about the interest rates and method of application and other charges was observed to be moderate. However, almost all the clients are aware of the installments size & duration.• Few of the borrowers were not aware of interest rate; however they were familiar with the installment amount.

**LOAN APPRAISAL****Score - 61%**

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

Loan appraisal is primarily the responsibility of the GRT officer who conducts Group Recognition Test (GRT) to check whether members have understood the DCL's loan product and loans are provided only after successful completion of GRT. In GRT, GRT officer seeks clarifications on the dynamics of the group, credit mechanisms, organization products & services, terms & conditions, interest rate, purpose of loan etc.

After approval of GRT authority, the documents are forwarded to the Head Office (HO) for sanctioning of loans. The loan amount to be disbursed as recommended by Branch Manager (BM) is authenticated by GRT authority, which may increase or decrease depending upon facts and circumstances of each case and final decision is taken by HO. HO fills application forms of eligible members and collects photocopy of mandatory KYC document after verifying it with original. Loan applications received from the members have been sent to Highmark (Credit Bureau), after receiving verification report from Highmark eligible applications have been considered for loan disbursement.

DCL has a policy of recording the annual household income of the borrower in the application form and the value of loan taken from DCL and value of loan outstanding from other MFIs based on the information provided by the client. Once the loans are approved, the initial centre meeting is held, here the concerned FO intimates members about the sanction of loan, charges to be paid, etc.



DCL conducts Loan Utilization Check (LUC) for all the loans by its LUC team. A visit is planned to each borrower's place of business between 20 days from disbursement to ascertain the utilization of loan. During the visit, it has been determined the money has been put to use for the purpose indicated by the borrower at the time of applying the loan. If the money has been put to use for the specified purpose it is recorded and report is prepared for the same.

Loan disbursement takes place in the following manner;

1. After GRT, HO sanctions loan to group member and system sent an SMS confirming the sanction to client's mobile numbers.
2. After a telephonic verification of a client, accounts department remits the loan amount to their respective bank accounts after deducting insurance amount & processing fees.
3. 100% attendance is compulsory in GRT.

As per the policy; centre meeting and loan repayment should be conducted at a designated place decided by the centre members. DCL issues 'loan passbook's to each borrower and informs them to keep the respective passbook with themselves at the time of group formation.

Example 4–Mrs. Mamta Rator, Khandwa.

She was already availing 03 loans from different MFI's. DCL was the fourth lender and the amount disbursed was ₹15,000, though total outstanding was less than ₹50,000.

Example 5 – Bhilwara branch

Assessment team has observed that some of the borrowers were already having 02 as well as 03 loans from different MFI's as per their application forms checked, then also DCL was the fourth lender and loan was also disbursed.



Approval	Documentation	Dissemination	Observance
<ul style="list-style-type: none"> • DCL policy requires that adequate loan appraisal could be performed before disbursing a loan and proper examine of the repayment capacity of the borrowers. • DCL have a policy to check multiple lending / indebtedness of the borrower through credit bureau check i.e. Highmark. 	<ul style="list-style-type: none"> • The guidelines for appraising a loan application are clearly documented in the loan policy document. • Information pertaining to income, purpose of loan and loan taken from other source is obtained at the time of membership form / loan application and also during MGT. 	<ul style="list-style-type: none"> • The branch staffs were found to be aware of how to conduct the loan appraisal and LUC as per the guidelines. 	<ul style="list-style-type: none"> • All the loan applications verified contained details of annual household income; however the details pertaining to annual household income were not properly captured in application forms. • BM conducts compulsory LUC within 20 days after disbursing the loan. • Few of the borrowers were already having 02 as well as 03 loans from different MFI's as per their application forms checked, then also DCL was the fourth lender and loan was also disbursed, observed, as per example no. 4 & 5.

**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.

DCL 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 “MIFOS” at Head Office level.

Approval	Documentation	Dissemination	Observance
<ul style="list-style-type: none">• DCL’s policy requires that the information received from the clients is stored properly and unauthorized access is prohibited.• The software has well-defined security features.	<ul style="list-style-type: none">• DCL provided adequate guidelines on how the client documents and information has to be recorded and files have to be stored.	<ul style="list-style-type: none">• Branch staff is well informed about how to handle important documents provided by clients.	<ul style="list-style-type: none">• All the files are sent to HO after CGT & GRT is done.• The clients’ personal information and important details are recorded in MIFOS.• All the information are maintained properly in MIS at HO.

STAFF BEHAVIOUR & CLIENT GRIEVANCE HANDLING**Score - 77%**

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 -

DCL 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. While collecting loan repayment from members, field staff should not behave indecently with the members and their family members, and should not use bad words.
2. Field staff should not visit member's house during odd hours.
3. Should not practice any kind of muscle power methods in order to collect loan repayment.
4. If member lodge complaints with regards to their grievances, then staff should resolve that as early as possible.
5. Any kind of bribe, gift and hospitality cannot be accepted from the members and their families.
6. Should not have any kind of personal financial business with the members and their families.
7. Member's or organization's money should not be misused.
8. Any kind of false assurance should not be given to members under any circumstances.
9. Discrimination on basis of cast, religion, race, etc. cannot be done with any member.
10. Staff should not engage in any political activities, have association with political people or get involved with any political parties, etc.
11. All grievances related to staff can be communicated through Toll Free number i.e. 1800-180-6-365 which is mentioned in the borrower's passbook.

DCL has written HR circular related to selection, recruitment, training, evaluating the staff performance and promotions. Detailed guidelines have been provided to staff in the policy documents regarding the way they should interact with the clients. DCL 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 jobposition 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 every fortnightly at centre meeting for the purpose of repayment of their fortnightly installments. These meetings are conducted by the FO, who carries collection sheets which contain the loan installment member-wise generated through system in HO. The centre leader collects the installments from the respective groups and hands over the amount collected along with the loan passbook to CO. CO after ensuring that the amount is correct updates the each member's passbook and DRS register.

Approval	Documentation	Dissemination	Observance
<ul style="list-style-type: none"> • Various policies of the organization provide adequate directions for staff to treat client with respect and dignity. • Clear directions are there on how to deal with situations where one or more clients are facing problems in repayment of installments. • In case of delay or default in installment repayments, DCL has the policy to visit the house of borrowers or conduct the special meeting for centre members to motivate them to make repayment. 	<ul style="list-style-type: none"> • There are detailed guidelines in the policy on the expected conduct of the staff members with the client. 	<ul style="list-style-type: none"> • The entire branch staff members interviewed displayed moderate level of awareness on staff behaviour & client grievance handling. 	<ul style="list-style-type: none"> • All staff was found to be aware of the rules of staff conduct and grievance handling. • Behaviour of staff towards clients was found to be professional in almost all situations encountered. • Borrowers are provided with contact details of FO & BM and they also have Toll - Free number mentioned in their pass book for any queries / complaint and further customer grievances are handled by HO.



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.

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

DCL vision is to be a world-class (leading) financial services organization that provides financial products to the economically challenged people, helping them generate higher incomes, and achieve a sustainably better standard of living.

Approval	Documentation	Dissemination	Observance
<ul style="list-style-type: none"> DCL has approved principles of integrating social values into operations. 	<ul style="list-style-type: none"> DCL maintains integrity by adopting policies or process notes to attain the vision of the organization. To see an India where every child, woman and man can be the best that god meant for him or her to be, without the burden of poverty. 	<ul style="list-style-type: none"> DCL has a system of dissemination of its social values. 	<ul style="list-style-type: none"> DCL maintains an adequate standard of governance and integrity in operation. DCL has provided insurance cover to its borrowers and their spouse. So that, in case of death of the insured DCL writes off the remaining loan amount.

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

MFIs need to build sustainable and long term relationship with clients. Sound relationship management enhances the quality of the clients' experience with the MFI. This allows the MFI to better understand clients' needs and grievances. MFIs need to have formal mechanisms to 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.

For any grievance Toll Free number is provided in the passbooks which are provided to the clients. Members have been informed of this mechanism during training and group formation. DCL has a moderate procedure to be responsive to client feedback and to established dedicated feedback and grievance redressal mechanisms. As per the policy every branch must have a complaint register.

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">DCL guidelines regarding collection of feedback from clients and actions to be taken are documented.	<ul style="list-style-type: none">Toll Free number is provided to the clients on their passbooks.Every branch was having a complaint register	<ul style="list-style-type: none">Generally clients said that they were satisfied overall with the services of the DCL.

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

SMERA examines the adherence level of the MFIs with respect to the recent draft guidelines issued by RBI. Thus the Code of Conduct exercise involves a comprehensive review of MFIs policies and systems and whether these translate into ethical microfinance practices. DCL 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>DCL's Policy</u>	<u>Compliance</u>
Household annual income levels for eligible borrowers in Rural Areas not exceeding : ₹ 60,000 Non-Rural Areas not exceeding: ₹ 120,000	The Annual income of the clients should be below ₹ 60,000 in rural areas and below ₹ 120,000 in non-rural areas	During the branch visit, it was observed that in few applications annual household income was more than the prescribed RBI Guidelines.
Loan size should not exceed 1 st cycle loan : ₹ 35,000 2 nd cycle loan : ₹ 50,000 Tenure of the loan should be 24 months for amounts in excess of ₹ 15,000.	DCL loan ranges from ₹ 11,000 to ₹ 20,000. The loan amount is depends on the loan cycle, repayment track record of previous loan and attendance of centre meeting.	DCL meets the criteria.
Total Indebtedness of the borrowers should not exceed to ₹ 50,000	The company checks the credit report of borrowers with Credit Information Company (CIC) i.e. "Highmark".	DCL meets the criteria.
Tenure of the loan not to be less than 24 months for amounts in excess of ₹ 15,000	The maximum loan size is ₹ 20,000 & repayment tenure is 24 months	DCL meets the criteria.
Repayment frequency should be weekly, fortnightly or monthly at the choice of the borrower	Repayments of loans are collected on fortnightly installment basis.	DCL meets the criteria.



<p>With effect from the quarter beginning April 01, 2014, the interest rates charged by an NBFC-MFI to its borrowers will be the lower of the following:</p> <p>a) The cost of funds plus margin or</p> <p>b) The average base rate of the five largest commercial banks by assets multiplied by 2.75. The average of the base rates of the five largest commercial banks shall be advised by the Reserve Bank on the last working day of the previous quarter, which shall determine interest rates for the ensuing quarter.</p>	<p>DCL charges 27.69% per annum on diminishing balance method (Rounded to nearest rupee).</p>	<p>DCL meets the interest rate criteria.</p>
<p>Loan pricing to include processing fee (not exceeding 1% of the loan amount)</p>	<p>DCL is charging processing fee of 01% on the disbursed loan amount plus applicable service tax. (rounded to next rupee).</p>	<p>DCL meets the processing charges criteria fully.</p>
<p>Collateral free loans</p>	<p>DCL does not accept any collateral for extending the credit.</p>	<p>No collateral have been accepted from the clients.</p>
<p>MFIs shall not collect any Security Deposit / Margin from the borrower.</p>	<p>DCL does not collect any security deposit / margin from the borrower.</p>	<p>DCL meets the criteria fully.</p>
<p>No late payment or prepayment penalties</p>	<p>DCL does not take late payment or prepayment penalties from the clients.</p>	<p>DCL meets the criteria fully.</p>
<p>Share complete client data with at least one Credit Information Company (CIC) established under the CIC Regulation Act 2005, as per the frequency of data submission prescribed by the CIC.</p>	<p>Currently DCL is availing credit bureau check from Highmark.</p>	<p>DCL meets the criteria fully.</p>
<p>Minimum 75% of the MFIs portfolio should be given for income generation activities</p>	<p>DCL provides loan only for the income generation activities.</p>	<p>DCL meets the criteria fully.</p>



Approval	Documentation	Dissemination	Observance
<ul style="list-style-type: none">The policies framed by board of DCL mostly adhere with respect to the guidelines issued by RBI.	<ul style="list-style-type: none">Circulars have been issued to follow the RBI guidelines.	<ul style="list-style-type: none">Policies were updated / modified on most of the recent guidelines issued by RBI.	<ul style="list-style-type: none">During the branch visit, it was observed that in few applications annual household income was more than the prescribed RBI Guidelines.Most of the guidelines issued by RBI are adhered by DCL.



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 branches (located in Madhya Pradesh & Rajasthan) as samples, as per the size of the MFI for review. Care is exercised to include old & new branches as well as branches that are distant from the regional office and branches with the overdue.
4. Discussions with the branch staff at the field office. Discussions with field office managers and centre managers are carried out to assess their understanding of the key code of conduct principles and systems and process.
5. Selection of groups from the sample branches. A judgmental sampling is performed on the MFI's clients by the assessment team to draw respondents from the interest group. One/two centres from each sample branches were selected for interviews. Out of which few respondents are those that have been having problems in attending meetings. SMERA has also selected respondents those have defaulted in the past or started repaying on defaulted loans.
6. Interview with the clients. Information from the clients is collected ideally during the centre 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 DCL in Madhya Pradesh & Rajasthan. The details of the branches visited are provided below.

Sr. No.	Branch Names	District	Branch Opening date	No. of Borrowers Visited
1.	Dhar	Indore	-	22
2.	Vijay Nagar	Indore	05-06-2013	15
3.	Vigyan Nagar	Indore	01-07-2013	16
4.	Ujjain	Ujjain	12-06-2014	16
5.	Ratlam	Ratlam	11-08-2014	16
6.	Chittorgarh	Chittorgarh	01-07-2014	18
7.	Nimbahera	Chittorgarh	25-08-2014	15
8.	Bhilwara	Bhilwara	09-10-2014	17
9.	Jhotwara	Jaipur	01-07-2010	16
10.	Head Office	Jaipur	-	



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, 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*****